

Gulf Hotels Group B.S.C.

**REPORT OF THE BOARD OF DIRECTORS,
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
AND CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2016

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF HOTELS GROUP B.S.C.

Opinion

We have audited the accompanying consolidated financial statements of Gulf Hotels Group B.S.C. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF HOTELS GROUP B.S.C.

Key Audit Matter (continued)

Acquisition of Bahrain Tourism Company B.S.C.

Refer to note 7 to the financial statements.

Key audit matter / risk	How the key audit matter was addressed in the audit
<p>The Group completed 100% acquisition of Bahrain Tourism Company B.S.C. (BTC) on 31 May 2016 by issuing 31,844,440 fully paid ordinary shares of the Company to the previous shareholders of BTC. As a result, effective from 31 May 2016, BTC became a subsidiary of the Group and was consolidated from that date.</p> <p>As the amounts involved are material to the consolidated financial statements and the fair value assessment is complex and requires significant management judgment for the assessment of the fair value of assets acquired and the liabilities assumed at the date of acquisition, the matter was significant to our audit.</p>	<p>We evaluated the details of the valuation and the purchase price for the acquisition of BTC. We reviewed the valuation done by the external experts used by management and also considered their qualifications of the external experts.</p> <p>An important element of our audit relates to testing the fair values of the acquired assets (e.g. valuation of property, plant and equipment and investment properties done by external experts) and liabilities assumed (provisions and accruals).</p> <p>We tested the fair values based on our understanding of the business of BTC and the plans and explanations of the Company's Board of Directors that supported the acquisition. We tested the reasonableness of the management's assumptions, using source data and market data.</p> <p>Furthermore, we assessed the appropriateness of the disclosures in the consolidated financial statements regarding the acquisition.</p>

Other information included in the Company's 2016 Annual Report

Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Chairman and the Board of Directors are responsible for the other information. Prior to the date of this auditors' report, we obtained the Chairman's Report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF HOTELS GROUP B.S.C. (continued)

Other information included in the Company's 2016 Annual Report (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF HOTELS GROUP B.S.C. (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF HOTELS GROUP B.S.C. (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We report that:

- a) as required by the Bahrain Commercial Companies Law:
 - i. the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
 - ii. the financial information contained in the Chairman's Report is consistent with the consolidated financial statements; and
 - iii. satisfactory explanations and information have been provided to us by Management in response to all our requests; and
- b) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association during the year ended 31 December 2016 that might have had a material adverse effect on the business of the Company or on its consolidated financial position.

The partner in charge of the audit resulting in this independent auditor's report is Nader Rahimi.

Auditor's Registration No. 115
15 February 2017
Manama, Kingdom of Bahrain

Gulf Hotels Group B.S.C.

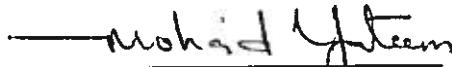
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 BD	2015 BD
ASSETS			
Non-current assets			
Property, plant and equipment	8	54,080,581	45,223,142
Investment properties	9	898,123	-
Investment in associates	10	9,559,941	1,821,415
Available-for-sale investments	11	13,339,623	7,093,780
		<u>77,878,268</u>	<u>54,138,337</u>
Current assets			
Trading investments	12	-	570,350
Inventories	13	3,524,440	3,187,651
Trade and other receivables	14	3,206,926	2,600,631
Cash and bank balances	15	31,956,746	22,005,920
		<u>38,688,112</u>	<u>28,364,552</u>
TOTAL ASSETS		<u>116,566,380</u>	<u>82,502,889</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	16	20,544,988	17,360,544
Share premium	16	17,514,442	-
Treasury shares	16	(33,248)	-
Statutory reserve	17 (a)	10,272,494	8,680,272
General reserve	17 (b)	5,000,000	5,000,000
Available-for-sale investments reserve	17 (c)	3,527,793	3,298,835
Proposed dividend	18	5,134,968	5,208,163
Retained earnings		42,068,586	32,663,056
		<u>104,030,023</u>	<u>72,210,870</u>
Total equity			
Non-current liability			
Employees' end of service benefits	19	<u>2,370,003</u>	<u>1,985,766</u>
Current liability			
Trade and other payables	20	<u>10,166,354</u>	<u>8,306,253</u>
Total liabilities		<u>12,536,357</u>	<u>10,292,019</u>
TOTAL EQUITY AND LIABILITIES		<u>116,566,380</u>	<u>82,502,889</u>



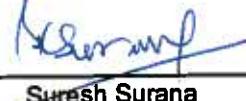
Farouk Yousuf Almoayyed
Chairman



Mohammed Hussain Yateem
Director & Chairman
Executive Committee



Garfield Jones
Chief Executive Officer



Suresh Surana
Chief Financial Officer

Gulf Hotels Group B.S.C.

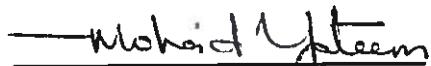
CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	Note	2016 BD	2015 BD
Gross operating revenue	21	36,376,953	32,370,415
Operating costs	22	(22,560,099)	(19,275,130)
GROSS OPERATING PROFIT		13,816,854	13,095,285
Net investment income:			
Share of profit (loss) from associates	10	1,252,984	(299,093)
Dividend income		532,194	408,279
Gain on trading investments	12	33,220	19,955
Recovery of impaired unquoted investment		-	10,792
Impairment loss on available-for-sale investments	11	(197,030)	(235,093)
Interest income		414,747	241,704
Other income	23	797,680	781,498
Total income		16,650,649	14,023,327
Depreciation	8, 9	(3,919,721)	(3,054,959)
Charity reserve expense	20	(234,200)	(235,823)
General and administration expenses	24	(2,489,689)	(1,535,456)
Total expenses		(6,643,610)	(4,826,238)
PROFIT FOR THE YEAR BEFORE			
GAIN ON BARGAIN PURCHASE		10,007,039	9,197,089
GAIN ON BARGAIN PURCHASE		6,125,681	-
PROFIT FOR THE YEAR		16,132,720	9,197,089
Basic and diluted earnings per share (fils)	26	84	53
Dividend per share (in fils)	18	25	30



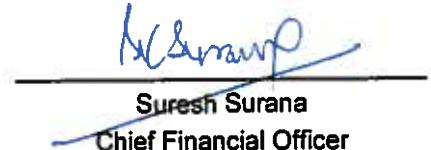
Farouk Yousuf Almoayyed
Chairman



Mohamed Husain Yateem
Director & Chairman
Executive Committee



Garfield Jones
Chief Executive Officer



Suresh Surana
Chief Financial Officer

Gulf Hotels Group B.S.C.**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2016

	Note	2016 BD	2015 BD
Net profit for the year		16,132,720	9,197,089
Other comprehensive income			
Net movement in fair valuation of available-for-sale investments to be reclassified to profit or loss in subsequent periods	11	201,434	141,594
Share of fair value reserve of associates	10	27,524	-
Other comprehensive income for the year		228,958	141,594
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		16,361,678	9,338,683

Gulf Hotels Group B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 BD	2015 BD
OPERATING ACTIVITIES			
Profit for the year		16,132,720	9,197,089
Adjustments for:			
Gain on bargain purchase	7	(6,125,681)	-
Depreciation	8, 9	3,919,721	3,054,959
Loss on property, plant and equipment written off	8	243,359	-
Share of (profit) loss from associates	10	(1,252,984)	299,093
Interest income		(414,747)	(241,704)
Dividend income		(532,194)	(408,279)
Gain on trading investments	12	(33,220)	(19,955)
Impairment loss of available-for-sale investments	11	197,030	235,093
Reversal of for doubtful debts - net	14	(7,798)	(6,606)
Provision for slow moving inventories - net	13	(5,257)	5,000
Provision for employees' end of service benefits	19	340,085	174,020
Operating profit before working capital changes		12,461,034	12,288,710
Working capital changes:			
Inventories		(254,110)	(771,087)
Trade and other receivables		32,670	406,502
Trade and other payables		32,295	815,158
Net cash from operations		12,271,889	12,739,283
Directors' remuneration paid		(255,000)	(255,000)
Donations paid	20	(57,459)	(70,194)
Employees' end of service benefits paid	19	(438,306)	(193,977)
Net cash flows from operating activities		11,521,124	12,220,112
INVESTING ACTIVITIES			
Cash flow arising on acquisition of a subsidiary	7	8,317,126	-
Purchase of property, plant and equipment		(5,333,860)	(6,764,335)
Purchase of available-for-sale investments		(1,354,232)	-
Net movement of cash held for investment trading	12	-	44,824
Proceeds from sale of trading investments	12	603,570	-
Interest income received		327,621	279,258
Dividends received from an associate	10	400,000	-
Dividend income received		532,194	408,279
Term deposits with original maturities of more than three months		(9,857,860)	2,450,436
Net cash flows used in investing activities		(6,365,441)	(3,581,538)
FINANCING ACTIVITY			
Dividends	18	(5,208,163)	(6,613,540)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(52,480)	2,025,034
Cash and cash equivalents at 1 January		4,286,179	2,261,145
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	15	4,233,699	4,286,179

Non-cash items:

- (i) Liabilities towards acquisition of property, plant and equipment to the extent of BD 897,485 (2015: BD 1,582,027) were not settled as of the date of consolidated statement of financial position.
- (ii) Interest income of BD 189,760 (2015: BD 102,634) which has been accrued but is not yet due has been excluded from the movement of trade and other receivables.
- (iii) Unclaimed dividends pertaining to prior years amounting to BD 295,284 (2015: BD 149,838) has been excluded from the movement of trade and other payables.
- (iv) Net effect of assets and liabilities acquired through share swap business combination with net amount of BD 26,824,567 as summarised in note 7 were excluded from the consolidated statement of cashflows (2015: nil).

The attached notes 1 to 33 form part of these consolidated financial statements.

Gulf Hotels Group B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

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		Share capital BD	Share premium BD	Treasury shares BD	Statutory reserve BD	General reserve BD	Proposed dividend BD	Retained earnings BD	Total BD
Balance at 1 January 2016	Note	17,360,544	-	-	8,680,272	5,000,000	3,298,835	5,208,163	32,663,056
Profit for the year		-	-	-	-	-	-	16,132,720	72,210,870
Other comprehensive income	11	-	-	-	-	-	228,958	-	228,958
Total comprehensive income		-	-	-	-	228,958	-	16,132,720	16,361,678
Transfer to statutory reserve		-	-	-	1,592,222	-	-	(1,592,222)	-
Dividends paid	18	-	-	-	-	-	(5,208,163)	-	(5,208,163)
Shares issued on acquisition of a subsidiary		3,184,444	17,514,442	-	(33,248)	-	-	-	20,698,886
Acquisition of treasury shares		-	-	-	-	-	-	-	(33,248)
Proposed cash dividend	18	20,544,988	17,514,442	(33,248)	10,272,494	5,000,000	3,527,793	5,134,968	(5,134,968)
Balance at 31 December 2016		16,533,851	-	-	8,266,926	5,000,000	3,157,241	6,613,540	29,914,169
Balance at 1 January 2015		-	-	-	-	-	-	-	69,485,727
Profit for the year		-	-	-	-	-	-	9,197,089	9,197,089
Other comprehensive income		-	-	-	-	141,594	-	-	141,594
Total comprehensive income		-	-	-	-	141,594	-	9,197,089	9,338,683
Bonus shares issued	18	826,693	-	-	-	-	-	(826,693)	-
Transfer to statutory reserve		-	-	-	413,346	-	-	(413,346)	-
Dividends paid	18	-	-	-	-	-	(6,613,540)	-	(6,613,540)
Proposed cash dividend		-	-	-	-	-	5,208,163	(5,208,163)	-
Balance at 31 December 2015		17,360,544	-	-	8,680,272	5,000,000	3,298,835	5,208,163	32,663,056
Available-for-sale									72,210,870

The attached notes 1 to 33 form part of these consolidated financial statements.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

1 GROUP INFORMATION

Gulf Hotels Group B.S.C. ("the Company") is a public joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under commercial registration (CR) number 950. The postal address of the Company's registered head office is at P O Box 580, Manama, Kingdom of Bahrain.

The Group owns and operates the Gulf Hotel, Gulf Executive Residence, the Gulf Convention Centre, Gulf Executive Offices and Gulf Brands International in the Kingdom of Bahrain and provides other catering facilities. It also provides management services to The K Hotel, Gulf Court Manama, Asdal Gulf-inn Seef and Gulf Residence Amwaj, Kingdom of Bahrain, and to Ocean Paradise Resort, Zanzibar, Republic of Tanzania.

During the year ended 31 December 2016, the Company acquired a 100% stake in Bahrain Tourism Company B.S.C. ("BTC"), a company established in the Kingdom of Bahrain, through an exchange of shares as explained in more detail in note 7. BTC's major undertaking is the Crowne Plaza Bahrain Hotel. BTC also owns and operates Bahrain Tourism Company travel division. It also has a 33% interest in African & Eastern (Bahrain) W.L.L.

Information on the Group's structure is provided below. Information on related party relationships of the Group is provided in note 28.

Name of the subsidiary	Ownership interest	Date of incorporation	Activities
Gulf Hotels Management Company S.P.C.	100%	4 December 2002	Managing hotels and restaurants and providing catering services for aircraft, ships, government organisations and companies.
Hospitality Resources S.P.C.	100%	12 August 2010	Import, export and sales of commercial and household kitchen equipment and interior designing contracts.
Gulf Hotel Laundry Services S.P.C.	100%	1 February 2014	Provision of automatic laundry services.
Bahrain Tourism Company B.S.C.	100%	31 May 2016	Building and investing in hotels and other tourism projects.
Name of associate	Ownership interest	Country of incorporation	Activities
Bahrain Family Leisure Company B.S.C. (BFLC)	28.06%	Kingdom of Bahrain	Primarily involved in operating restaurants, providing services related to family entertainment, supply of amusement related equipment and investing in businesses with similar objectives to those of BFLC.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

1 GROUP INFORMATION (continued)

Name of associate	Ownership interest	Country of incorporation	Activities
African and Eastern (Bahrain) W.L.L. (A&E)	33.33%	Kingdom of Bahrain	Investment in bonds and shares as well as importing and selling consumer products.

The consolidated financial statements of Gulf Hotels Group B.S.C. and its subsidiaries (collectively, the Group) for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 15 February 2017.

2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse.

The consolidated financial statements are prepared under the historical cost basis, except for investments that have been measured at fair value.

The consolidated financial statements have been presented in Bahraini Dinars, being the functional and presentational currency of the Group.

3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016 (collectively referred to as the "Group"). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- a) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- b) Exposure, or rights, to variable returns from its involvement with the investee; and
- c) The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- a) The contractual arrangement with the other vote holders of the investee;
- b) Rights arising from other contractual arrangements; and
- c) The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

3 BASIS OF CONSOLIDATION (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in consolidated statement of comprehensive income. Any investment retained is recognised at fair value.

4 SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations effective as of 1 January 2016

The accounting policies adopted are consistent with those of the previous financial year, except for the following IASB's new and amended standards and interpretations which are effective as of 1 January 2016. The adoption of these standards and interpretations did not have any effect on the Company's financial position, financial performance or disclosures.

<i>IFRS 14</i>	<i>Regulatory Deferral Accounts: Guidance on presentation and disclosures;</i>
<i>IFRS 11</i>	<i>Joint Arrangements (Amendments): Accounting for Acquisition of Interests - Guidance on acquisition of an interest in a joint operation;</i>
<i>IAS 16 & IAS 38</i>	<i>Property, Plant and Equipment and Intangible Assets (Amendments): Clarification of acceptable methods of depreciation and amortisation;</i>
<i>IAS 16 & IAS 41</i>	<i>Property, Plant and Equipment and Agriculture (Amendments): Guidance on the accounting requirements of plant-based bearer biological assets;</i>
<i>IAS 27</i>	<i>Separate Financial Statements (Amendments): Guidance on equity method for investments in subsidiaries, joint ventures and associates;</i>
<i>IAS 1</i>	<i>Disclosure Initiative: Presentation of Financial Statements (Amendments): Clarification on materiality requirements and presentation and disclosures; and</i>
<i>IFRS 10, IFRS 12 & IAS 28</i>	<i>Consolidated Financial Statements, Disclosure of Interest in other Entities and Investments in Associates and Joint Ventures (Amendments): The amendments address issues that have arisen in applying the investment entities exception under IFRS 10.</i>

Annual Improvements 2012-2014 Cycle

<i>IFRS 5</i>	<i>Non-current Assets Held for Sale and Discontinued Operations: Guidance on changing the disposal methods;</i>
<i>IFRS 7</i>	<i>Financial Instruments: Disclosures (Amendment): Guidance on servicing contracts and applicability of the offsetting disclosures to condensed interim financial statements;</i>
<i>IAS 19</i>	<i>Employee Benefits (Amendment): Clarification on the market depth of high quality corporate bonds; and</i>
<i>IAS 34</i>	<i>Interim Financial Reporting (Amendment): Guidance on interim disclosures and other information.</i>

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39, is remeasured at each reporting date, at fair value with the changes in fair value recognised in the consolidated statement of income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income as "gain on bargain purchase".

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on a current/non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in a normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

All other assets are classified as non-current.

A liability is classified as current when:

- It is expected to be settled in a normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- a) In the principal market for the asset or liability; or
- b) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- a) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- b) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- c) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy as explained above.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated statement of income as incurred. Land and capital work in progress are not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the property, plant and equipment as follows:

- Buildings on freehold land	- original structure	40 years.
	- subsequent improvements	Over the remaining life of the buildings they relate to, or earlier, as appropriate.
- Furniture, fittings and office equipment		2 to 7 years.
- Plant, equipment and motor vehicles		2 to 10 years.
- Soft operating equipment		2 to 5 years.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Investment properties

Investment properties, which are held to earn rentals or for capital appreciation, are measured at cost, including transaction costs, less accumulated depreciation and accumulated impairment, if any. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

The depreciation charge on investment properties is calculated on a straight line basis over the estimated useful lives.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income in the period of derecognition.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for on weighted average cost on a first in, first out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investment in associates is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associates. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The financial statements of the associates are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in associates. At each reporting date, the Group determines whether there is objective evidence that an investment in associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of loss from an associate' in the consolidated statement of income.

Upon loss of significant influence over an associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in consolidated statement of income.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated statement of income in expense categories consistent with the function of the impaired asset.

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables or available-for-sale investments, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value with gains or losses recognised in the consolidated statement of income.

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Bad debts are written off in the consolidated financial statements when identified.

This category generally applies to trade and other receivables. For more information on receivables, refer to note 14.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

Available-for-sale (AFS) investments

AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. The Group's AFS investments only includes equity investments.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated statement of income and removed from the available-for-sale reserve.

Cash and cash equivalents

Cash and bank balances in the consolidated statement of financial position comprise cash at banks and on hand and term deposits. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits with original maturity of three months or less, net of restricted cash, if any.

Impairment and uncollectibility of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;
- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial liabilities comprise of trade and other payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Trade and other payables

Trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Derecognition of financial instruments

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - (a) the Group has transferred substantially all the risks and rewards of the asset, or
 - (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in consolidated statement of comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employees' end of service benefits

The Group makes contributions to the Social Insurance Organisation scheme for its national employees calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

The Group also provides for end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salaries and length of service. The expected costs of these benefits are accrued over the period of employment.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

Revenue from the rendering of services is recognised when services are performed, provided that the amount can be measured reliably.

Sale of goods

Revenue from the sale of goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Management fees

Management fees are recognised when earned as determined by the management agreement.

Rental income

The Group operates executive offices which are leased on a commercial basis. Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms and included in other income as rental income.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income

Interest income is recorded using the effective interest rate (EIR) method. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset or liability.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Foreign currency transactions

The Group's consolidated financial statements are presented in Bahraini Dinars (BD), which is also the Group's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of the issuance of Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards (where applicable) when they become effective:

IFRS 9 Financial Instruments

Guidance on classification and measurement, impairment and hedge accounting (effective for annual periods beginning on or after 1 January 2018);

IFRS 15 Revenue from Contracts with Customers

Guidance on performance obligations, variable consideration, warranty obligations, loyalty points program, rendering of services and equipment received from customers (effective for annual periods beginning on or after 1 January 2018);

IFRS 10 & IAS 28 Consolidated Financial Statements and Investment in Associates and Joint Ventures (Amendments)

Consolidated Financial Statements and Investment in Associates and Joint Ventures (Amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (the IASB has deferred the effective date of these amendments indefinitely);

IAS 7 Statement of Cash Flows (Amendments)

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (effective for annual periods beginning on or after 1 January 2017). Earlier application is permitted;

5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 12 Income Taxes (Amendments)

The amendments, Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12), clarify how to account for deferred tax assets related to debt instruments measured at fair value (effective for annual periods beginning on or after 1 January 2017). Earlier application is permitted;

IFRS 2 Share-based Payment Transactions

Classification and Measurement of Share-based Payment (Amendments) (effective for annual periods beginning on or after 1 January 2018). Early application is permitted; and

IFRS 2 Leases

Revised guidance on single model accounting for leases (effective for annual periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied).

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Annual improvements to IFRSs (2012-2014) Cycle

These improvements are effective from 1 January 2016. The document contains amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of income and other comprehensive income and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statement of financial position and the consolidated statement of income and other comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Other standards and interpretations that have been issued but not yet effective are not likely to have any significant impact on the consolidated financial statements of the Group in the period of their initial application.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, the Board of Directors and management has made the following judgments, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Going concern

The Board of Directors of the Company has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Classification of investments

The Group's management decides on acquisition of an investment whether it should be classified as a trading investment or available-for-sale. Classification of investments as trading investments depends on how management monitors the performance of these investments. These investments have readily available reliable fair values and the changes in fair values are reported as part of the consolidated statement of income in the consolidated financial statements. All other investments are classified as available-for-sale.

Impairment of quoted AFS equity investments

The Group's management records impairment charges on quoted AFS equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration (greater than 12 months) and extent (30% or more) to which the fair value of an investment is less than its cost. Impairment loss of quoted AFS equity investments recorded in the consolidated statement of income amounted to BD 197,030 as of 31 December 2016 (2015: BD 235,093) (see note 11).

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Useful lives of property, plant and equipment

The directors determine the estimated useful lives of the Group's property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset, physical wear and tear, technical or commercial obsolescence.

The directors review, on a yearly basis, the useful lives of property, plant and equipment. Future depreciation charges would be adjusted when the directors believe the useful lives differ from previous estimates.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of trade receivables

An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the reporting date, gross trade receivables were BD 2,360,422 (2015: BD 1,556,611) and the allowance for impairment of trade receivables was BD 231,020 (2015: BD 238,818). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of income.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the reporting date, gross food and beverage inventories were BD 3,592,831 (2015: BD 3,227,533), maintenance stores were BD 93,795 (2015: BD 97,188) and general stores BD 126,285 (2015: BD 156,658), with an allowance for old and obsolete inventories of BD 288,471 (2015: BD 293,728). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of income.

Impairment of unquoted AFS equity investments

In determining any impairment for the unquoted AFS equity investments carried at cost, assumptions have been made regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

7 ACQUISITION OF BAHRAIN TOURISM COMPANY B.S.C.

On 10 February 2016, the shareholders of the Company resolved to acquire 100% of the paid up capital of BTC by issuing 1 share of the Company for every 2.261 shares of BTC. On 31 May 2016, the Company completed the acquisition by issuing 31,844,440 fully paid ordinary shares of the Company to the previous shareholders of BTC.

The fair values of the identifiable assets and liabilities of BTC as of 31 May 2016 and the resulting impact due to the acquisition are as follows:

	<i>Fair value BD</i>	<i>Carrying value BD</i>
Assets acquired		
Cash and bank balances	1,471,282	1,471,282
Short term bank deposits	6,845,844	6,845,844
Trade receivables	273,475	284,872
Inventories	77,422	77,422
Prepayments and other receivables	270,566	270,566
Available-for-sale investments	4,920,455	4,920,455
Investment in an associate company	6,858,018	6,858,018
Investment property	928,363	928,363
Property and equipment	8,340,961	15,675,458
	29,986,386	37,332,280
Less: Liabilities assumed		
Trade payables	462,331	462,331
Accrued expenses and other payables	1,779,484	779,484
Dividend payable	437,546	437,546
Provision for employees' leaving indemnities	482,458	482,458
	3,161,819	2,161,819
Net assets	26,824,567	35,170,461
 Gain on bargain purchase arising on acquisition		<i>BD</i>
Fair value of identifiable net assets acquired		26,824,567
Fair value of the consideration given (note 16)		<u>(20,698,886)</u>
Gain on bargain purchase		6,125,681
 Net cash flow arising on acquisition		8,317,126

From the date of acquisition, BTC contributed BD 3,243,026 of revenue and BD 873,231 profit to the operations of the Group. If the combination had taken place at the beginning of the period, revenue contributed from operations would have been BD 6,281,704 and profit contributed for the Group would have been BD 2,149,908.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

8 PROPERTY, PLANT AND EQUIPMENT

		<i>Furniture, fittings and office equipment</i>	<i>Buildings on freehold land</i>	<i>Plant, equipment and motor vehicles</i>	<i>Soft operating equipment</i>	<i>Capital work-in-progress</i>	<i>Total BD</i>
<i>Cost:</i>							
At 1 January 2016	12,778,606	54,559,146	15,124,502	9,423,412	458,420	5,423,162	97,767,248
Additions	684,495	129,085	357,764	244,797	-	3,233,177	4,649,318
Acquisition of a subsidiary (note 7)	991,060	5,785,068	1,287,723	-	-	277,110	8,340,961
Transfers	-	583,530	396,865	(352,334)	-	(628,061)	-
Write offs	-	-	-	-	-	(243,359)	(243,359)
At 31 December 2016	14,454,161	61,056,829	17,166,854	9,315,875	458,420	8,062,029	110,514,168
<i>Depreciation:</i>							
At 1 January 2016	-	29,998,499	14,236,657	7,850,530	458,420	-	52,544,106
Charge for the year	-	2,802,105	659,201	428,175	-	-	3,889,481
At 31 December 2016	-	32,800,604	14,895,858	8,278,705	458,420	-	56,433,587
<i>Net carrying amount:</i>							
At 31 December 2016	14,454,161	28,256,225	2,270,996	1,037,170	-	8,062,029	54,080,581

Gulf Hotel's Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

8 PROPERTY, PLANT AND EQUIPMENT (continued)

	<i>Freehold land</i> <i>BD</i>	<i>Buildings on freehold land</i> <i>BD</i>	<i>Furniture, fittings and office equipment</i> <i>BD</i>	<i>Plant, equipment and motor vehicles</i> <i>BD</i>	<i>Soft operating equipment</i> <i>BD</i>	<i>Capital work- in-progress</i> <i>BD</i>	<i>Total</i> <i>BD</i>
Cost:							
At 1 January 2015	12,371,761	54,075,974	14,977,924	9,034,628	458,420	1,948,162	92,866,869
Additions	406,845	1,971,511	152,007	183,848	-	4,619,756	7,333,967
Transfers	-	890,236	(800)	255,320	-	(1,144,756)	-
Disposals and write offs	-	(2,378,575)	(4,629)	(50,384)	-	-	(2,433,588)
At 31 December 2015	<u>12,778,606</u>	<u>54,559,146</u>	<u>15,124,502</u>	<u>9,423,412</u>	<u>458,420</u>	<u>5,423,162</u>	<u>97,767,248</u>
 Depreciation:							
At 1 January 2015	-	30,238,091	13,868,857	7,357,367	458,420	-	51,922,735
Charge for the year	-	2,138,983	372,429	543,547	-	-	3,054,959
Relating to disposals and write offs	-	(2,378,575)	(4,629)	(50,384)	-	-	(2,433,588)
At 31 December 2015	<u>-</u>	<u>29,998,499</u>	<u>14,236,657</u>	<u>7,850,530</u>	<u>458,420</u>	<u>-</u>	<u>52,544,106</u>
 Net carrying amount:							
At 31 December 2015	<u>12,778,606</u>	<u>24,560,647</u>	<u>887,845</u>	<u>1,572,882</u>	<u>-</u>	<u>5,423,162</u>	<u>45,223,142</u>

Capital work-in-progress principally relates to construction development of Gulf Residence Juffair, district cooling system and SPA project (2015: same).

Gulf Hotels Group B.S.C.

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At 31 December 2016

9 INVESTMENT PROPERTIES

	Land BD	Buildings BD	Total BD
Cost:			
Acquisition of a subsidiary (note 7)	494,515	433,848	928,363
Accumulated depreciation and Charge for the year	-	30,240	30,240
Net carrying amount:			
At 31 December 2016	494,515	403,608	898,123

The fair value of the investment properties as at 31 December 2016 disclosed in note 7 are based on the valuations performed by independent property valuers (2015: nil).

10 INVESTMENT IN ASSOCIATES

The Group has a 28.06% interest in Bahrain Family Leisure Company B.S.C. (BFLC). BFLC is a public company registered in the Kingdom of Bahrain and primarily involved in operating restaurants, providing services related to family entertainment, supply of amusement related equipment and investing in businesses with similar objectives to those of BFLC.

The Group also has a 33.33% interest in African & Eastern (Bahrain) W.L.L., which is incorporated in the Kingdom of Bahrain and is involved in the business of investment in bonds and shares as well as importing and selling consumer products. African & Eastern (Bahrain) W.L.L. is a private entity that is not listed on any public exchange.

The Group's interests in its associates are accounted for using the equity method in the consolidated financial statements.

Movements in the carrying value of the investment are as follows:

<i>31 December 2016</i>	<i>African & Eastern BD</i>	<i>BFLC BD</i>	<i>Total BD</i>
Balance at 1 January	-	1,821,415	1,821,415
Acquisition of a subsidiary (note 7)	6,858,018	-	6,858,018
Share of profit during the year (note 28)*	1,209,320	43,664	1,252,984
Dividends received	(400,000)	-	(400,000)
Share in associates' cumulative changes in fair values	27,524	-	27,524
Carrying value	7,694,862	1,865,079	9,559,941

<i>31 December 2015</i>	<i>BFLC</i>
Balance at 1 January	2,120,508
Share of loss during the year	(299,093)
Carrying value	1,821,415

*Based on the approved management accounts of African & Eastern (Bahrain) W.L.L. and BFLC for the year ended 31 December 2016, the Group has recognised a profit of BD 1,209,320 and BD 43,664 representing their 33.33% and 28.06% share (31 December 2015: loss of BD 299,093 for BFLC).

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

10 INVESTMENT IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of the Group's investment in BFLC and African and Eastern:

31 December 2016	African & Eastern	BFLC	Total
	BD	BD	BD
Current assets	7,547,349	808,584	8,355,933
Non-current assets	16,248,270	6,263,688	22,511,958
Current liabilities	(1,623,250)	(361,141)	(1,984,391)
Non-current liabilities	(208,785)	(63,322)	(272,107)
Equity	21,963,584	6,647,809	28,611,393
Proportion of the Group's ownership	33.33%	28.06%	
Share of the associate's net assets	7,321,195	1,865,080	9,186,275
Goodwill on investment	373,666	-	373,666
Carrying amount of the investment	7,694,861	1,865,080	9,559,941
 Revenue	 18,904,246	 1,238,640	 20,142,886
Group's share of revenue for the year	6,301,415	347,507	6,648,922
 Profit	 3,627,960	 155,635	 3,783,595
Group's share of profit for the year	1,209,320	43,664	1,252,984
31 December 2015		BFLC	BD
		BD	
Current assets		447,550	
Non-current assets		6,431,870	
Current liabilities		(333,670)	
Non-current liabilities		(53,577)	
Equity		6,492,173	
Proportion of the Group's ownership		28.06%	
Carrying amount of the investment		1,821,415	
 Revenue		 1,278,773	
Group's share of revenue for the year		358,767	
 Loss		 (1,066,074)	
Group's share of loss for the year		(299,093)	

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

10 INVESTMENT IN ASSOCIATES (continued)

	<i>BFLC</i>	
	<i>31 December 2016</i>	<i>31 December 2015</i>
Fair value based on share price as of 31 December	858,500	1,171,600
Share price as of 31 December	0.085	0.116

The associates had no contingent liabilities or capital commitments as at 31 December 2016 (31 December 2015: none).

11 AVAILABLE-FOR-SALE INVESTMENTS

	<i>2016</i>	<i>2015</i>
	<i>BD</i>	<i>BD</i>
Equity investments:		
Quoted investments originally trading investments (at fair value) *	6,084,385	1,646,231
Quoted investments (at fair value)	6,334,251	4,861,483
Unquoted investments (at cost less impairment)	771,865	586,066
	<u>13,190,501</u>	<u>7,093,780</u>
Managed funds:		
At fair value	148,721	-
At cost	401	-
	<u>149,122</u>	<u>-</u>
	<u>13,339,623</u>	<u>7,093,780</u>

*Quoted investments (at fair value) includes an amount of BD 220,149 (2015: nil) which represents Basel III compliant Additional Tier I Convertible Perpetual Capital Securities denominated in Bahraini Dinars issued by a commercial bank in the Kingdom of Bahrain during the year ended 31 December 2016. The security is perpetual with the first possible call at the option of the issuer on 2 May 2021 and carries interest at a fixed rate of 8.25% per annum until 2 May 2021. Securities' holders will not have a right to claim the coupon if not paid and such event will not be considered as event of default.

The unquoted investments are carried at cost less impairment, as fair value cannot be reliably determined due to the unpredictable nature of future cash flows. As of 31 December 2016, the cumulative impairment provision on unquoted investments amounted to BD 148,566 (2015: BD 140,233). Impairment provision provided during the year amounted to BD 8,333 (2015: nil).

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

11 AVAILABLE-FOR- SALE INVESTMENTS (continued)

The movement in the available-for-sale investments for the year is as follows:

	2016			
	Quoted investments BD	Unquoted investments BD	Managed funds BD	Total BD
Opening balance	6,507,714	586,066	-	7,093,780
Acquisition of a subsidiary (note 7)	4,583,642	194,133	142,680	4,920,455
Purchases during the year	1,320,984	-	-	1,320,984
Fair value gain on available-for-sale investments - net	194,993	-	6,441	201,434
Impairment	(188,697)	(8,333)	-	(197,030)
Closing balance (note 30)	12,418,636	771,866	149,121	13,339,623

	2015			
	Quoted investments BD	Unquoted investments BD	Managed funds BD	Total BD
Opening balance	6,601,213	586,066	-	7,187,279
Fair value gain on available-for-sale investments	141,594	-	-	141,594
Impairment	(235,093)	-	-	(235,093)
Closing balance (note 30)	6,507,714	586,066	-	7,093,780

* Quoted investments originally trading investments (at fair value) represented quoted investments that were held with the intention to derive short-term gains. Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified these held for trading equity investments to available-for-sale. The Group identified the investments eligible under the amendments for which at 1 October 2008, it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term. The change of intent was attributable to the current turmoil in the equity markets due to the credit and liquidity problems in the market. Management believed that the market conditions at that time qualified for the definition of 'rare circumstances' under the revised IAS 39. The reclassifications were made with effect from 1 October 2008 at fair value at that date. The carrying value and the fair value of the investments on 1 October 2008 when the reclassification was made, was BD 2,155,274. This became the deemed cost of the investments upon transfer. The remaining cost of reclassified investments is BD 1,153,072 as of 31 December 2016 (31 December 2015: BD 1,153,072).

As at 31 December 2016 the carrying and fair value of reclassified investments is BD 1,594,880 (31 December 2015: BD 1,646,231). During the year, the Group has not recognised any fair value loss (31 December 2015: none) in the consolidated statement of income and recognised a fair value loss of BD 51,341 (2015: gain of BD 78,466) in the consolidated statement of comprehensive income, on the said investments. Had there been no reclassification the Group would have recognised a fair value loss of BD 51,341 (2015: gain of BD 78,466) in the consolidated statement of income.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

12 TRADING INVESTMENTS

The movement in the trading investments for the year is as follows:

	2016 BD	2015 BD
Opening balance	570,350	595,219
Gain on trading investments	33,220	19,955
Sale of trading investments	(603,570)	-
Net movement of cash held for investment trading	-	(44,824)
Closing balance (note 30)	-	570,350

All trading investments comprised listed investments.

13 INVENTORIES

	2016 BD	2015 BD
Food and beverages	3,592,831	3,227,533
General stores	126,285	156,658
Maintenance stores	93,795	97,188
Allowance for slow moving and obsolete inventories	3,812,911	3,481,379
	(288,471)	(293,728)
	3,524,440	3,187,651

The movement in the provision for slow moving inventories is as follows:

	2016 BD	2015 BD
At 1 January	293,728	288,728
Charge for the year (note 25)	6,000	5,000
Provision utilised	(11,257)	-
At 31 December	288,471	293,728

14 TRADE AND OTHER RECEIVABLES

	2016 BD	2015 BD
Trade receivables	1,932,519	1,295,382
Trade receivables - related parties (note 28)	427,903	261,229
Allowance for impairment of trade receivables	2,360,422	1,556,611
	(231,020)	(238,818)
Net trade receivables	2,129,402	1,317,793
Other receivables - related parties (note 28)	322,219	312,212
Advances and prepayments	212,572	309,573
Accrued interest receivable	189,760	102,634
Security deposits	39,665	31,497
Other receivables	313,308	526,922
3,206,926	2,600,631	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

14 TRADE AND OTHER RECEIVABLES (continued)

Trade receivables are non-interest bearing. Receivables relating to current guests are payable on departure. Receivables relating to other operations and corporate guests are generally on 30 day terms. Other receivables are generally interest free with no fixed terms of repayment.

As at 31 December 2016, trade receivables at nominal value of BD 231,020 (2015: BD 238,818) were impaired. Movements in the allowance for impairment of trade receivables were as follows:

	2016 BD	2015 BD
At 1 January	238,818	245,424
Reversal for the year - net (note 25)	(7,798)	(6,606)
At 31 December	231,020	238,818

As at 31 December, the ageing of unimpaired trade receivables is as follows:

	<i>Past due but not impaired</i>					
	<i>Neither past due nor impaired</i>		31 – 60 days BD	61 – 90 days BD	91 – 120 days BD	
	Total BD	BD	BD	BD	>120 days BD	
2016	2,129,402	1,241,876	373,775	159,597	50,773	303,380
2015	1,317,793	586,217	263,820	165,501	50,937	251,318

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable.

15 CASH AND BANK BALANCES

	2016 BD	2015 BD
Cash on hand and at banks	4,528,983	4,092,438
Cash held for investment trading	-	343,579
Term deposits	<u>27,427,763</u>	<u>17,569,903</u>
	<u>31,956,746</u>	<u>22,005,920</u>

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2016 BD	2015 BD
Cash on hand and at banks (i)	4,233,699	3,942,600
Cash held for investment trading	-	343,579
	<u>4,233,699</u>	<u>4,286,179</u>

(i) Bank balances amounting to BD 295,284 (2015: BD 149,838) representing unclaimed dividends have not been included in cash and cash equivalents.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

15 CASH AND BANK BALANCES (continued)

Interest bearing bank balances included in 'cash at banks' carry interest at the rates of 0.10% to 0.40% (2015: 0.10% to 0.40%). Cash held for investment trading are amounts held by investment managers. Term deposits are made for varying periods of between six and seven months, depending on the immediate cash requirements of the Group, and earn interest or profit at their respective term deposit rates. The interest rates on term deposits as at 31 December 2016 range between 1.75% to 2.65% (2015: 1.20% to 1.75%).

16 SHARE CAPITAL AND TREASURY SHARES

	2016 BD	2015 BD
<i>Share capital</i>		
Authorised:		
300,000,000 (2015: 200,000,000) ordinary shares of BD 0.100 each	<u>30,000,000</u>	<u>20,000,000</u>
 Issued and fully paid:		
Opening balance - 173,605,435 (2015: 173,605,435)	17,360,544	17,360,544
shares of BD 0.100 each	<u>3,184,444</u>	-
Issued during the year - 31,844,440 shares of BD 0.100 each (Note 7)	<u>20,544,988</u>	<u>17,360,544</u>

Pursuant to a shareholders' resolution in 2016, the Company raised its authorised capital from 200 million shares to 300 million shares. The legal formalities pertaining to raising authorised share capital was finalised during the year. During the year, the Company issued 31,844,440 shares, as part of an acquisition transaction, to the shareholders of BTC and gained a 100% stake in BTC (note 7). This resulted in an increase in capital of BD 20,698,886 from the issue, including a share premium of BD 17,514,442. The share premium is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law.

Treasury shares

Treasury shares represent the purchase by the Company of its own shares. As at 31 December 2016, the Company had purchased 51,151 shares (2015: nil) with a market value of BD 32,737 (2015: nil). These shares represents 0.25% of the total outstanding shares as at 31 December 2016 and 31 December 2015.

17 RESERVES

a) Statutory reserve

The Bahrain Commercial Companies Law and the Company's articles of association, requires 10% of the profit for the year to be transferred to a statutory reserve. The Company transferred an amount of BD 1,592,222 and resolved to discontinue such annual transfers as the reserve totals 50% of the paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

b) General reserve

The general reserve, which represents funds set aside for the purpose of future capital expenditure and to enhance the already strong capital base of the Company, is distributable.

c) Available-for-sale investments reserve

This reserve relates to fair value changes on available-for-sale investments through consolidated statement of comprehensive income.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

18 DIVIDENDS AND BONUS SHARES

Dividends proposed and declared

During 2016, dividends of 30 fils per share, relating to 2015 and totaling BD 5,208,163 (2015: 40 fils per share, relating to 2014 and totaling BD 6,613,540) were declared.

On 15 February 2017, the Board of Directors proposed a final cash dividend of 25 fils per share totaling BD 5,134,968 for the year 2016 (2015: 30 fils per share totaling BD 5,208,163 for the year 2015) and proposed an issue of 20,544,988 bonus shares with a nominal value of BD 2,054,499 representing 10% of the issued and paid-up share capital before such bonus shares were issued (2015: nil). These appropriations are subject to the approval of the shareholders at the Annual General Meeting and other regulatory bodies.

Dividend per share

Dividend per share is calculated by dividing the proposed dividend for the year by the number of shares outstanding at the year-end as follows:

	2016	2015
Dividend for the year (in BD)	<u>5,134,968</u>	<u>5,208,163</u>
Shares in issue as at 1 January	173,605,435	165,338,510
Bonus shares issued during the year	-	8,266,925
Shares issued on acquisition of BTC during the year (note 7)	31,844,440	-
Treasury shares (note 16)	<u>(51,151)</u>	<u>-</u>
Number of eligible shares as at 31 December	<u>205,398,724</u>	<u>173,605,435</u>
Dividend per share (in fils)	<u>25</u>	<u>30</u>

19 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognised in the consolidated statement of financial position are as follows:

	2016	2015
	<i>BD</i>	<i>BD</i>
Provision as at 1 January	1,985,766	2,005,723
Acquisition of a subsidiary (note 7)	482,458	-
Expense recognised in the consolidated statement of income (note 25)	340,085	174,020
End of service benefits paid	<u>(438,306)</u>	<u>(193,977)</u>
Provision as at 31 December	<u>2,370,003</u>	<u>1,985,766</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

20 TRADE AND OTHER PAYABLES

	2016 BD	2015 BD
Trade payables - others	1,474,108	1,876,789
Trade payables - related parties (note 28)	177,512	70,202
	<hr/>	<hr/>
Provision for charity reserve (note 20.1)	1,651,620	1,946,991
Accrued expenses	2,062,630	1,885,889
Payable to contractors	3,332,345	1,382,530
Staff bonus payable	897,485	1,582,027
Other payables	675,261	786,091
Government levy payable	1,155,086	527,940
Other payables - related parties (note 28)	375,120	177,978
	<hr/>	<hr/>
	16,807	16,807
	<hr/>	<hr/>
	10,166,354	8,306,253

Trade and other payables are generally non-interest bearing and payable within 60 days.

20.1 Movements in the provision for charity reserve recognised in the consolidated statement of financial position are as follows:

	2016 BD	2015 BD
Provision as at 1 January	1,885,889	1,720,260
Amount provided during the year	234,200	235,823
Donations paid during the year	(57,459)	(70,194)
	<hr/>	<hr/>
Provision as at 31 December	2,062,630	1,885,889

21 GROSS OPERATING REVENUE

	2016 BD	2015 BD
Food and beverages	26,560,033	24,358,315
Rooms	8,634,602	7,302,684
Other operating departments	1,182,318	709,416
	<hr/>	<hr/>
	36,376,953	32,370,415

22 OPERATING COSTS

	2016 BD	2015 BD
Food and beverages	11,517,660	10,789,704
Payroll and related costs (note 25)	6,672,963	5,563,991
Rooms	1,185,284	810,767
Other operating departments	480,290	59,887
Other overhead expenses	2,703,902	2,050,781
	<hr/>	<hr/>
	22,560,099	19,275,130

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

23 OTHER INCOME

	2016 BD	2015 BD
Management fees (note 28)	429,678	393,448
Other operating income	287,446	123,446
Foreign exchange gain (net)	61,901	51,751
Rental income	18,655	65,430
Liabilities no longer payable	-	147,423
	797,680	781,498

24 GENERAL AND ADMINISTRATION EXPENSES

	2016 BD	2015 BD
Payroll and related costs (note 25)	1,233,366	1,087,202
Professional fees	691,525	40,017
Directors' fees (note 28)	267,000	205,000
Insurance expense	69,260	47,277
Registration expense	26,747	19,739
Municipal taxes	18,000	19,800
Printing and stationery	16,234	16,438
Miscellaneous expenses	167,557	99,983
	2,489,689	1,535,456

* Includes professional services amounting to BD 451,838 relating to acquisition of BTC.

25 PROFIT FOR THE YEAR

The profit for the year is stated after charging:

	2016 BD	2015 BD
Inventories recognised as expenses upon sale of food and beverages	10,232,350	10,210,102
Payroll and related costs:		
Wages and salaries and other benefits	7,245,424	6,201,072
Employees' end of service benefits (note 19)	340,085	174,020
Contributions to the Social Insurance Organisation:		
- Bahrainis	210,732	170,165
- Non-Bahrainis	110,088	105,936
	7,906,329	6,651,193

Gulf Hotels Group B.S.C.

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25 PROFIT FOR THE YEAR (continued)

The payroll and related costs has been allocated in the consolidated statement of income as follows:

	2016 BD	2015 BD
Operating costs (note 22)	6,672,963	5,563,991
General and administration expenses (note 24)	1,233,366	1,087,202
	<u>7,906,329</u>	<u>6,651,193</u>
Reversal of provision for doubtful debts - net (note 14)	<u>(7,798)</u>	<u>(6,606)</u>
Provision for slow moving inventories - net (note 13)	<u>(5,257)</u>	<u>5,000</u>

26 EARNINGS PER SHARE

	2016	2015
Profit for the year – BD	<u>16,132,720</u>	<u>9,197,089</u>
Weighted average number of shares outstanding, net of treasury shares	<u>192,151,520</u>	<u>173,605,435</u>
Basic and diluted earnings per share – fils	<u>84</u>	<u>53</u>

No separate figure for diluted earnings per share has been presented as the Company has not issued any financial instruments which may have a dilutive effect.

27 CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure contracted for at the reporting date but not provided for, relating to the Group, amounted to BD 7,947,647 (2015: BD 11,502,205). This is mainly for the construction development of Gulf Residence Juffair and district cooling system.

28 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Board of Directors.

Transactions with related parties during the year are as follows:

	<i>2016</i>			<i>2015</i>		
	<i>Management fee income</i>			<i>Share of profit from associates</i>		
	<i>Purchases BD</i>	<i>Sales BD</i>	<i>(note 23) BD</i>	<i>Purchases BD</i>	<i>Sales BD</i>	<i>Management fee income (note 23) BD</i>
Major shareholders and their affiliates	904,617	320,155	429,678	-	2,010,756	575,644
Associates	-	-	1,252,984	-	-	393,448
Other related parties	-	90,671	-	-	37,334	-
<u>904,617</u>	<u>410,826</u>	<u>429,678</u>	<u>1,252,984</u>	<u>2,010,756</u>	<u>612,978</u>	<u>393,448</u>
						27,524

Balances with related parties included in the consolidated statement of financial position are as follows:

	<i>2016</i>			<i>2015</i>		
	<i>Trade receivables BD</i>	<i>Other payables BD</i>	<i>Trade receivables BD</i>	<i>Trade receivables BD</i>	<i>Other payables BD</i>	<i>Trade payables BD</i>
Major shareholders and their affiliates	422,934	322,219	177,512	16,807	251,495	312,212
Other related parties	4,969	-	-	9,734	-	-
<u>427,903</u>	<u>322,219</u>	<u>177,512</u>	<u>16,807</u>	<u>261,229</u>	<u>312,212</u>	<u>70,202</u>
						16,807

Outstanding balances arise in the normal course of business and are interest free and unsecured. The Group only creates an allowance for impairment for related party balances where it is virtually certain that the debt will not be recovered. For the year ended 31 December 2016, the Group has not recorded any impairment of amounts owed by related parties (2015: nil).

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

28 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

Key management personnel are those persons having responsibility for planning, directing and controlling the activities of the Group. The remunerations of directors and members of key management during the year were as follows:

	2016 BD	2015 BD
Short-term benefits - senior executives	970,941	990,259
Post-employment benefits - senior executives	32,602	26,005
Short-term benefits - directors	267,000	205,000
	<hr/> 1,270,543	<hr/> 1,221,264

29 RISK MANAGEMENT

Introduction

The Group manages risk through a process of ongoing identification and monitoring of the risks it faces. The Group is exposed to interest rate risk, credit risk, liquidity risk, currency risk, market risk and reputational risk.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive committee

The executive committee is responsible for evaluating and approving business and risk strategies, plans and policies of the Group.

Investment committee

The investment committee is responsible for mitigating market and liquidity risks pertaining to the Group's investment activities by optimising liquidity and maximising returns from the funds available to the Group.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include trade and other receivables, deposits, available-for-sale investments and trading investments.

The sensitivity analysis in the following sections relate to the position as at 31 December 2016 and 31 December 2015.

The analysis exclude the impact of movements in market variables on the carrying value of end of service benefits and provisions.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The sensitivity of the income is the effect of the assumed changes in interest rates, with all other variables held constant, on the Group's profit for one year, based on the floating rate financial assets held at 31 December 2016 (2015: same). The Group is not significantly exposed to interest rate risk as it has fixed rate interest bearing deposits with commercial banks.

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At 31 December 2016

29 RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group is exposed to credit risk on its term deposits, cash with banks, trade receivables, other receivables and security deposits. The Group places its deposits and funds with banks and investment managers having good credit rating. With regard to trade receivables, the Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables on an on-going basis.

The Group sells its products and provides its services to a large number of individuals, companies and government agencies. Its five largest customers account for 26% of outstanding trade receivables at 31 December 2016 (2015: 27%).

With respect to credit risk from the financial assets of the Group, which comprise bank balances, term deposits, trade receivables, other receivables and security deposits, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The distribution of the Group's financial assets is as follows:

Geographic region	2016		2015	
	Bahrain BD	Others BD	Bahrain BD	Others BD
Trade receivables	2,091,704	37,698	1,258,117	59,676
Other receivables	635,527	-	839,134	-
Security deposits	39,665	-	31,497	-
Cash and bank balances				
- net of cash on hand	31,924,824	-	21,975,047	-
Industry sector	2016		2015	
	Banking BD	Others BD	Banking BD	Others BD
Trade receivables	630	2,128,772	8,307	1,309,486
Other receivables	-	635,527	-	839,134
Security deposits	-	39,665	-	31,497
Cash and bank balances				
- net of cash on hand	31,924,824	-	21,975,047	-

Gulf Hotels Group B.S.C.

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At 31 December 2016

29 RISK MANAGEMENT (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities when revenue or expense are denominated in a different currency from the Group's functional currency.

The Group's activities are carried out substantially in Bahraini Dinars and therefore, the Group is not exposed to significant currency risk. As the Bahraini Dinar is pegged to the US Dollar, balances in US Dollars are not considered to represent a significant currency risk. The effect of 10% increase or decrease in exchange rates on balances in foreign currencies other than US Dollars is not expected to be material.

Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all instruments traded in the market.

The Group controls market risk by monitoring investments and maintaining a diversified portfolio in order to limit exposure to movements in prices and volatility arising in connection with financial instruments. Its two largest investments account for 30% (2015: 58%) of the total quoted investments as of the date of consolidated statement of financial position.

The following table demonstrates the sensitivity of the cumulative changes in fair value to reasonably possible changes in equity prices, with all other variables held constant.

	2016			2015		
	Change in equity price	Effect on equity BD	Effect on profit BD	Change in equity price	Effect on equity BD	Effect on profit BD
<i>Available-for-sale investments</i>						
(Quoted)						
	+10%	1,053,512	188,352	+10%	590,609	60,162
	-10%	(1,215,473)	(26,391)	-10%	(475,900)	(174,871)
<i>Trading investments</i>						
	+10%	-	-	+10%	-	57,035
	-10%	-	-	-10%	-	(57,035)

The Group also has unquoted investments carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated statement of income will be impacted. All of the Group's quoted investments are listed in the Kingdom of Bahrain and other GCC stock markets.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

29 RISK MANAGEMENT (continued)

Concentration of investment portfolio

Concentration of investment portfolio arise when a number of investments are made in entities engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would be affected by changes in economic, political or other conditions. The Group manages this risk through diversification of investments in terms of investment concentration. The concentration of the Group's investment portfolio is as follows:

	2016 BD	2015 BD
Geographic region		
Kingdom of Bahrain	10,925,753	5,915,419
Kingdom of Saudi Arabia	942,714	511,202
United Arab Emirates	519,057	453,276
State of Qatar	418,560	402,999
Others	533,539	381,234
	<hr/> 13,339,623	<hr/> 7,664,130

Liquidity risk

Liquidity risk, is the risk that an enterprise will encounter difficulty in meeting its commitments.

The Group limits its liquidity risk by monitoring cash flows on an ongoing basis. The Group's terms of sale require amounts to be paid within 30 to 60 days of the date of sale or service. Trade payables are normally settled within 60 days of the date of purchase. The Group's financial liabilities as at 31 December 2016, based on contractual payment dates, amounted to BD 4,096,118 (2015: BD 4,251,743) and would mature within 3 months (2015: same).

Reputational risk

The Group manages reputational risk through regular monitoring of operations, ensuring that customers' feed back on the product and services offered is regularly received and acted upon, mystery guest processes and other forms of customer satisfaction surveys.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it through the payment of dividends and the issue of bonus shares in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015. Capital comprises equity of the Group and is measured at 31 December 2016 at BD 104,030,023 (31 December 2015: BD 72,210,870).

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

30 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances, term deposits, trade and other receivables and investments. Financial liabilities consist of trade and other payables.

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts are reasonable approximations of fair values:

	2016		2015	
	Carrying amount BD	Fair value BD	Carrying amount BD	Fair value BD
Financial assets:				
Quoted available-for-sale investments (note 11)	12,418,636	12,418,636	6,507,714	6,507,714
Trading investments (note 12)	-	-	570,350	570,350

The Group assessed that cash and bank balances, trade and other receivables and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair values of quoted available-for-sale investments and trading investments are based on price quotations at the reporting date.

Fair value hierarchy

All available for sale investments valued at fair value and trading investments were valued under Level 1 fair value hierarchy, there were no financial instruments which were fair valued under Level 2 and Level 3 fair value hierarchy.

The Group held the following Level 1 financial instruments measured at fair value (equity instruments):

	2016 BD	2015 BD
Financial assets measured at fair value		
Available-for-sale equity securities (note 11)	12,418,636	6,507,714
Trading investments (note 12)	-	570,350
	12,418,636	7,078,064

There were no transfers between levels during the current or prior years. The Group has no financial assets valued at Level 3 fair value hierarchy.

Unquoted investments are carried at cost less impairment and are not included in the above table.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31 SEGMENT INFORMATION

For management purposes, the Group is organised into four main business segments:

Hotel operations	- Hotel room and rental and management of executive apartments and offices and provision of automatic laundry services.
Food and beverage	- Retail sale of food and beverages and convention operations.
Commercial activities	- Import, export and sale of kitchen and household equipment and interior decorations.
Investments and other activities	- Investment activities of the Group.

The operations of Gulf Brands International and the retail sales of food and beverages of the Gulf Hotel and the convention operations of the Gulf Convention Center have been aggregated for segmental reporting.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.

Segment assets include all operating assets used by a segment and consist primarily of property, plant and equipment, inventories and accounts receivable. Whilst the majority of the assets can be directly attributed to individual business segments, the carrying amounts of certain assets used jointly by two or more segments are allocated to the segments on a reasonable basis.

Segment liabilities include all operating liabilities and consist primarily of trade and other payables.

The Group operates substantially in the Kingdom of Bahrain, hence geographical information is not required.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31 SEGMENT INFORMATION (continued)

Year ended 31 December	Hotel room operations						Food and beverage						Commercial activities						Investment and other activities						Consolidated					
	2016		2015		2016		2015		2016		2015		2016		2015		2016		2015		2016		2015		2016		2015			
	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD			
Gross operating revenue	9,496,947	7,951,895	26,560,033	24,358,315	319,973	60,205	-	-	-	-	-	-	36,376,953	32,370,415																
Gross operating costs	(4,770,924)	(3,816,547)	(16,584,859)	(15,416,852)	(1,204,316)	(41,731)	-	-	-	-	-	-	(22,560,099)	(19,275,130)																
Gross operating profit	4,726,023	4,135,348	9,975,174	8,941,463	(884,343)	18,474	-	-	-	-	-	-	1,621,368	(95,160)	1,621,368	(95,160)	13,816,854	13,095,285												
Investment (loss) income	-	-	-	-	-	-	-	-	-	-	-	-	413,154	239,182	414,747	241,704														
Interest income	-	-	-	-	-	-	-	-	-	-	-	-	554,159	518,234	797,680	781,498														
Other income	167,983	209,126	75,538	52,608	-	-	1,530	(1,092)	(137)	(1,092)	(30,240)	-	(3,919,721)	(3,054,959)																
Depreciation	(2,777,149)	(1,954,065)	(1,112,195)	(1,099,802)	-	-	-	-	-	-	-	-	(234,200)	(235,823)	(234,200)	(235,823)														
Charity reserve expense	-	-	-	-	-	-	-	-	-	-	-	-	(39,604)	(2,422,428)	(1,454,418)	(2,489,689)	(1,535,456)													
Other expenses	(44,445)	(13,633)	(20,830)	(27,801)	(1,986)	(1,986)	(1,986)	(1,986)	(1,986)	(1,986)	(1,986)	(1,986)	(98,187)	(1,027,985)	10,007,039	9,197,089														
Segment profit (loss) for the year	2,072,412	2,376,776	8,919,280	7,868,990	(886,466)	(20,692)	(98,187)	(1,027,985)	(98,187)	(1,027,985)	(1,027,985)	(1,027,985)	10,007,039	9,197,089																
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015				
	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD				
Total assets	62,476,604	44,659,494	30,153,802	28,176,380	57,681	66,521	23,878,293	9,600,494	116,566,380	82,502,889																				
Total liabilities	7,081,834	5,482,480	5,453,657	4,795,051	866	14,488	-	-	-	-	-	-	12,536,357	10,292,019																
Capital expenditure	3,099,545	4,889,311	1,549,773	2,444,656	-	-	-	-	-	-	-	-	4,649,318	7,333,967																

Significantly all of the sales and profit of the Group are earned in the Kingdom of Bahrain from the above business segments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32 SHAREHOLDER INFORMATION

a) The names and nationalities of the major shareholders, holding more than 5% of the issued share capital of the Company and the number of shares held by them are as follows:

Name	Nationality	2016		2015	
		No. of shares	%	No. of shares	%
Gulf Air B.S.C.	Bahraini	-	0.00%	52,325,756	30.14%
Bahrain Mumtalakat Holding Co. B.S.C. (c)	Bahraini	52,325,756	25.47%	-	0.00%
Family Investment Company W.L.L.	Bahraini	22,207,469	10.81%	22,122,507	12.74%
Yousif Khalil Almoayyed & Sons	Bahraini	13,008,925	6.33%	12,574,297	7.24%
Social Insurance Organisation (Pension and GOSI) Civil and Military	Bahraini	25,802,692	12.56%	9,404,058	5.42%

The Group has only one class of shares and the holders of these shares have equal voting rights.

b) Distribution of share capital is as follows:

Category	No. of shares	No. of shareholders	% of total share capital
As of 31 December 2016:			
Less than 1%	59,104,736	3,935	28.77%
1% up to less than 5%	33,000,297	9	16.06%
5% up to less than 10%	13,008,925	1	6.33%
10% up to less than 20%	48,010,161	2	23.37%
20% up to less than 50%	52,325,756	1	25.47%
	205,449,875	3,948	100.00%

As of 31 December 2015:

Less than 1%	50,653,748	741	29.18%
1% up to less than 5%	26,525,069	7	15.28%
5% up to less than 10%	21,978,355	2	12.66%
10% up to less than 20%	22,122,507	1	12.74%
20% up to less than 50%	52,325,756	1	30.14%
	173,605,435	752	100.00%

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32 SHAREHOLDER INFORMATION (continued)

The details of the nationality of the shareholders and the percentage holding of the total outstanding share capital is as follows:

Nationality	2016			2015		
	No. of shares	No. of shareholders	% of total outstanding share capital	No. of shares	No. of shareholders	% of total outstanding share capital
Bahraini	197,395,878	1,040	96.080%	168,335,112	721	96.972%
Egyptian	-	-	0.000%	13,109	1	0.008%
UAE	415,362	3	0.202%	926,901	4	0.552%
Indian	4,423	1	0.002%	110,586	3	0.065%
Jordanian	-	-	0.000%	4,276	1	0.002%
Kuwaiti	2,446,500	3	1.191%	2,446,500	3	1.409%
Omani	3,474	1	0.002%	3,474	1	0.002%
Qatari	96,193	2	0.047%	107,731	3	0.062%
Saudi	1,668,169	9	0.812%	1,649,192	12	0.903%
Others	3,419,876	2,910	1.664%	8,554	3	0.025%
	205,449,875	3,969	100.000%	173,605,435	752	100.000%

The details of the total ownership interest held by the directors are as follows:

Director	31 December 2016		31 December 2015	
	No. of shares	% of total outstanding share capital	% of total	
			No. of shares	outstanding share capital
Farouk Yousuf Almoayyed	3,849,361	1.874%	2,146,889	1.237%
Fawzi Ahmed Ali Kanoo	176,341	0.086%	174,341	0.100%
Khalid Mohamed Kanoo	128,579	0.063%	128,579	0.074%
Mohamed Husain Yateem	1,565,767	0.762%	1,565,767	0.902%
Mohamed Jassim Buzizi	407,381	0.198%	407,381	0.235%

The details of the total ownership interest held by the directors along with the entities controlled, jointly controlled or significantly influenced by them are as follows:

	2016	2015
Number of shares	130,172,995	102,488,086
Percentage of holdings	63.36%	59.04%

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 CORPORATE GOVERNANCE DISCLOSURES

(i) Board, Board Members and Management

Board and Directors' Responsibilities

The Board of Directors is accountable to shareholders for the proper and prudent investment and preservation of shareholder interests. The Board's role and responsibilities include but not limited to:

- Monitoring the overall business performance,
- Monitoring management performance and succession plan for senior management,
- Monitoring conflicts of interest and preventing abusive related party transactions,
- Accurate preparation of the end of year financial statements,
- Convening and preparing the Shareholders meeting,
- Recommend dividend payable to shareholders and ensure its execution,
- Adapt, implement and monitor compliance with the Company's code of ethics,
- Review the company's objectives and policies relating to social responsibilities, and
- Select, interview and appoint Chief Executive Officer and other selected members of the executive management.

In this respect, the Directors remain individually and collectively responsible for performing all Board of Director's tasks.

Material transactions requiring Board approval

The following material transactions require board review, evaluation and approval:

- The Company strategy,
- The annual budget,
- Major resource allocations and capital investments, and
- Management responsibilities and training, development and succession plan for Senior Management.

Election system of directors and termination process

Election / re-election of Board members take place every three years at the meeting of the Shareholders.

Termination of a Board member's mandate usually occurs by dismissal at the meeting of the Shareholders or by the member's resignation from the Board of Directors.

Directors trading of Company shares

During 2016 there was no trading by our Directors (2015: Two of our Directors purchased 54,601 shares in GHG).

Code of conduct and procedures adopted by the Board for monitoring compliance

The Board and the Company's employees are expected to maintain the highest level of corporate ethics and personal behavior. The Company has established a Code of Conduct which provides an ethical and legal framework for all employees in the conduct of its business. The Code of Conduct defines how the Company relates to its employees, shareholders and the community in which the Company operates.

The Board of Directors has adopted the Gulf Hotels Group Code of Business Conduct and a Company Whistleblower policy to monitor compliance with company ethics.

33 CORPORATE GOVERNANCE DISCLOSURES (continued)

(i) Board, Board Members and Management (continued)

The Board of Directors consist of 11 members as of 31 December 2016 (2015: 8 members). The Board has been elected in March 2015 for a period of 3 years.

The following table summarises the information about the profession, business title, experience in years, start date and the qualifications of the current Board members:

Name of Board Member	Profession	Business Title	Executive / non executive Independent / non Independent	Experience in years	Start date	Qualification
Mr. Farouk Yousuf Almoayed	Businessman	Chairman	Non Executive / Non Independent	53	1974	Mechanical Engineer from Loughborough Engineering College, England. Masters in Business Administration.
Mr. Mohamed Husain Yateem	Businessman	Director	Non Executive / Non Independent	45	1991	Bachelor of Arts.
Mr. Khalid Mohamed Kanoo	Businessman	Director	Non Executive / Non Independent	47	1998	Bachelor of Science in Business Administration, South West Texas State University USA.
Mr. Fawzi Ahmed Kanoo	Businessman	Director	Non Executive / Non Independent	46	1991	Licensed Pilot and Alumni of General Management program from Harvard Business School U.S.A.
Mr. Maher Al Mussallam	Chief Executive Officer Gulf Air	Director	Non Executive / Non Independent	42	2014	Bachelor Degree in Chemical Engineering and an MBA, with honours from University of Strathclyde, Glasgow.
Mr. Ahmed Janahi	Vice President Investments with Bahrain Mumtalakat Holding Company	Director	Non Executive / Non Independent	17	2016	Higher National Diploma in IT Operation Management from UK.
Mr. Reyadh Al Mahmeed	Deputy Chief Executive Officer	Director	Non Executive / Non Independent	28	2016	College Diploma in Catering and Hotel Management, United Kingdom.
Mr. Mohamed Jassim Buzizi	Ex MD and Businessman & Consultant in Hospitality Industry	Director	Non Executive / Independent	49	2007	Master's Degree in Engineering.
Mr. Adel Maskati	Businessman	Director	Non Executive / Independent	38	2016	Master's Degree in Engineering.

33 CORPORATE GOVERNANCE DISCLOSURES (continued)

(i) *Board, Board Members and Management (continued)*

<i>Name of Board Member</i>	<i>Profession</i>	<i>Business Title</i>	<i>Executive / non executive / Independent / non independent</i>	<i>Experience in years</i>	<i>Start date</i>	<i>Qualification</i>
Mr. Jassim Abduaal	Chartered Accountant	Director	Non Executive / Independent	29	2010	Member Institute of Chartered Accountants in England and Wales (ICAEW).
Mr. Aqeel Raees	Chief Executive Officer -GHG	Director	Executive / Non Independent	42	2014	College Diploma in Catering and Hotel Management from Brighton Technical College in London – England.

The following board members had directorship of other boards:

Number of Directorships in Listed Companies

<i>Name of board member</i>	<i>Number of Directorships in Listed Companies</i>
Mr. Farouk Yousuf Almoayyed	4
Mr. Mohamed Hussain Yateem	-
Mr. Khalid Mohamed Kanoo	1
Mr. Fawzi Ahmed Kanoo	2
Mr. Maher Al Musallam	-
Mr. Ahmed Janahi	-
Mr. Reyadh Al Mahmeed	-
Mr. Mohamed Jassim Buzizi	-
Mr. Adel Maskati	1
Mr. Jassim Abdulaal	1
Mr. Aqeel Raees	1

33 CORPORATE GOVERNANCE DISCLOSURES (continued)

(i) Board, Board Members and Management (continued)

The Company should hold a minimum of 4 Board meetings during each year. During the year ended 31 December 2016, 7 Board meetings were held. The following table summarises the information about Board of Directors meeting dates and attendance of directors at each meeting.

<i>Names of Directors</i>	6-Jan-16	17-Feb-16	13-Apr-16	29-Jun-16
Mr. Farouk Yousuf Almoayyed	✓	✓	✓	✓
Mr. Mohamed Husain Yateem	✓	✓	✓	✓
Mr. Khalid Mohamed Kanoo	✓	✓	✓	✓
Mr. Fawzi Ahmed Kanoo	✓	✓	✓	✓
Mr. Maher Al Musallam	✓	✓	✓	✓
Mr. Ahmed Janahi	✓	✓	✓	✓
Mr. Reyadh Al Mahmeeed	✓	✓	✓	✓
Mr. Mohamed Jassim Buzizi	✓	✓	✓	✓
Mr. Adel Maskati	✓	✓	✓	✓
Mr. Jassim Abdulaal	✓	✓	✓	✓
Mr. Aqeel Raees	x	✓	✓	✓
<i>Names or Directors Present</i>	26-Oct-16	2-Nov-16	7-Dec-16	
Mr. Farouk Yousuf Almoayyed	✓	✓	✓	
Mr. Mohamed Husain Yateem	✓	✓	✓	
Mr. Khalid Mohamed Kanoo	✓	✓	✓	
Mr. Fawzi Ahmed Kanoo	✓	✓	✓	x
Mr. Maher Al Musallam	✓	✓	✓	✓
Mr. Ahmed Janahi	✓	✓	✓	✓
Mr. Reyadh Al Mahmeeed	✓	✓	✓	✓
Mr. Mohamed Jassim Buzizi	✓	✓	✓	✓
Mr. Adel Maskati	✓	✓	✓	✓
Mr. Jassim Abdulaal	✓	✓	✓	✓
Mr. Aqeel Raees	✓	✓	✓	✓

Remuneration policy

Total remuneration paid to the Board during the year amounted to BD 267,000 as basic fee (2015: BD 205,000).

Gulf Hotels Group B.S.C.
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As at 31 December 2016

33 CORPORATE GOVERNANCE DISCLOSURES (continued)

(i) Board, Board Members and Management (continued)
The following table summarises the information about the profession, business title, experience in years and the qualifications of each of the Executive Management.

Name of Executive Member	Designation	Profession	Business Title	Experience in years	Qualification
Mr Aqeel Raees	Chief Executive Officer and Director	Administration	CEO and Director	42	College Diploma in Catering and Hotel Management from Brighton Technical College in London – England.
Mr Garfield Jones	Deputy Chief Executive Officer	Administration	DCEO	35	HCIIMA Part B Professional qualification.
Mr Suresh Surana	Chief Financial Officer	Finance	CFO	37	Commerce Graduate & Chartered Accountant From India (ICAI).
Mr Marc Reissinger	Director of Operations	Operations	DOO	32	Degree with Hotel School in Strausberg in 1983. MBA in hospitality with Glion Institute of Higher Education in Switzerland.
Mr Shaheed Elaiwi	Director of Finance and Board Secretary	Finance	DFBS	25	Masters Degree in Commerce from Bhopal University.
Mr Lloyd Fernandez	Technical Services Director	Engineering	TSD	43	Diploma in Electrical Engineering.
Ms Rochelle Penafor	Director of Revenue, Distribution and Optimisation	Revenue Management	DRDO	18	Bachelor of Science in Tourism from University of the Philippines.
Mr Shuvendu Bakshi	Director of Projects	Architect	DOP	26	Bachelor of Architecture from University of Kolkata, India. PMP from Project Management Institute, Pennsylvania, USA.
Mr Mahmoud Abd El Monem	Director of Human Resources & Development	Human Resources	DHRD	31	BC of Accounting & Business Administration, Helwan University, Cairo, Egypt.
Mr Abdel Rahim Abu Omar	General Manager-Gulf Hotel	Administration	GM-GH	35	Chemistry and Business Management from University of Jordan. Hospitality Management Course from Cornell University U.S.A.
Mr Abdulla Siddiq Al-Awadi	Hotel Manager	Administration	HM-GH	31	Diploma in Catering, (with credit) & City Guilds – London Institute Diploma, Major in Computer Programming.
Mr Ron Peters	General Manager	Administration	GM-GBI	37	GCSE 5 MBA Higher W-set level 2.

The total remuneration paid to the executive management during the year is BD 1,003,543 (2015: BD 1,016,264) (Salaries, Indemnity and Bonus).

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 CORPORATE GOVERNANCE DISCLOSURES (continued)

(ii) Committees

The following table summarises the information about Board Committees, their members and objectives:

Board Committee	Objective	Members	Executive / non executive Independent / non independent
Executive Committee	Reviews, approves and directs the Executive Management on matters raised by the Board of Directors such as various policies, business plans.	Mr. Mohamed Husain Yateem Mr. Fawzi Kanoo Mr. Maher Al Musallam (Left in October 2016) Mr. Ahmed Janahi Mr. Mohamed J. Buzizi Mr. Aqeel Raees	Non Executive / Non Independent Non Executive / Independent Executive / Non Independent

During the year ended 31 December 2016, 5 Executive Committee meetings were held. The following table summarises the information about committee meeting dates and attendance of directors at each meeting:

Date	1-Feb-16	6-Apr-16	20-Jun-16	19-Oct-16	21-Nov-16
Mr. Mohamed Husain Yateem	✓	✓	✓	✓	✓
Mr. Fawzi Kanoo	✓	✓	✓	✓	✓
Mr. Maher Al Musallam	✗	✓	✓	✓	
Mr. Ahmed Janahi					✓
Mr. Mohamed J. Buzizi	✓	✓	✗	✗	✓
Mr. Aqeel Raees	✓	✓	✓	✓	✓

The remuneration paid to Executive Committee members during 2016 is BD 8,800 (2015: BD 8,400).

Audit Committee	Reviews the internal audit program and internal control system, considers major findings of internal audit reviews, investigations and managements response. Ensures coordination among the internal and external auditors.	Mr. Jassim Abdulaal Mr. Khalid Kanoo Mr. Adel Maskati Mr. Reyadh Al Mahmeed Mr. Aqeel Raees	Non Executive / Independent Non Executive / Non Independent Non Executive / Non Independent Non Executive / Non Independent Non Executive / Non Independent
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Gulf Hotels Group B.S.C.

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As at 31 December 2016

33 CORPORATE GOVERNANCE DISCLOSURES (continued)

(ii) Committees (continued)

The Group should hold a minimum of 4 Audit committee meetings during each year. During the year ended 31 December 2016, 4 Audit committee meetings were held. The following table summarises the information about committee meeting dates and attendance of directors at each meeting:

	15-Feb-16	12-Apr-16	4-Aug-16	24-Oct-16
Mr. Jassim Abdulaal	✓	✓	✓	✓
Mr. Khalid Kanoo	✓	✓	✗	✓
Mr. Mohamed J. Buzizi**			✓	

**Adhoc

The remuneration paid to Audit committee members during 2016 is BD 3,200 (2015: BD 4,000).

Board Committee	Objective	Members	Executive / non executive Independent / non independent
Nomination and Remuneration Committee	Identify persons qualified to become members of the Board of Directors and Senior Executive Management of the Company, with the exception of the appointment of internal auditors. Determining the appropriate size and composition of the Board and committees of the Board. Making recommendations to the Board on the removal and appointment of directors. Developing a succession plan for the Board and Senior Executive Management and regularly reviewing the plan.	Mr. Farouk Yousuf Almoayyed Mr. Jassim Abdulaal Mr. Mohamed J. Buzizi Mr. Maher Al Musallam Mr. Aqeel Raees	Non Executive / Non Independent Non Executive / Independent Non Executive / Independent Non Executive / Independent
	Review, recommend and determine remuneration and incentive policies for the Board of Directors and Senior Executive Management, having regard to prevailing market rates for similar roles and making them as attractive so as to retain and attract quality people to run the Company successfully.		

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

33 CORPORATE GOVERNANCE DISCLOSURES (continued)

(ii) Committees (continued)

The Group should hold a minimum of 2 Nomination and Remuneration Committee meetings during each year. During the year ended 31 December 2016, 2 Nomination and Remuneration Committee meetings were held. The following table summarises the information about committee meeting dates and attendance of directors at each meeting:

	24-Feb-16	8-Nov-16
Mr. Farouk Yousuf Almoayyed	✓	✓
Mr. Mohamed J. Buzizi	✓	✓
Mr. Jassim Abdulaal	✓	✓

The remuneration paid to Nomination and Remuneration Committee members during 2016 is BD 2,400 (2015: BD 3,200).

Board Committee	Objective	Members	Executive / non executive Independent / non independent
Corporate Governance Committee	Corporate governance committee is an internal system that encompasses policies, processes, people, and which makes sure the needs of shareholders and other stakeholders are met in full. This will be accomplished by directing and controlling managing activities using good business practices, objectivity, accountability and integrity. Corporate Governance Committee implements Corporate Culture of the organization, commitment of the board and senior management towards the corporate governance framework and approach of company to adhere to the code as integrity program rather than as compliance program.	Mr. Farouk Yousuf Almoayyed Mr. Maher Al Musallam Mr. Jassim Abdulaal Mr. Aqeel Raees	Non Executive / Non Independent Non Executive / Independent Non Executive / Independent Non Executive / Non Independent

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33 CORPORATE GOVERNANCE DISCLOSURES (continued)

(ii) Committees (continued)

During the year ended 31 December 2016, 2 Corporate Governance Committee meetings were held. The following table summarises the information about committee meeting dates and attendance of directors at each meeting:

	24-Feb-16	8-Nov-16
Mr. Farouk Yousuf Almoayyed	✓	✓
Mr. Mohamed J. Buzizi	✓	✓
Mr. Jassim Abdulaal	✓	✓
Mr. Aqeel Raees	✓	✓

The remuneration paid to Corporate Governance Committee members during 2016 is BD 3,200 (2015: 3,200).

Board Committee	Objective	Members	Executive / non executive Independent / non independent
Investment Committee	Investment committee is established by the Board to provide guidelines, supervision and control over investment activity, so the return from the investment activity could be maximized while covering the risk appetite. Committee shall assist the board of Gulf Hotels Group in managing investment activity of the company and is charged with: -Reviewing investment policies and strategies -Overseeing the investment activity of the company -Periodic review of investment portfolio -Critical appraisal of the investment portfolio -Defining the investment universe of the company -Providing foundation of the investment decisions.	Mr. Farouk Yousuf Almoayyed Mr. Mohamed Husain Yateem Mr. Reyadh Al Mahmeed Mr. Aqeel Raees	Non Executive / Non Independent Non Executive / Non Independent Non Executive / Non Independent Non Executive / Non Independent
		Mr. Ahmed Janahi	Non Executive / Non Independent

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As at 31 December 2016

33 CORPORATE GOVERNANCE DISCLOSURES (continued)

(ii) Committees (continued)

During the year ended 31 December 2016, 2 Investment Committee meetings were held. The following table summarises the information about committee meeting dates and attendance of directors at each meeting:

	24-Feb-16	8-Nov-16
Mr. Farouk Yousuf Almoayyed	✓	✓
Mr. Mohamed Husain Yateem	✓	✗
Mr. Reyadh Al Mahmeed		✓
Mr. Aqeel Raees	✓	✓

The remuneration paid to Investment Committee members during 2016 is BD 2,400 (2015: BD 2,400).

(iii) Corporate Governance

Corporate governance code

The Board and the Company's employees are expected to maintain the highest level of corporate ethics and personal behavior. The Company has established a Code of Conduct which provides an ethical and legal framework for all employees in the conduct of its business. The Code of Conduct defines how the Company relates to its employees, shareholders and the community in which the Company operates. The Board of Directors has adopted the code of Business Conduct and a Company Whistleblower policy to monitor compliance with company ethics.

Changes to the Group's corporate governance guidelines

None.

Compliance with the corporate governance code

The Board of Directors has adopted the Corporate Governance Code and a Company Whistleblower policy to monitor compliance with company ethics.

The Code of Conduct provides clear directions on conducting business internationally, interacting with governments, communities, business partners and general workplace behavior having regard to the best practice corporate governance models. The Code of Conduct sets out a behavioral framework for all employees in the context of a wide range of ethical and legal issues. The Code of Conduct will be published in the 'Corporate Governance' section of the Company's website.

Conflict of interest:

In 2016 and 2015, no instances of conflict of interest have arisen. In the instance of a conflict of interest arising as a result of any business transaction or any type of resolution to be taken, the concerned Board member shall refrain from participating at the discussion of such transaction or resolution to be taken. In this respect, GHG's Board members usually inform the Board of a potential conflict of interest prior to the discussion of any transaction or resolution. The concerned Board member(s) also refrain from voting in any instance where a conflict of interest shall arise.

Evaluation of Board and Chairman Performance

This is discussed in the Annual General Meeting and will also be taken up as part of Corporate Governance Code.

CEO Performance

This is discussed in the Board Meeting and also taken up in the Nomination and Remuneration Committee as part of Corporate Governance Code.

Gulf Hotels Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

33 CORPORATE GOVERNANCE DISCLOSURES (continued)

(iii) Corporate Governance

Means of communication with shareholders and investors

The Company is committed to providing relevant and timely information to its shareholders in accordance with its continuous disclosure obligations under the Corporate Governance Code.

Information is communicated to shareholders through the distribution of the Company's annual report and other communications. All releases are posted on the Company's website and released to the shareholders in a timely manner.

The Company Secretary is responsible for communications with the shareholders and ensuring that the Company meets its continuous disclosure obligations.

Management of principal risks and uncertainties faced by the Group

The Board as a whole and management are assessing the risk from time to time. Board of Directors discuss and take proper measures for risks faced by the Group.

Review of internal control processes and procedures

The Review of Internal control process and procedures is performed regularly by the Company's internal auditors to ensure efficiency.