Hotel Management International (Holdings) Limited

Annual Directors' report and financial statements

Registered number 04324021

31 March 2017



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Strategic Report

Principle Activity

The principal activities of the group continued to be the operation of hotels and the provision of consultancy and management services to the hotel and leisure industry.

Business Review

The results of the group are shown on page 7 of the financial statements.

The business of the Hotel Management International (Holdings) Limited group is to provide high quality hotel and ancillary services in businesses which are located in The Netherlands, the United Kingdom and Belgium.

The group's main objectives over the last few years have been to maintain room rates, improve the quality of services and standards, maintain the quality of the product and to focus on efficiencies and innovation. These have been achieved and remain the key objectives going forward.

Finance Review

The group has experienced another successful year in very challenging circumstances. The group's results were significantly impacted by the strengthening of the sterling against the euro, a movement of 14.2%.

The group's key performance indicators can be reviewed as follows;

£'000s	2017	2016	Movement	%
Turnover	36,637	35,395	1,242	3.5
Operating profit	4,121	4,617	(496)	(10.7)
PBT	3,638	3,546	92	2.6
EBITDA	7,178	6,856	322	4.7
Net Debt: EBITDA	1.0	2.2		

The group has separate financing for its UK and mainland European businesses and has a number of banking covenants. It has complied with all of its bank covenants.

The directors were pleased with the group results and believe that the group is well positioned, both operationally and financially, to meet the future challenges.

Principle risks and Uncertainties

Credit, Interest rate, and Liquidity Risk

The group manages a variety of financial risks including interest rate, liquidity and credit risk. Fluctuation in interest rates affect the group's reported results. It is the group's goal to mitigate the effects of interest rate movements on profit, equity and cash flow. Whenever possible the group tries to establish this by creating natural hedges and by matching assets and liabilities. When natural hedges are not available the group seeks to use financial instruments. For this purpose, hedging ranges have been identified and strict policies and governance are in place covering the program, including authorisation procedures.

Approximately 50% of the total interest portfolio was fixed by long term hedging instruments. Assuming all other factors remain the same, a 1% change in interest rates would increase the interest costs by £165,000.

The group receives income in foreign currency. It has hedged approximately 50% of this risk by buying forward for a one to two year period.

Long term strategies and annual business plans are formulated to ensure that the financial covenants can be met and monitored on a regular basis. Working capital requirements are also regularly reviewed and closely managed to ensure there are sufficient cash flows available for the group.

The group maintains significant cash balances and operates with net current liabilities in order to mitigate any potential liquidity risk. It also has unutilised group borrowing facilities.

The group has a large number of customers and maintains tight credit control at each of its operations in order to mitigate its credit risk.

Strategic Report (*continued*)

Principle risks and Uncertainties *(continued)*

Trading and Economic Risk

The level of economic activity in Belgium, The Netherlands and the UK continue to have a significant influence on the profitability of the group. The outcome of BREXIT increases the risk of economic uncertainty whilst no clear plan has been set. The board continues to monitor negotiations surrounding BREXIT and the potential impact it could have on the business. Controls in the form of budgets, forecasting and competitor analysis are regularly analysed to ensure that the group are taking a pro-active stance in combatting any issues that should arise.

The group is also exposed to pressures arising from increasing costs from suppliers, increases in alcohol duty, and changes to government policies affecting the minimum wage, VAT and corporation tax.

By order of the board

GJ Ramsay, FCA

Director

364 High Street
Harlington
Heathrow
Hayes
UB3 5LF

22 November 2017

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2017.

Dividends

The directors paid an interim dividend for the year ended 31 March 2017 of £nil *(2016:* £600,000*)*.

Financial instruments

To reduce the risk to the company from interest rate fluctuation, interest rate swap arrangements are entered into, see note 18.

Directors

The directors who held office at the beginning and end of the financial year were as follows:

PN Salussolia
GJ Ramsay, FCA
C Salussolia

Disabled persons

The group's policy is to give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities. Consideration is given to appropriate training and career development prospects for those who are or become disabled.

Employee involvement

Regular meetings are held between senior management and employees to discuss the performance of the group, and to encourage employees' further development. Information is also passed to employees via regular newsletters.

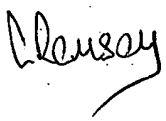
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and will therefore continue in office.

By order of the board



GJ Ramsay, FCA
Director

364 High Street
Harlington
Heathrow
Hayes
UB3 5LF

22 November 2017

Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) , including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that year. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

KPMG

Independent auditor's report to the members of Hotel Management International (Holdings) Limited

We have audited the financial statements of Hotel Management International (Holdings) Limited for the year ended 31 March 2017 set out on pages 7 to 37. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year is consistent with the financial statements

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Hotel Management International (Holdings) Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Mark Prince, (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

23 November 2017

Consolidated profit and loss account and other comprehensive income

for the year ended 31 March 2017

	Note	2017 £000	2016 £000
Turnover	2	**36,637**	35,395
Cost of sales		**(4,021)**	(4,125)
Gross profit		**32,616**	31,270
Administrative expenses		**(28,495)**	(26,653)
Operating profit	4	**4,121**	4,617
Interest payable and similar charges	3	**(947)**	(1,071)
Profit on disposal	4	**464**	-
Profit before taxation		**3,638**	3,546
Tax on profit	7	**(821)**	(474)
Profit after taxation		**2,817**	3,072
Other comprehensive income			
Foreign exchange differences on translation of foreign operations		**4,375**	4,628
Effective portion of changes in fair value of cash flow hedges		**353**	88
Net change in fair value of cash flow hedges recycled to profit or loss		**-**	(109)
Deferred tax on comprehensive income		**114**	(127)
Other comprehensive income for the year, net of income tax		**4,842**	4,480
Total comprehensive income for the year		**7,659**	7,552

The results stated above are all derived from continuing operations.

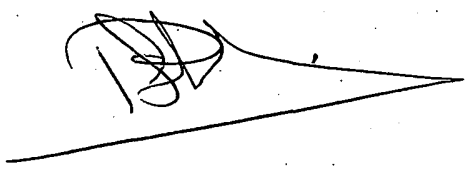
The notes on pages 14 to 37 form an integral part of these financial statements.

Consolidated balance sheet

at 31 March 2017

	Note	2017		2016
		£000	£000	£000
Fixed assets				
Tangible assets	8		81,682	73,570
Intangible assets	9		-	-
			81,682	73,570
Current assets				
Stocks	11	270	263	
Debtors	12	9,291	12,273	
Other financial assets	13	7	7	
Cash at bank and in hand		19,694	11,670	
		29,262	24,213	
Creditors: amounts falling due within one year	14	(16,165)	(10,702)	
Net current assets			13,097	13,511
Total assets less current liabilities			94,779	87,261
Creditors: amounts falling due after more than one year	15		(24,888)	(24,860)
Deferred tax liability	16		-	(169)
Net assets			69,891	62,232
Capital and reserves				
Called up share capital	17		146	146
Merger reserve			(232)	(232)
Revaluation reserve			579	617
Cash flow hedging reserve			(439)	(792)
Profit and loss account			69,837	62,493
Shareholders' funds			69,891	62,232

These financial statements were approved by the board of directors on 22 November 2017 and were signed on its behalf by:



P N Salussolia

Chairman

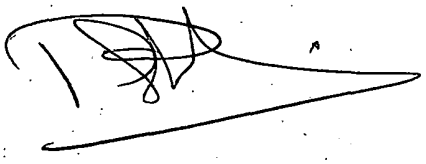
The notes on pages 14 to 37 form an integral part of these financial statements.

Company balance sheet

at 31 March 2017

	Note		2017		2016
		£000	£000	£000	£000
Fixed assets					
Investments	*10*		**69,017**		61,975
Current assets					
Debtors	*12*	**450**		450	
		450		450	
Creditors: amounts falling due within one year		-		-	
Net current assets			**450**		450
Net assets			**69,467**		62,425
Capital and reserves					
Called up share capital	*17*		**146**		146
Revaluation reserve			**66,960**		59,918
Profit and loss account			**2,361**		2,361
Shareholders' funds			**69,467**		62,425

These financial statements were approved by the board of directors on 22 November 2017 and were signed on its behalf by:



P N Salussolia

Chairman

The notes on pages 14 to 37 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2017

	Called up share capital £000	Merger reserve £000	Revaluation reserve £000	Cash flow hedging reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2015	146	(232)	685	(771)	55,452	55,280
Total comprehensive income for the year						
Profit or loss	-	-	-	-	3,072	3,072
Foreign exchange differences on translation of subsidiary undertakings	-	-	-	-	4,628	4,628
Effective portion of changes in fair value of cash flow hedges	-	-	-	88	-	88
Net change in fair value of cash flow hedges recycled to profit or loss	-	-	-	(109)	-	(109)
Difference between historical cost depreciation charge and actual	-	-	(40)	-	40	-
Movement of deferred taxation	-	-	(28)	-	(99)	(127)
Total comprehensive income for the year	-	-	(68)	(21)	7,641	7,552
Dividends paid	-	-	-	-	(600)	(600)
Balance at 31 March 2016	**146**	**(232)**	**617**	**(792)**	**62,493**	**62,232**

The notes on pages 14 to 37 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity *(continued)*

	Called up share capital	Merger reserve	Revaluation reserve	Cash flow hedging reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2016	146	(232)	617	(792)	62,493	62,232
Total comprehensive income for the year						
Profit or loss	-	-	-	-	2,817	2,817
Foreign exchange differences on translation of subsidiary undertakings	-	-	-	-	4,375	4,375
Effective portion of changes in fair value of cash flow hedges	-	-	-	353	-	353
Difference between historical cost depreciation charge and actual	-	-	(38)	-	38	-
Movement on deferred taxation	-	-	-	-	114	114
Total comprehensive income for the year	-	-	(38)	353	7,344	7,659
Balance at 31 March 2017	**146**	**(232)**	**579**	**(439)**	**69,837**	**69,891**

The notes on pages 14 to 37 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 March 2017

	Called up share capital £000	Revaluation reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2015	146	53,830	1,161	55,137
Total comprehensive income for the year				
Profit or loss	-	-	1,800	1,800
Revaluation of investment	-	6,088	-	6,088
Total comprehensive income for the year	-	6,088	1,800	7,888
Dividends paid	-	-	(600)	(600)
Balance at 31 March 2016	**146**	**59,918**	**2,361**	**62,425**

	Called up share capital £000	Revaluation reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2016	146	59,918	2,361	62,425
Total comprehensive income for the year				
Revaluation of investment	-	7,042	-	7,042
Total comprehensive income for the year	-	7,042	-	7,042
Balance at 31 March 2017	**146**	**66,960**	**2,361**	**69,467**

The notes on pages 14 to 37 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2017

	2017	2016
	£000	£000
Cash flows from operating activities		
Profit for the year	2,817	3,072
Adjustments for:		
Depreciation, amortisation and impairment	2,593	2,239
Foreign exchange loss	70	50
Interest payable and similar charges	947	1,071
Taxation	821	474
Decrease/(increase) in trade and other debtors	2,582	(7,449)
Decrease/(increase) in stocks	11	(9)
Increase/(decrease) in trade and other creditors	5,676	(207)
Interest paid	(947)	(1,071)
Tax paid	(1,246)	(228)
Net cash from operating activities	13,324	(2,058)
Cash flows from investing activities		
Acquisition of tangible fixed assets	(4,793)	(4,416)
Disposal of fixed assets	464	-
Net cash from investing activities	(4,329)	(4,416)
Cash flows from financing activities		
Proceeds from new loan	-	1,689
Repayment of borrowings	(1,750)	(3,346)
Dividends paid	-	(600)
Net cash from financing activities	(1,750)	(2,257)
Net increase/(decrease) in cash and cash equivalents	7,245	(8,731)
Cash and cash equivalents at 1 April	11,670	19,350
Effect of exchange rate fluctuations on cash held	779	1,051
Cash and cash equivalents at 31 March	19,694	11,670

The notes on pages 14 to 37 form an integral part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Hotel Management International (Holdings) Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*) as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included a second time; and,
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

Notes *(continued)*

1 Accounting policies *(continued)*

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified at fair value through the profit or loss.

1.2 Going concern

The directors have considered the factors that impact the group's future development, performance, cash flows and financial position along with the group's current liquidity in forming their opinion on the going concern basis. The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 March 2017. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investments in subsidiaries, are carried at fair value through profit or loss.

1.4 Foreign currency

Transactions in foreign currencies are translated to the Group companies' functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of qualifying cash flow hedges and items which are fair valued with changes taken to other comprehensive income, which are recognised in other comprehensive income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised in other comprehensive income.

Notes *(continued)*

1 Accounting policies *(continued)*

1.5 Classification of financial instruments issued by the group

In accordance with FRS 102.22, financial instruments issued by the group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and

(b) where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.6 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognition in profit or loss. Other investments are measured at cost less impairment in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes *(continued)*

1 Accounting policies *(continued)*

1.7 Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss. When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.8 Tangible fixed assets

Tangible fixed assets are stated at deemed cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property whose fair value cannot be measured reliably without undue cost or effort. Certain items of tangible fixed assets that had been revalued to fair value on or prior to the date of transition to FRS 102, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.16 below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Notes *(continued)*

1 Accounting policies *(continued)*

1.8 Tangible fixed assets *(continued)*

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

Freehold property	-	0.675% - 1.25%
Leasehold property	-	over the period of the lease or 50 years whichever is smaller
Furniture, fixtures and fittings	-	10% to 15% per annum
Motor vehicles	-	25% per annum

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.9 Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the entity.

At the acquisition date, the group recognises goodwill at the acquisition date as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- estimated amount of contingent consideration (see below); plus
- the fair value of the equity instruments issued; plus
- directly attributable transaction costs; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

When the excess is negative, this is recognised and separately disclosed on the face of the balance sheet as negative goodwill.

Consideration which is contingent on future events is recognised based on the estimated amount if the contingent consideration is probable and can be measured reliably. Any subsequent changes to the amount are treated as an adjustment to the cost of the acquisition.

FRS 102.35 grants certain exemptions from the full requirements of FRS 102 in the transition period. The Group elected not to restate business combinations that took place prior to transition date. In respect of acquisitions prior to 1 April 2014, goodwill is included on the basis of its deemed cost, which represents the amount recorded under old UK GAAP. Intangible assets previously included in goodwill, are not recognised separately.

Notes *(continued)*

1 Accounting policies *(continued)*

1.10 Intangible assets, goodwill and negative goodwill

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Negative goodwill

Negative goodwill arising on business combinations in respect of acquisitions is included on the balance sheet immediately below any positive goodwill and released to the profit and loss account in the periods in which the non-monetary assets arising on the same acquisition are recovered. Any excess exceeding the fair value of non-monetary assets acquired shall be recognised in profit or loss in the periods expected to benefit.

Amortisation

Negative goodwill is amortised on a straight line basis over the useful life of the asset it relates to. Goodwill has no residual value.

1.11 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

Notes *(continued)*

1 Accounting policies *(continued)*

1.12 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the entity's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire group of entities into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes *(continued)*

1 Accounting policies *(continued)*

1.13 Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

1.14 Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the parent Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability in its individual financial statements until such time as it becomes probable that the company will be required to make a payment under the guarantee.

1.15 Turnover

Turnover comprises income from the ownership of hotels and is recognised, excluding VAT, as the service are provided.

1.16 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset/are expensed as incurred.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Notes *(continued)*

1 Accounting policies *(continued)*

1.17 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2 Turnover

The group is principally engaged in the operation and management of hotels and the provision of management services ancillary thereto. All turnover relates to the sale of goods.

By geographical market:

	UK		Europe (excluding UK)		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Turnover						
Sales to third parties	**1,554**	1,932	**35,083**	33,463	**36,637**	35,395

Notes *(continued)*

3 Interest payable and similar charges

	2017 £000	2016 £000
On bank loans, overdrafts and hedging instruments	544	1,023
Interest on hedge	403	48
	947	1,071

4 Expenses and auditor's remuneration

	2017 £000	2016 £000
Included in profit are the following:		
Depreciation	2,593	1,792
Impairment	-	447
Hire of other assets - operating leases	722	860
Foreign currency losses/(gains)	70	(209)
Profit on disposal	464	-

The profit on disposal related to the statutory compensation received on the termination of the Carlton Mitre lease.

Auditor's remuneration:

Amounts paid to the company's auditor in respect of services to the company, other than the audit of the Company's financial statements, have been borne by The Foundation Group of Companies Limited, a company under common ownership. Audit fees for these financial statements have been borne by another company related due to common control.

	2017 £000	2016 £000
Audit of these financial statements	35	38
Amounts receivable by the auditors and their associates in respect of:		
- Other services relating to taxation	20	10
- Audit of financial statements subsidiaries pursuant to legislation	54	52

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, calculated in the current year as full-time equivalents, analysed by category, was as follows:

	Number of employees	
	2017	2016
Management	**16**	16
Administration	**31**	31
Sales	**36**	36
Operational staff	**320**	323
	403	406

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£000	£000
Wages and salaries	**10,488**	10,109
Social security costs	**1,899**	1,782
Contributions to defined contribution plans	**695**	604
	13,082	12,495

6 Directors' remuneration

Directors' remuneration was borne by related parties and was recharged to the group by the management fee. These fees are estimated at £127,000 (2016: £138,000).

Notes *(continued)*

7 Taxation

	2017	2016
	£000	£000
UK corporation tax		
Current tax on income for the year	345	262
Adjustments to prior period taxation	(1)	-
Foreign tax		
Current tax on income for the year	402	228
Adjustments with respect to previous periods	123	-
Total current tax	869	490
Deferred tax (see note 16)		
Origination and reversal of timing differences	(3)	(12)
Change in tax rate	-	(4)
Adjustments to prior period	(45)	-
Deferred tax credit	(48)	(16)
Tax on profit on ordinary activities	821	474

	2017	2016
	£000	£000
Reconciliation of effective tax rate		
Profit for the year	2,817	3,072
Total tax expense	821	474
Profit excluding taxation	3,638	3,546
Current tax at 20% *(2016 21%)*	728	709
Effects of:		
Expenses not deductible for tax	(42)	(283)
Adjustments to tax charge in respect of previous periods	77	-
Impact of change in rate	3	(4)
Overseas tax rate differences	55	52
Total tax expense included in profit	821	474

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015.

An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

Notes *(continued)*

8 Tangible fixed assets

Group	Freehold and long leasehold property	Assets under construction	Leasehold property	Furniture, fixtures and fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2016	65,666	2,100	2,194	33,521	27	103,508
Additions	-	2,654	-	2,139	-	4,793
Disposals	-	-	(8)	(918)	(27)	(953)
Transfers	-	72	-	(72)	-	-
Currency translation	4,901	-	-	2,340	-	7,241
At 31 March 2017	70,567	4,826	2,186	37,010	-	114,589
Accumulated depreciation						
At 1 April 2016	8,782	-	8	20,941	27	29,758
Charge for the year	734	-	-	1,859	-	2,593
Disposals	-	-	(8)	(918)	(27)	(953)
Currency translation	-	-	-	1,509	-	1,509
At 31 March 2017	9,516	-	-	23,391	-	32,907
Net book value						
At 31 March 2017	**61,051**	**4,826**	**2,186**	**13,619**	-	**81,682**
At 31 March 2016	56,884	2,100	2,186	12,580	-	73,750

The above amounts for Freehold and long leasehold property are based on valuations prepared between 1989 and 1994 by Jones Lang Wootton, independent chartered surveyors, on an open market value for existing use basis with vacant possession. All subsequent additions are recognised at cost.

Historical cost of revalued freehold property (at current exchange rates) was £40,804,000 *(2016, £37,890,000)*.

Notes *(continued)*

9 Intangible fixed assets

Group	Negative goodwill £000
Cost	
At beginning of year	(2,369)
Amortisation	
At beginning of year	2,369
Net book value	
At 31 March 2016 and 31 March 2017	-

10 Investments

Company	Investment in subsidiary undertakings £000
Cost or valuation	
At 31 March 2016	61,975
Revaluation in the year	7,042
At 31 March 2017	**69,017**

	2017 £000	2016 £000
Comprising		
Cost	**233**	233
Valuation	**68,784**	61,742
	69,017	61,975

Notes *(continued)*

10. Investments *(continued)*

The undertakings in which the Group's and Company's interest at the year-end is more than 20% are as follows.

Company	Country of incorporation	Class of share	Effective Interest	Principal activity
Hotel Management International Limited	England	Ordinary	100%	Hotel Management and Hoteliers
Carlton Hotels Nederland BV	Netherlands	Ordinary	*100%	Holding Company
Oostduinhaghe Hotel BV	Netherlands	Ordinary	+100%	Hoteliers
Spijkenisse Hotel BV	Netherlands	Ordinary	+100%	Hoteliers
Haarlem Hotel BV	Netherlands	Ordinary	+100%	Hoteliers
Hotel Exploitatie Mij Maarssenbroek BV	Netherlands	Ordinary	+100%	Hoteliers
Carlton Ambassador Hotel BV	Netherlands	Ordinary	+100%	Hoteliers
De Brug BV	Netherlands	Ordinary	+100%	Hoteliers
Hotel Exploitatie Mij Anfra BV	Netherlands	Ordinary	+100%	Hoteliers
Carlton Hotels Brussel BV	Netherlands	Ordinary	+100%	Hoteliers

* The interest in these companies is held indirectly via the shareholding in Hotel Management International Limited.
+ The interest in these companies is held indirectly via the shareholding in Carlton Hotels Nederland BV.

Registered office address

Company	Country Address	Physical Address
Hotel Management International Limited	England	364 Harlington, Hayes, Middlesex, UB3 5LF
Carlton Hotels Nederland BV	Netherlands	Floraweg 25, 3542 DX, Utrecht
Oostduinhaghe Hotel BV	Netherlands	Gevers Deijnootweg 201, 2586 HZ Scheveningen
Spijkenisse Hotel BV	Netherlands	Curieweg 1, 3208 KJ, Spijkenisse
Haarlem Hotel BV	Netherlands	Baan 7, 2012 DB, Haarlem
Hotel Exploitatie Mij Maarssenbroek BV	Netherlands	Floraweg 25, 3542 DX, Utrecht
Carlton Ambassador Hotel BV	Netherlands	Sophialaan 2, 2514 JP, Den Haag
De Brug BV	Netherlands	Arkweg 3-17, 5732 PD, Mierlo
Hotel Exploitatie Mij Anfra BV	Netherlands	Heerengracht 519 – 525, 1017 BV, Amsterdam
Carlton Hotels Brussel BV	Netherlands	Floraweg 25, 3542 DX, Utrecht

11. Stocks

Group	2017	2016
	£000	£000
Goods held for resale	270	263

Notes *(continued)*

12. Debtors

Group

	2017	2016
	£000	£000
Trade debtors	1,171	1,063
Other debtors	713	35
Prepayments and accrued income	115	1,049
Amounts owed by related parties	7,125	9,952
Deferred tax asset (note 16)	167	174
	9,291	12,273

Amounts owed by related parties are non-interest bearing and are repayable on demand.

Company

	2017	2016
	£000	£000
Amounts owed by related parties	450	450

Amounts owed by related parties are non-interest bearing and are repayable on demand.

13. Other financial assets

	2017	2016
	£000	£000
Hedging instruments	7	7

Notes *(continued)*

14. Creditors: amounts falling due within one year

Group	2017	2016
	£000	£000
Bank loans and overdrafts	1,793	1,656
Trade creditors	2,442	1,725
Amounts owed to related parties	7,350	533
Corporation tax	147	524
Other taxes and social security costs	309	336
Other creditors	-	120
Other financial liabilities	499	851
Accruals and deferred income	3,625	4,957
	16,165	10,702

Amounts owed to related parties are non-interest bearing and are repayable on demand.

Notes *(continued)*

15. Creditors: amounts falling due after more than one year

Group	2017	2016
	£000	£000
Bank loans	**24,888**	24,860
Analysis of bank loans:		
Fixed interest loans	**13,170**	14,039
Variable interest loans	**13,511**	12,477
	26,681	26,516

Total secured borrowing, all repayable by instalments apart from the bank overdrafts:

Group	2017	2016
	£000	£000
In 1 year or less or on demand		
- bank	**1,793**	1,656
Between 1 - 2 years - bank loans	**23,622**	3,072
Between 2 - 5 years - bank loans	**1,266**	21,788
	26,681	26,516

Each loan is secured by fixed and floating charge over the freehold and leasehold properties and other assets of the individual trading subsidiaries, which have a net book value of £81,682,000 *(2016: £73,750,000)*. Various interest rate swaps have been put in place on these loans. See note 18.

Notes *(continued)*

16. Deferred tax assets and liabilities

	2017	2016
	£000	£000
Net deferred tax liability /(asset) at the beginning of the year	(5)	105
Charge to the profit and loss account	(48)	16
Charge to other comprehensive income	(114)	(126)
Net deferred tax asset at the end of the year	(167)	(5)

Deferred tax (assets)/liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
	£000	£000	£000	£000	£000	£000
Accelerated capital allowances	(18)	-	-	22	(18)	22
Derivatives	(111)	-	-	29	(111)	29
Revaluations	-	(174)	-	118	-	(56)
Other	(38)	-	-	-	(38)	-
Tax (assets) / liabilities	(167)	(174)	-	169	(167)	(5)

17. Capital and reserves

Share capital

	2017	2016
	£000	£000
Authorised		
10,000,000 ordinary shares of £0.10 each	10,000	10,000
Allotted, called up and fully paid		
1,222,956 ordinary A shares of £0.10 each	123	123
232,944 ordinary B shares of £0.10 each	23	23
	146	146

Holders of Ordinary A shares have full voting rights. Holders of B shares have restricted voting rights. In all other regards, the shares rank pari passu.

Notes *(continued)*

17. Capital and reserves *(continued)*

Revaluation reserve

Where tangible fixed assets are revalued or reclassified as investment property, the cumulative increase in the fair value of the property at the date of reclassification in excess of any previous impairment losses is included in the revaluation reserve.

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Merger reserve

The merger reserve comprises the differences between consideration and book value which arose on the restructuring of the group.

18. Financial instruments

18 (a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2017 £000	2016 £000
Assets measured at fair value through profit or loss	7	7
Assets measured at cost less impairment	9,124	11,566
Liabilities measured at fair value through profit or loss	(499)	(851)
Liabilities measured at amortised cost	(40,554)	(34,178)

18 (b) Financial instruments measured at fair value

Derivative financial instruments

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes.

18 (c) Fair values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	2017 £000	2016 £000
Interest rate swaps	(337)	(688)
Forward foreign currency exchange contracts	(155)	(156)

Notes *(continued)*

18. Financial instruments *(continued)*

18 (d) Hedge accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models

	2017						2016					
	Carrying amount	Expected cash flows	1 year or less	1 to <2years	2 to <5years	5years and over	Carrying amount	Expected cash flows	1 year or less	1 to <2years	2 to <5years	5years and over
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Interest rate swaps:												
Assets	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities	(337)	(337)	(292)	(18)	(27)	-	(688)	(688)	(424)	(220)	(44)	-
Forward exchange contracts:												
Assets	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities	(155)	(155)	(155)	-	-	-	(156)	(156)	(87)	(69)	-	-

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to affect profit or loss:

	2017						2016					
	Carrying amount	Expected cash flows	1 year or less	1 to <2years	2 to <5years	5years and over	Carrying amount	Expected cash flows	1 year or less	1 to <2years	2 to <5years	5years and over
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Interest rate swaps:												
Assets	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities	(337)	(337)	(292)	(18)	(27)		(688)	(688)	(424)	(220)	(44)	-
Forward exchange contracts:												
Assets	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities	(155)	(155)	(155)	-	-	-	(156)	(156)	(87)	(69)	-	-

Notes *(continued)*

18. Financial instruments *(continued)*

18 (d) Hedge accounting (continued)

Interest rate swaps

The derivatives hedge against the risk of adverse fluctuations in floating interest rates. In each case, the hedged item is a floating interest rate on a bank loan. The hedge instruments are interest rate swaps to obtain fixed rate interest. The fair value of interest rate swap hedges at 31 March 2017 was a liability of £337,000 (2016: £688,000)

Forward exchange contracts

The derivatives hedge against the risk of adverse fluctuations in exchange rates. In each case, the hedged item is a management fee receivable from other group companies. The hedge instruments are forward exchange contracts to fix exchange rates for a specific future date. The fair value of forward exchange contract hedges at 31 March 2017 was a liability of £155,000 (2016: £156,000)

19. Operating leases

Non-cancellable operating lease rentals are payable as follows

	Land and buildings	
	2017	2016
		£000
Less than one year	**517**	477
Between one and five years	**2,086**	1,940
More than five years	**41,366**	44,650
	43,969	47,067

During the year £698,000 was recognised as an expense in the profit and loss account in respect of operating leases (2016: £836,000)

The Company has no non-cancellable operating lease rentals payable and incurred no expense in the year (2016: nil).

Notes *(continued)*

20. Accounting estimates and judgements

Critical accounting judgements in applying the Company's accounting policies

Deferred taxation

In accordance with FRS 102 the group provides for deferred taxation on all capital gains tax rolled over and any revaluations. It is currently not the directors' intention to dispose of any of these assets.

Hedge accounting

As part of its risk management the group enters into forward foreign exchange contracts and interest rate swaps. It seeks to match these up to the future overseas cashflows and borrowing costs of the business. Accordingly, the group uses hedge accounting where appropriate.

21. Related party transactions

Group

The group's trading transactions during the year with these related parties were as follows:

	2017	2016
Management fees receivable	**£000**	£000
Carlton Hotels UK Limited	**185**	167
Saltire Taverns Limited	**59**	35

The group's aggregate balances with related parties were as follows:

	2017	2016
	£000	£000
Amounts due from / (owed to) related undertakings:		
The Foundation Group of Companies Limited	**7,125**	9,952
Glendola Leisure (Holdings) Limited	**(7,345)**	(215)
Carlton Hotels UK Limited	**(5)**	(318)
	380	9,419

Transactions with key management personnel

Total compensation of key management personnel (including the directors) in the year amounted to £2,015,000 (*2016:* £1,762,000).

Notes *(continued)*

22. Contingent liabilities

The company is a party to the bank overdraft and bank loans of other group and related party companies. At the balance sheet date these totalled £17,121,137 (*2016:* 19,750,000).

Hotel Management International Limited reached an agreement with the landlord of The Carlton Mitre hotel to vacate the hotel in September 2016. The landlord has made a provisional dilapidations claim for £728,000 which the group believes is wholly excessive.

23. Ultimate controlling party

The immediate and ultimate controlling party is PN Salussolia, being the major shareholder.