

***Island Hotels Group  
Holdings p.l.c.***

***C 44855***

***Annual Report and Group financial  
statements***

***31 December 2016***

## Contents

---

	<i>Page</i>
Directors, officers and other information	<i>1</i>
Directors' report	<i>2 - 6</i>
Corporate governance statement of compliance	<i>7 - 11</i>
Independent auditor's report	<i>12 - 22</i>
Income statements	<i>23</i>
Statements of comprehensive income	<i>24</i>
Statements of financial position	<i>25 - 26</i>
Statements of changes in equity	<i>27 - 28</i>
Statements of cash flows	<i>29</i>
Notes to the financial statements	<i>30 - 103</i>

---

# Island Hotels Group Holdings p.l.c.

## Directors, officers and other information

---

<i>Directors:</i>	Winston V. Zahra (Chairman) Winston J. Zahra (Chief Executive Officer) Joseph Fenech Simon Naudi Frank Xerri De Caro
<i>Secretary:</i>	Kenneth Abela
<i>Registered office:</i>	22, Europa Centre, John Lopez Street, Floriana. FRN 1400.
<i>Telephone:</i>	+ 356 2123 3141
<i>Country of incorporation:</i>	Malta
<i>Company registration number:</i>	C 44855
<i>Auditor:</i>	PricewaterhouseCoopers 78, Mill Street Qormi Malta
<i>Bankers:</i>	Bank of Valletta p.l.c. 58, Zachary Street Valletta Malta  HSBC Bank Malta p.l.c. 233, Republic Street Valletta Malta  Banif Bank (Malta) p.l.c. 203, Level 2 Rue D'Argens Gzira Malta
<i>Lawyers:</i>	Camilleri Preziosi Level 3, Valletta Buildings South Street Valletta Malta

# Island Hotels Group Holdings p.l.c.

## Directors' report

Year ended 31 December 2016

The directors present their report and the audited financial statements of the Group and the company for the year ended 31 December 2016.

### Principal activities

The Group's business comprises the ownership and operation of hotels in Malta, the provision of accommodation, catering and related services locally and the provision of retail catering mainly through the Costa franchise in Malta, the East coast of Spain and the Canary and Balearic Islands. The Group is made up of a company that acts as an investment company, together with its subsidiaries and jointly controlled entities as detailed in note 16 to these financial statements.

### Review of business

The results of the Group represent the results of the company together with those of its subsidiaries and its share of jointly controlled entities for the year ended 31 December 2016.

The Group reported a turnover from continuing operations of €33,813,096 (2015 - €24,411,507), and earnings before interest, taxation, depreciation and amortisation, property plant and equipment written off and share of profits from joint ventures of €3,409,393 (2015 - €2,338,467). After taking into consideration depreciation, investment income, finance costs, property plant and equipment written off and share of profits from joint ventures the Group reported a loss before tax of €648,460 (2015 - profit €2,934,415). The loss after the current and deferred tax charge for the period from continuing operations amounted to €558,000 (2015 - profit €3,425,068). The Group also reported exchange losses of €3,285,364 (2015 - exchange gains €1,402,945) arising entirely from the year-end translation of foreign operations. Total shareholders' funds at the year-end amounted to €52,994,290 (2015 - €54,053,132).

During the year under review, no significant events occurred that had a material effect on the company's financial statements. However, it is pertinent to note that when comparing the results reported upon in 2016 to those reported in 2015, 2016 figures include full consolidation of the Buttigieg Holdings Group results within EBITDA whereas in 2015 results only reported partial consolidation due to the fact that this business became a fully owned subsidiary in June 2015. The results of the BHL Group from 1<sup>st</sup> November 2015 to 31<sup>st</sup> May 2015 had been reported within the line "*Share of profits from Joint Ventures*", whereas the results from 1<sup>st</sup> June 2015 to 31<sup>st</sup> December 2015 were consolidated within the Group's results once Buttigieg Holdings Group became a fully owned subsidiary of the Group. Apart from a considerable improvement in the results achieved by the Radisson Blu in St Julian's, this was the main reason behind the substantial changes in the figures reported up to EBITDA level when the relevant line item figures are compared to those reported in 2015. EBITDA for the Group excludes results from joint ventures given that such results are included within share of profits from joint ventures in a separate line in the income statement. The Group EBITDA combining the share from joint ventures is analysed in the table below:

	2016	2015
	€	€
EBITDA as per consolidated		
income statement (page 23)	<b>3,409,393</b>	2,338,467
EBITDA relating to joint venture (note 16)	<b>7,225,461</b>	6,773,555
	<b><u>10,634,854</u></b>	<b><u>9,112,022</u></b>

# Island Hotels Group Holdings p.l.c.

## Directors' report (continued)

Year ended 31 December 2016

---

### Review of business (continued)

The purchase of the remaining 50% shareholding in Buttigieg Holdings Limited (June 2015) and the purchase of the remaining 50% shares in The Heavenly Collection Limited (end of December 2015) had resulted in a substantial gain reported within Investment Income, thereby explaining the considerable difference between the figures reported last year and those being reported within these financial statements. The latter two companies' results were, effective from the date of acquisition, consolidated in full within the operational results of the Group. Buttigieg Holdings Limited incorporates within it the Costa operation in both Malta and Spain, the Mater Dei customer canteen contract and other ancillary operations, whereas The Heavenly Collection Limited is the company owning circa 83,530 sqm of land formerly known as Hal Ferh, that includes a full development permit, and which is situated next to Golden Bay.

In so far as trading results for the Group are concerned, the record number of tourist arrivals in Malta in 2016 as well as the Group's own revenue management efforts have resulted in higher occupancy levels and rates thereby having positive effects on the Group's results which once again have been very satisfactory. The Group also experienced a higher level of Vacation Ownership sales which resulted in higher profits being generated by this operation.

The level of the event catering area of the business was mostly unchanged, whilst the Costa Coffee outlets in Malta have continued to increase their activity, further consolidating the potential expected from this investment. This area of the business also includes the results of the Costa Coffee operation in Spain where the Group opened an additional five stores during the year under review. Results reported for this operation are challenging and management is currently focusing on increasing market share and exposure whilst simultaneously being very careful on managing expenditure.

The Group and company's principal risk and uncertainties are disclosed in note 33.

### Results and dividends

The results for the year ended 31 December 2016 are shown in the income statements on page 23. The loss for the period after taxation from continuing operations for the Group amounted to €558,000 (2015 – profit €3,425,068), whereas the company registered a profit after tax of €805,291 (2015 – €424,245).

The directors do not propose the payment of a dividend for the year ended 31 December 2016 (2015 – Nil).

# Island Hotels Group Holdings p.l.c.

## Directors' report (continued)

Year ended 31 December 2016

---

### Directors

The directors of the company who served during the year were:

Winston V. Zahra (chairman)  
Winston J. Zahra (chief executive officer)  
Joseph Fenech  
Simon Naudi  
Frank Xerri De Caro

In accordance with article 55.1 of the company's article of association, the directors of the company shall be appointed by the shareholders during the forthcoming annual general meeting.

### Remuneration of executive director and senior executives

The Chairman, in his capacity as a director of the Group or any of its subsidiaries, is not entitled to profit sharing, share options or pension benefits. In terms of non-cash benefits, directors are entitled to a number of services offered by the Group.

For the purposes of the statement below, references to senior management shall mean the CEO, general managers and senior executives of the Group.

The CEO and members of senior management are each entitled to a fixed base salary together with a variable performance bonus. Performance bonuses are determined on a discretionary percentage of the base salary determined in line with the performance of the Company or the entity they manage. These bonuses constitute the variable remuneration disclosed below.

Senior management are entitled to non-cash benefits in terms of a number of services offered by the Group and to health insurance. None of the senior management are entitled to profit sharing, share options or pension benefits.

The remuneration of the CEO, general managers and senior executives of the Company and its subsidiaries during 2016 consisted of a fixed portion of €1.1 million and a variable portion of €0.4 million. These amounts include €0.06 million in relation to directors' remuneration and an accrual that has been made for bonuses relating to 2016. Other than those bonuses that are contractual, these amounts still need to be formally approved.

# Island Hotels Group Holdings p.l.c.

## Directors' report (continued)

Year ended 31 December 2016

---

### Directors' responsibilities

The directors are required by the Companies Act (Cap. 386) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU which give a true and fair view of the state of affairs of the company and its Group at the end of each financial period and of the profit or loss of the company and its Group for the year then ended. In preparing the financial statements, the directors should:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company and the Group will continue in business.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and the Group and which enable the directors to ensure that the financial statements comply with the Companies Act (Cap. 386). This responsibility includes designing, implementing and maintaining such internal controls as the directors determine are necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for safeguarding the assets of the company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditors

A resolution to reappoint PricewaterhouseCoopers as auditors of the Group will be proposed at the forthcoming annual general meeting.

### Going concern

As required by Listing Rule 5.62 and after making the necessary enquiries and after reviewing the Group's plan for the coming financial periods, the directors are satisfied that at the time of approving the financial statements, the company and the Group have adequate resources to continue operating for the foreseeable future.

For this reason, the directors consider it is appropriate to adopt the going concern basis in preparing these financial statements.

# Island Hotels Group Holdings p.l.c.

## Directors' report (continued)

Year ended 31 December 2016

---

### Statement by directors pursuant to Listing Rule 5.68

We, the undersigned, on behalf of the board of directors, declare that to the best of our knowledge:

1. The consolidated financial statements give a true and fair view of the financial position of the company and its Group as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the E.U.
2. The directors' report and the consolidated financial statements include a fair review of the information required in terms of Listing Rule 5.68 together with a description of the principal risks and uncertainties that they face.

Approved by the board of directors on 26 April 2017 and signed on its behalf by:



**Winston V. Zahra**  
Chairman



**Winston J. Zahra**  
Chief Executive Officer



# Island Hotels Group Holdings p.l.c.

## Corporate Governance Statement of Compliance

---

### A. INTRODUCTION

Listed companies are subject to The Code of Principles of Good Corporate Governance (the “Code”). The adoption of the Code is not mandatory, but listed companies are required under the Listing Rules issued by the Listing Authority to include a Statement of Compliance with the Code in their Annual Report, accompanied by a report of the independent auditor.

The board of directors (the “directors” or the “board”) of Island Hotels Group Holdings p.l.c. (“IHGH” or the “company”) confirm their support for the Code and note that the adoption of the Code has resulted in positive effects to the company.

The board considers that during the reporting year, the company has been in compliance with the Code to the extent that was considered adequate given the size and operations of the company. Instances of divergence from the Code are disclosed and explained below.

### B. COMPLIANCE WITH THE CODE

#### *Principles 1 and 4: The board*

The board of directors is entrusted with the overall direction and management of the company, including the establishment of strategies for future development, and the approval of any proposed acquisitions by the company in pursuing its investment strategies.

Its responsibilities also involve the oversight of the company’s internal control procedures and financial performance, and the review of business risks facing the company, ensuring that these are adequately identified, evaluated, managed and minimised. All the directors have access to independent professional advice at the expense of the company, should they so require.

#### *Principle 2: Chairman and Chief Executive Officer*

The roles of Chairman and Chief Executive Officer are carried out respectively by Mr. Winston V. Zahra and Mr. Winston J. Zahra.

The Chairman is responsible to:

- Lead the Board and set its agenda;
- Ensure that the directors of the board receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the company;
- Encourage active engagement by all members of the board for discussion of complex or contentious issues.

# Island Hotels Group Holdings p.l.c.

## Corporate Governance Statement of Compliance (continued)

---

### B. COMPLIANCE WITH THE CODE (continued)

#### *Principle 3: Composition of the board*

The board considers that the number of directors on the board is sufficient and that the balance of skills and experience is appropriate for the requirements of the business.

The board of directors consists of a chairman and four directors three of whom are deemed to be non-executive directors and one of whom is independent. In determining the independence or otherwise of its directors, the board has considered, amongst others, the principles relating to independence contained in the Code, the company’s own practice as well as general good practice principles.

The board is made up as follows:

The non-executive directors constitute a majority on the board and their main functions are to monitor the operations of the CEO and his performance as well as to analyse any investment opportunities that are proposed by him. Each director is mindful of maintaining independence, professionalism and integrity in carrying out his duties, responsibilities and providing judgement as a director of the Company.

Each director declares that he undertakes to:

- a) maintain in all circumstances his independence of analysis, decision and action;
- b) not to seek or accept any unreasonable advantages that could be considered as compromising his independence; and
- c) clearly express his opposition in the event that he finds that a decision of the Board may harm the Company.

	<b>Number of Meetings held: 8</b>
	Attended
<b>Members</b>	
Winston V. Zahra (chairman)	8
Winston J. Zahra (chief executive officer)	8
Joseph Fenech (non-executive director)	8
Simon Naudi (non-executive director)	5
Frank Xerri De Caro (independent non-executive director)	8

In accordance with the Articles of Association, the directors are appointed for an indefinite period.

#### *Principle 5: Board meetings*

During the year under review the board of directors met eight times to discuss the operations and strategy of the company.

#### *Principle 6: Information and professional development*

The company ensures that it provides directors with relevant information to enable them to effectively contribute to board decisions. Directors are continuously kept abreast of any developments and professional development sessions are provided on a need basis.

# Island Hotels Group Holdings p.l.c.

## Corporate Governance Statement of Compliance (continued)

---

### C. COMPLIANCE WITH THE CODE (continued)

#### *Principle 8: Committees*

##### *Audit Committee*

The audit committee's primary objective is to assist the board in fulfilling its supervisory responsibilities over the financial reporting process, financial policies and internal control structures. The committee is made up of non-executive directors and reports directly to the board of directors. The committee oversees the conduct of the internal and external audit and acts to facilitate communication between the board, management and, upon the direct request of the audit committee, the internal audit team and the external auditors.

During the year under review, the committee met six times. The internal and external auditors were invited to attend these meetings.

**Number of Meetings held: 6**  
Attended

##### **Members**

Frank Xerri De Caro (chairman)	6
Joseph Fenech	6
Simon Naudi	3

The audit committee is also responsible for the overview of the internal audit function. The role of the internal auditor is to carry out systematic risk-based reviews and appraisals of the operations of the company (as well as of its subsidiaries) for the purpose of advising management and the board, through the audit committee, on the efficiency and effectiveness of management policies, practices and internal controls. The function is expected to promote the application of best practices within the organisation. The audit committee ensures that transactions entered into between related parties are carried out on an arm's length basis and are for the benefit of the company, and that the company, and its subsidiaries, accurately report all related party transactions in the notes to the financial statements.

In terms of Listing Rule 5.118, Mr. Frank Xerri De Caro is the director whom the board considers as the independent non-executive member of the audit committee who is considered competent in accounting and / or auditing, in view of his considerable experience at a senior level in the banking field. Frank Xerri De Caro is considered independent because he is free from any business, family or other relationship with the company or its management that may create a conflict of interest such as to impair his judgement.

#### *Principle 11: Conflicts of Interest*

The directors are aware that their primary responsibility is always to act in the interest of the company and its shareholders as a whole. The directors are also aware that acting in the interest of the company includes an obligation to avoid conflicts of interest. No conflicts of interest were known to have arisen during the year under review.

# Island Hotels Group Holdings p.l.c.

## Corporate Governance Statement of Compliance (continued)

---

### C. COMPLIANCE WITH THE CODE (continued)

#### *Principle 12: Corporate Social Responsibility*

The Group recognises its obligations towards society in general and has continued to adopt a highly ethical approach to ensure that its commitments are satisfied and that rules of good practice are enforced. The company is committed to enhance the quality of life of all its employees as well as all stakeholders. Various initiatives and activities have been organised by the Group throughout the period within the context of the Group-wide strategy.

### D. NON-COMPLIANCE WITH THE CODE

#### *Principle 7: Evaluation of the board's performance*

Under the present circumstances, the board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role, as the board's performance is always under the scrutiny of the shareholders.

#### *Principle 9 and 10: Relations with shareholders and with the market and institutional shareholders*

These principles are not applicable to the company since the company's shares are no longer listed on the Malta Stock Exchange.

# Island Hotels Group Holdings p.l.c.

## Corporate Governance Statement of Compliance (continued)

---

### E. OTHER DISCLOSURES IN TERMS OF LISTING RULES

#### *Remuneration statement*

##### Remuneration Policy – Group Executive Team

The parent company Remuneration Committee determines the framework of the overall remuneration policy for the Group Executive Team. The committee establishes the individual remuneration arrangements of the Group's Executive Team and makes proposals to the board accordingly. In establishing these remuneration packages for the Group's Executive Team, the committee has access to independent external advice, and the committee considers that these remuneration packages reflect market conditions and are designed to attract appropriate quality executives to ensure the efficient management of the Group. During the current year under review there have been no significant changes in the Group's remuneration policy and no significant changes are intended to be effected thereto in the year ahead. The terms and conditions of employment of each individual within the Group Executive Team are set out in their respective indefinite contracts of employment with the Group. None of these contracts contain provisions for termination payments and other payments linked to early termination. Moreover, share options and profit sharing are currently not part of the company's remuneration policy.

##### Remuneration Policy – Directors

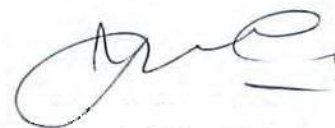
The board of directors determines the framework of the remuneration policy for the members of the board as a whole and this is reviewed by the parent company Remuneration Committee. The financial statements disclose an aggregate figure in respect of the directors' remuneration which, with respect to the year under review, amounted to €60,603 (2015: €121,260). Directors' emoluments are designed to reflect the time committed by directors to the company's affairs, including the different board committees of which directors are members, and their responsibilities on such committees.

In the circumstances, the need for the appointment of a Remuneration Committee does not arise.

**Approved by the board of directors on 26 April 2017 and signed on its behalf by:**



**Winston V. Zahra**  
Chairman



**Frank Xerri De Caro**  
Director and Chairman  
of Audit Committee



## *Independent auditor's report*

To the Shareholders of Island Hotels Group Holdings p.l.c.

### *Report on the audit of the financial statements*

---

#### *Our opinion*

In our opinion:

- Island Hotels Group Holdings p.l.c.'s Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the Group and the Parent Company's financial position as at 31 December 31 2016, and of the Group's and the Parent Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of Maltese Companies Act (Cap. 386).

#### **What we have audited**

Island Hotels Group Holdings p.l.c.'s financial statements, set out on pages 23 to 103, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2016;
- the Consolidated and Parent Company statements of comprehensive income for the year then ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

---

#### *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 Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

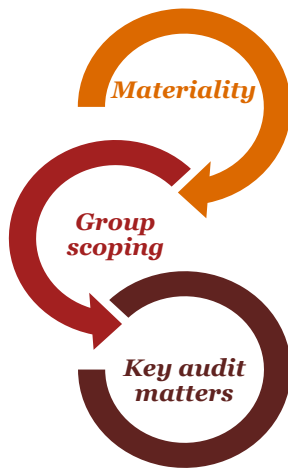
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## Independent auditor's report - continued

To the Shareholders of Island Hotels Group Holdings p.l.c.

### Our audit approach

#### Overview



- Overall group materiality: €338,000, which represents 1% of revenues.
- We conducted work at 10 entities
- Our audit scope addresses 100% of the Group revenues and 100% of absolute Group underlying operating profit (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units).
- Valuation and impairment of property, plant and equipment
- Estimates of future profitability addressing the carrying value of goodwill and other assets

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The group audit team performed all of this work by applying the overall Group materiality, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

#### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.



## *Independent auditor's report - continued*

To the Shareholders of Island Hotels Group Holdings p.l.c.

<b>Overall group materiality</b>	€338,000
<b>How we determined it</b>	1% of revenue
<b>Rationale for the materiality benchmark applied</b>	We have applied revenue as a benchmark for determining materiality as we considered that this provides us with a consistent year-on-year basis for determining materiality, reflecting the group's growth and investment plans and levels of profitability, and which we believe is also a key measure used by the shareholders as a body in assessing the group's performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €34,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Key audit matter</b>	<b>How our audit addressed the Key audit matter</b>
<p><i>Valuation and impairment of property, plant and equipment</i></p> <p>Refer to Note 13 of the Group's financial statements</p> <p>The Group's property comprises the Bay Point hotel in St. Julians amounting to €39.62 million.</p> <p>Valuation of this property is inherently subjective due to, among other factors, the individual nature of the property, its location and the expected future revenues.</p>	<p>Our procedures in relation to the valuation of the property included:</p> <ul style="list-style-type: none"><li>- Reviewing the methodologies used by the external valuers and by management to estimate the fair value of the valuation report for the property. We discussed the report with the valuers. We confirmed that the valuation approach was suitable for use in determining the carrying value of property as at 31 December 2016.</li><li>- Testing the mathematical accuracy of the calculations derived from the forecast model;</li></ul>





## *Independent auditor's report - continued*

To the Shareholders of Island Hotels Group Holdings p.l.c.

Key audit matter	How our audit addressed the Key audit matter
<p>The existence of significant estimation uncertainty as reflected by the sensitivity of the property valuation to possible shifts in key assumptions as described in Note 13 could result in material misstatement, and is therefore why we have given specific audit focus and attention to this area.</p> <p>The valuation of the property is performed annually on the basis of valuation reports prepared by third party qualified valuers. This reports are based on both:</p> <ul style="list-style-type: none"><li>- Information provided by the Group</li><li>- Assumptions and valuation models used by the valuers, with assumptions being typically market related and based on professional judgement and market observation. The most significant judgements relate to the projected cash flows, the discount rate and growth rates (including the terminal rate).</li></ul> <p>Fair value movements arising on this property amounted to €4.28million, which is accounted for in the Statement of Comprehensive Income, net of deferred tax. The shift in fair value determined during the year ended 31 December 2016 is analysed in note 13.</p>	<ul style="list-style-type: none"><li>- Assessing the key inputs in the calculations such as revenue growth and discount rate, by reference to management's forecasts, data external to the Group and our own expertise.</li><li>- Considering the appropriateness of the fair value estimated by the external valuers based on our knowledge of the industry. We engaged our own in-house valuation specialists to challenge the work performed and assumptions used by the valuers.</li><li>- Considering the potential impact of reasonably possible downside changes in the key assumptions underlying the valuation.</li></ul> <p>We challenged management, the audit committee and the directors on the significant movements in the valuations and found that they were able to provide explanations and refer to appropriate supporting evidence.</p>
<p><i>Estimates of future profitability</i></p> <p><b>Refer to Note 14 of the Group's financial statements</b></p> <p>Goodwill with a carrying amount of €11 million and intangible assets having a carrying amount of €37.9 million as at 31 December 2016, that are supported by the Group's forecasts of future profitability, are included on the Group's balance sheet as at 31 December 2016.</p>	<p>We evaluated the suitability and appropriateness of the impairment methodology applied and the discounted cash flow model as prepared by management.</p> <p>We assessed the methodology and assumptions used by utilising our independent valuation experts. The calculations used in the model were re-performed to check accuracy and the key inputs in the model were agreed to approved sources.</p>



## Independent auditor's report - continued

To the Shareholders of Island Hotels Group Holdings p.l.c.

Key audit matter	How our audit addressed the Key audit matter
<p>An assessment is required annually to establish whether goodwill and intangible assets that have an indefinite useful life should continue to be recognised, or if any impairment is required. The assessment was performed at the lowest level at which the Group could allocate and assess goodwill, which is referred to as a cash generating unit ('CGU'). Goodwill and intangible assets arising from acquisitions have been allocated to the respective CGUs (refer to Note 14).</p>	<p>Management's cash flow forecasts used in the model were assessed by:</p> <ul style="list-style-type: none"><li>- testing that the forecasts agreed to the most recent business plan which had been approved by the Board of Directors; and</li><li>- considering current year performance against plan and the reasons for any deviation also through discussion with management for each CGU.</li></ul>
<p>The impairment assessment relied on the calculation of a value-in-use for each of the CGUs. This calculation was based on estimated future cash flows for each CGU, including assumptions around revenue growth, margins and EBITDA levels, discounted at an appropriate weighted average cost of capital. The Group used its business plan as the basis for the first 5 years of cash flows and then extrapolated returns into perpetuity using a terminal growth factor.</p>	<p>Our independent valuation experts critically challenged the revenue growth and margin assumptions and assessed the discount rate and terminal growth rates used in the models.</p>
<p>As the directors have described in the accounting policies, estimating future profitability requires the application of significant judgement particularly given the uncertainties that exist in the markets in which the Group operates and the changes that are expected in the foreseeable future. The key judgements made by the directors include estimating future taxable profits, long term growth and discount rates. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires judgement. The extent of judgement and the size of the goodwill and related assets, resulted in this matter being identified as an area of audit focus.</p>	<p>The challenge of our valuation experts was focused on the methodology used to determine the discount rates used by each CGU by reference to the overall calculated cost of capital for the Group, and on which benchmarks were the most appropriate in determining the terminal growth rate of cash flows for each CGU. We concluded that the parameters utilised were reasonable, given economic outlook, and other market data.</p> <p>We held extensive discussions with management and the Audit Committee about the key assumptions underlying the assessment for the Costa Spain - CGU. During these discussions, management confirmed their view that the forecast for each CGU remained appropriate and that the key assumptions were subject to oversight.</p>



## *Independent auditor's report - continued*

To the Shareholders of Island Hotels Group Holdings p.l.c.

<b>Key audit matter</b>	<b>How our audit addressed the Key audit matter</b>
<p>With respect to the Costa Coffee - Spain CGU (carrying amount of €9.4 million), the level of headroom between the valuation assessment and the carrying amount in the Statement of Financial Position is limited. The Costa Coffee - Spain CGU reflects the franchise agreement that the Group has to operate the Costa Coffee brand in Spain (East Coast), the Canary and Balearic Islands. The financial performance of this CGU has been poor mostly due to the start-up nature of this operation and accordingly management has identified an impairment indicator in respect of this CGU. Unless this negative trend is reversed and results enhanced in the short-term, the carrying amount of the Costa Coffee - Spain CGU is likely to be subjected to impairment. In respect of the other CGUs no impairment indicators have been identified.</p>	<p>We performed independent sensitivity analysis to a number of modelled assumptions simultaneously to identify any CGU's which were most sensitive to a change in value-in-use. We critically assessed whether or not a reasonably possible change to the assumptions could result in an impairment considering the sensitivity of the valuations to these assumptions. We concur with management that with the exception of Costa Spain - CGU, a material change in these assumptions would be required to trigger an impairment charge. For Costa Spain - CGU, if the forecast growth rate in revenue is not achieved or planned costs savings do not materialize, then an impairment charge may well arise.</p> <p>The appropriateness of disclosures made in relation to goodwill and intangible assets was also reviewed.</p>



## *Independent auditor's report - continued*

To the Shareholders of Island Hotels Group Holdings p.l.c.

### **How we tailored our group audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group includes a number of subsidiaries mainly located in Malta. It also holds investments in joint ventures, mainly being the Golden Sands Operations that is engaged in the operation and management of a combined vacation ownership and hotel operation. The consolidated financial statements are a consolidation of all of these components.

We therefore assessed what audit work was necessary in each of these components and sub-components, based on their financial significance to the financial statements and our assessment of risk and Group materiality. At the component/sub-component level, we performed a combination of full scope audits and audits of specific financial statement line items in order to achieve the desired level of audit evidence.

We conducted an audit of the most significant operations and in addition, we performed specified audit procedures on certain account balances for The Coffee Company Spain SLU, responsible for the operation of Costa Spain outlets.

In establishing the overall audit approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, or by component auditors engaged for the audits of joint ventures. For the work performed by component auditors operating under our instructions, we determined the level of involvement we needed to have in the audit work at those locations to be satisfied that sufficient audit evidence had been obtained for the purposes of our opinion. We kept in regular communication with audit teams throughout the year with phone calls, discussions and written instructions and review of working papers where appropriate.

We ensured that our involvement in the work of our component auditors, together with the additional procedures performed at the Group level, were sufficient to allow us to conclude on our opinion on the Group financial statements as a whole.

---

### *Other information*

The directors are responsible for the other information. The other information comprises the Directors' report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the directors' report.

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



## *Independent auditor's report - continued*

To the Shareholders of Island Hotels Group Holdings p.l.c.

---

### *Other information*

With respect to the directors' report, we also considered whether the directors' report include the disclosures required by Article 177 of the Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

- The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with the Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

---

### *Responsibilities of the directors and those charged with governance for the financial statements*

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are 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 directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

---

### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.



## *Independent auditor's report - continued*

To the Shareholders of Island Hotels Group Holdings p.l.c.

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

- Identify and assess the risks of material misstatement of the 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 directors.
- Conclude on the appropriateness of the 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 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 financial statements, including the disclosures, and whether the 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 those charged with governance 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.

We also provide those charged with governance 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.



## *Independent auditor's report - continued*

To the Shareholders of Island Hotels Group Holdings p.l.c.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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*

#### *[Report on the statement of compliance with the Principles of Good Corporate Governance*

The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the directors.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 7 to 11 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.



## *Independent auditor's report - continued*

To the Shareholders of Island Hotels Group Holdings p.l.c.

---

### *Other matters on which we are required to report by exception*

We also have responsibilities under the Maltese Companies Act, 1995 to report to you if, in our opinion:

- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

#### **PricewaterhouseCoopers**

78, Mill Street  
Qormi  
Malta

A handwritten signature in black ink, appearing to read 'Simon Flynn', with a horizontal line underneath.

Simon Flynn  
Partner

26 April 2017



# Island Hotels Group Holdings p.l.c.

## Income Statements

Year ended 31 December 2016

	Notes	Group		Company	
		1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
Revenue		<b>33,813,096</b>	24,411,507	-	-
Costs of providing services	8	<b>(24,452,736)</b>	(16,927,192)	-	-
		<b>9,360,360</b>	7,484,315	-	-
Marketing costs	8	<b>(910,628)</b>	(580,436)	-	-
Administrative expenses	8	<b>(4,922,662)</b>	(4,509,823)	<b>(143,559)</b>	(221,020)
Other (expenses)/income		<b>(117,677)</b>	(55,589)	<b>82,620</b>	172,153
		<b>3,409,393</b>	2,338,467	<b>(60,939)</b>	(48,867)
Property, plant and equipment written off		-	(897,977)	-	-
Depreciation and amortisation	13/15	<b>(4,731,006)</b>	(2,680,041)	-	-
<b>Results from operating activities</b>		<b>(1,321,613)</b>	(1,239,551)	<b>(60,939)</b>	(48,867)
Investment income	6	<b>249,373</b>	5,304,422	<b>4,180,726</b>	4,420,730
Other expenses	27	-	(288,701)	-	-
Finance costs	7	<b>(3,735,280)</b>	(4,284,630)	<b>(3,094,629)</b>	(3,764,828)
Share of profits from joint ventures		<b>4,159,060</b>	3,442,875	-	-
<b>(Loss)/profit before tax</b>		<b>(648,460)</b>	2,934,415	<b>1,025,158</b>	607,035
Income tax credit/(expense)	11	<b>90,460</b>	490,653	<b>(219,867)</b>	(182,790)
<b>(Loss)/profit for the year/period</b>	8	<b>(558,000)</b>	3,425,068	<b>805,291</b>	424,245
<b>Profit for the year/period attributable to the owners of the company</b>		<b>(558,000)</b>	3,425,068	<b>805,291</b>	424,245
<b>Basic/diluted (losses)/earnings per share</b>	12	<b>(0.014)</b>	0.091		

# Island Hotels Group Holdings p.l.c.

## Statements of comprehensive income

Year ended 31 December 2016

	Notes	Group		Company	
		1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
<b>(Loss)/profit for the year/period</b>		<b>(558,000)</b>	3,425,068	<b>805,291</b>	424,245
<b>Other comprehensive income:</b>					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Gain arising on revaluation of leasehold property	13	<b>4,283,880</b>	10,542,188	-	-
Movement in the deferred tax on revaluation	24	<b>(1,499,358)</b>	(3,689,766)	-	-
		<b>2,784,522</b>	6,852,422	-	-
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations	25	<b>(3,285,364)</b>	1,402,945	-	-
<b>Other comprehensive income for the year/period net of tax</b>		<b>(500,842)</b>	8,255,367	-	-
<b>Total comprehensive income for the year/period</b>		<b>(1,058,842)</b>	11,680,435	<b>805,291</b>	424,245
<b>Total comprehensive income for the year/period attributable to the owners of the company</b>		<b>(1,058,842)</b>	11,680,435	<b>805,291</b>	424,245

# Island Hotels Group Holdings p.l.c.

## Statements of financial position

31 December 2016

	Notes	Group		Company	
		2016	2015	2016	2015
		€	€	€	€
<b>ASSETS</b>					
<b>Non-current assets</b>					
Goodwill	14	11,020,822	11,020,822	-	-
Other intangible assets	15	8,831,085	9,329,631	-	-
Property, plant and equipment	13	68,760,068	66,347,712	-	-
Investments in subsidiaries	16	-	-	56,214,167	56,214,167
Investments in associates and joint ventures	16	38,887,571	39,770,336	16,000,000	16,000,000
Loans and receivables	16	281,736	321,601	27,515,768	25,751,768
Other cash at bank	26	34,599	74,189	-	-
Assets placed under trust arrangement		-	507,118	-	507,118
		<b>127,815,881</b>	<b>127,371,409</b>	<b>99,729,935</b>	<b>98,473,053</b>
<b>Current assets</b>					
Inventories	17	923,498	925,259	-	-
Loans and receivables	16	2,778,003	6,043,381	2,733,200	6,000,000
Trade and other receivables	18	7,935,525	8,906,814	1,352,944	663,366
Current tax asset		21,519	295,541	-	243,752
Assets placed under trust arrangement		1,573,270	-	1,573,270	-
Cash and cash equivalents	26	2,914,034	1,534,251	1,936,331	237,987
Other cash at bank	26	41,527	63,137	-	-
		<b>16,187,376</b>	<b>17,768,383</b>	<b>7,595,745</b>	<b>7,145,105</b>
<b>Total assets</b>		<b>144,003,257</b>	<b>145,139,792</b>	<b>107,325,680</b>	<b>105,618,158</b>

# Island Hotels Group Holdings p.l.c.

## Statements of financial position (continued)

31 December 2016

	Notes	Group		Company	
		2016 €	2015 €	2016 €	2015 €
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to the owners of the holding company</b>					
Share capital	25	<b>38,583,660</b>	38,583,660	<b>38,583,660</b>	38,583,660
Revaluation reserve	25	<b>9,505,167</b>	6,852,422	-	-
Currency translation reserve	25	<b>(360,197)</b>	2,925,167	-	-
Retained earnings		<b>5,265,660</b>	5,691,883	<b>1,863,211</b>	1,057,920
<b>Total equity</b>		<b>52,994,290</b>	54,053,132	<b>40,446,871</b>	39,641,580
<b>Non-current liabilities</b>					
Debt securities in issue	22	<b>34,457,121</b>	48,383,921	<b>34,457,121</b>	48,383,921
Bank loans	20	<b>4,464,078</b>	3,760,906	-	-
Other financial liabilities	21	<b>15,548,555</b>	4,927,334	<b>24,535,446</b>	13,669,045
Trade and other payables	19	<b>484,466</b>	858,744	-	-
Deferred tax liabilities	24	<b>12,787,448</b>	11,647,815	-	-
		<b>67,741,668</b>	69,578,720	<b>58,992,567</b>	62,052,966
<b>Current liabilities</b>					
Debt securities in issue	22	<b>3,133,600</b>	-	<b>3,133,600</b>	-
Trade and other payables	19	<b>13,990,269</b>	16,640,809	<b>1,816,518</b>	1,834,172
Bank overdrafts and loans	20	<b>5,845,337</b>	4,170,018	-	-
Other financial liabilities	21	<b>228,215</b>	470,397	<b>2,866,303</b>	2,089,440
Current tax liabilities		<b>69,878</b>	226,716	<b>69,821</b>	-
		<b>23,267,299</b>	21,507,940	<b>7,886,242</b>	3,923,612
<b>Total liabilities</b>		<b>91,008,967</b>	91,086,660	<b>66,878,809</b>	65,976,578
<b>Total equity and liabilities</b>		<b>144,003,257</b>	145,139,792	<b>107,325,680</b>	105,618,158

These financial statements were approved by the board of directors, authorised for issue on 26 April 2017 and signed on its behalf by:

**Winston V. Zahra**  
Chairman

**Winston J. Zahra**  
Chief Executive Officer

# Island Hotels Group Holdings p.l.c.

## Statement of changes in equity - Group

Year ended 31 December 2016

### Group

	Equity attributable to the owners of the company				
	Share capital €	Revaluation reserve €	Currency translation reserve €	Retained earnings €	Total €
Balance at 1 November 2014	36,583,660	-	1,522,222	2,266,815	40,372,697
New issue of ordinary shares (note 25)	2,000,000	-	-	-	2,000,000
Profit for the period	-	-	-	3,425,068	3,425,068
Other comprehensive income for the period	-	6,852,422	1,402,945	-	8,255,367
Total comprehensive income for the period	-	6,852,422	1,402,945	3,425,068	11,680,435
<b>Balance at 31 December 2015</b>	<b>38,583,660</b>	<b>6,852,422</b>	<b>2,925,167</b>	<b>5,691,883</b>	<b>54,053,132</b>
Loss for the year	-	-	-	(558,000)	(558,000)
Other comprehensive income for the year	-	2,784,522	(3,285,364)	-	(500,842)
Difference between historical depreciation charge and actual depreciation for the year calculated on the revalued amount	-	(131,777)	-	131,777	-
Total comprehensive income for the year	-	2,652,745	(3,285,364)	(426,223)	(1,058,842)
<b>Balance at 31 December 2016</b>	<b>38,583,660</b>	<b>9,505,167</b>	<b>(360,197)</b>	<b>5,265,660</b>	<b>52,994,290</b>

# Island Hotels Group Holdings p.l.c.

## Statement of changes in equity – Company

Year ended 31 December 2016

---

### Company

	Share capital €	Retained earnings €	Total €
Balance at 1 November 2014	36,583,660	633,676	37,217,336
New Issue of ordinary shares (note 25)	2,000,000	-	2,000,000
Total comprehensive income for the period	-	424,244	424,244
<b>Balance at 31 December 2015</b>	<b>38,583,660</b>	<b>1,057,920</b>	<b>39,641,580</b>
Total comprehensive income for the year	-	805,291	805,291
<b>Balance at 31 December 2016</b>	<b>38,583,660</b>	<b>1,863,211</b>	<b>40,446,871</b>

# Island Hotels Group Holdings p.l.c.

## Statements of Cash Flows

Year ended 31 December 2016

	Group		Company	
	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
<b>(Loss)/profit before tax</b>	<b>(648,460)</b>	2,934,415	<b>1,025,158</b>	607,034
Adjustments (note 30)	<b>4,376,508</b>	(274,359)	<b>405,764</b>	493,325
<i>Working capital changes:</i>				
Movement in inventory	1,761	(200,999)	-	-
Movement in trade and other receivables	<b>(405,229)</b>	9,769,160	<b>(689,578)</b>	5,114,663
Movement in trade and other payables	<b>(2,872,464)</b>	(1,135,647)	<b>(17,654)</b>	604,096
Cash flows from operations	<b>452,116</b>	11,092,570	<b>723,690</b>	6,819,118
Taxation (paid)/refunded	<b>(152,081)</b>	66,710	<b>93,706</b>	(184,079)
<i>Net cash flows from operating activities</i>	<b>300,035</b>	11,159,280	<b>817,396</b>	6,635,039
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	<b>(1,603,447)</b>	(4,234,821)	-	-
Purchase of intangible assets	<b>(972,933)</b>	(339,600)	-	-
Proceeds from sale of property, plant and equipment	218,404	7,685	-	-
Net cash flow on acquisition of subsidiary	-	(1,799,028)	-	(98,508)
Movement in loans and other receivables	<b>3,305,243</b>	455,832	<b>1,502,800</b>	(21,154,763)
Other cash at bank held as guarantee	61,200	211,349	-	-
Dividends received	<b>3,044,925</b>	1,490,215	<b>3,309,686</b>	3,271,503
<i>Net cash flows generated from/(used in) from investing activities</i>	<b>4,053,392</b>	(4,208,368)	<b>4,812,486</b>	(17,981,768)
<b>Cash flows from financing activities</b>				
Movement in bank loans	836,619	(10,536,733)	-	(6,409,174)
Movement in sinking fund	<b>(1,066,152)</b>	-	<b>(1,066,152)</b>	-
Repayment of bond	<b>(10,866,400)</b>	-	<b>(10,866,400)</b>	-
Interest paid	<b>(3,798,622)</b>	(4,199,230)	<b>(3,021,429)</b>	(3,679,428)
Movement in other interest bearing liabilities	<b>10,379,039</b>	(12,967,814)	<b>11,022,443</b>	2,089,438
<i>Net cash flows used in financing activities</i>	<b>(4,515,516)</b>	(27,703,777)	<b>(3,931,538)</b>	(7,999,164)
<b>Net movement in cash and cash equivalents</b>	<b>(162,089)</b>	(20,752,865)	<b>1,698,344</b>	(19,345,893)
<b>Cash and cash equivalents at the beginning of the year/period</b>	<b>(1,469,523)</b>	19,283,342	<b>237,987</b>	19,583,880
<b>Cash and cash equivalents at the end of the year/period (note 26)</b>	<b>(1,631,612)</b>	(1,469,523)	<b>1,936,331</b>	237,987

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 1. General Information

Island Hotels Group Holdings p.l.c., is a public limited liability company incorporated and domiciled in Malta. The address of the Company's registered office and principal place of business is 22, Europa Centre, John Lopez Street, Floriana FRN 1400, Malta. The ultimate parent company is Corintia Palace Hotel Company Limited (CPHCL) and the immediate parent company is International Hotel Investments p.l.c. (IHI).

### 2. Nature of operations

Island Hotels Group Holdings p.l.c. and subsidiaries' (the 'Group') principal activities include the ownership, development and operation of hotels, catering and related services and the provision of retail catering mainly through the Costa Coffee franchise in Malta, the East coast of Spain and the Canary and Balearic Islands.

### 3. Significant accounting policies

#### 3.1 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for land and buildings, which are stated at their revalued amounts, and in accordance with International Financial Reporting Standards as adopted by the EU.

The significant accounting policies adopted are set out below.

#### 3.2 Working capital position

At 31 December 2016, the Group's current liabilities exceeded its current assets by €7 million, compared to €3.7 million reported as at 31 December 2015. The increase of €3.3 million is partly due to the re-classification of €3.1m 6.5% bonds net of €1.6m assets placed under trust arrangements to current assets and liabilities as disclosed in note 22.

Although the working capital position is not projected to change significantly in 2017, the Group expects to generate sufficient excess cash flow from operations, after deducting interest costs, capital expenditure and tax payments, to sustain its ongoing operations and maintain its working capital within manageable levels.

#### 3.3 Standards, interpretations and amendments to published standards effective in 2016

In 2016, the Group adopted amendments to existing standards that are mandatory for the Group's accounting beginning on 1 January 2016, comprising:

- Accounting for acquisitions of interests in joint operations – Amendments to IFRS 11;
- Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38;
- Annual improvements to IFRS 2012 – 2014 cycle; and
- Disclosure initiative – amendments to IAS 1.

The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in changes to the Group's accounting policies impacting the Group's financial performance and position.



# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### *3.4 Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for accounting periods beginning after 1 January 2016. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the directors are of the opinion that there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application, except for IFRS 9 'Financial instruments', IFRS 15 'Revenue from contracts with customers' and IFRS 16 'Leases'.

IFRS 9, 'Financial instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only three classification categories: amortised cost, fair value through Other Comprehensive Income ('OCI') and fair value through profit or loss. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of the financial assets. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9, 'Financial instruments', also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities. The standard is effective for accounting periods beginning on or after 1 January 2018, although early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

IFRS 16, 'Leases', a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts; an optional exemption is available for certain short-term leases and leases of low-value assets. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to endorsement by the EU, and subject to the Group also adopting IFRS 15. The Group is assessing the impact of IFRS 16.

#### *3.5 Principles of consolidation and equity accounting*

##### (i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.5 Principles of consolidation and equity accounting (continued)

##### (i) Subsidiaries (continued)

on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (note 3.7).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### (ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost.

##### (iii) Joint arrangements

Under IFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Interests in joint ventures are accounted for using the equity method (see (iv) below), after initially being recognised at cost in the consolidated balance sheet.

##### (iv) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.5 Principles of consolidation and equity accounting (continued)

##### (iv) Equity method (continued)

eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 3.12.

#### 3.6 Investments in subsidiaries, associates and joint ventures in the Company's stand-alone financial statements

In the Company's stand-alone financial statements, investments in subsidiaries, associates and joint ventures are accounted for on the basis of the direct equity interest and are stated at cost less any accumulated impairment losses.

Dividends received from investments in subsidiaries, associates and joint ventures are recognised in profit or loss when the Company's right to receive payments is established.

#### 3.7 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.7 Business combinations (continued)

The excess of the

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired, is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

#### 3.8 Foreign currency translation

##### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the Group's functional and presentation currency.

##### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in profit or loss. They are deferred in equity if they relate to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other, foreign exchange gains and losses are presented in the income statement on a net basis within administrative expenses.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.9 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land and buildings are subsequently shown at fair value, based on periodic valuations by professional valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is subsequently stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost, net of any related deferred income taxes, is transferred from the revaluation reserve to retained earnings.

Depreciation is calculated using the straight-line method to allocate the cost or revalued amounts of the assets to their residual values over their estimated useful lives, as follows:

	Years
- Buildings	50
- Leasehold land	by annual instalments over the remaining term of the lease
- Building improvements	15
- Plant and machinery	5-17
- Furniture, fittings and other equipment	3-8
- Motor vehicles	5

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.9 Property, plant and equipment (continued)

Freehold land is not depreciated as it is deemed to have an indefinite life. Assets in the course of construction and payments on account are not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable (note 3.12.4). An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Property, plant and equipment that suffered an impairment is reviewed for possible reversal of the impairment at the end of each reporting period.

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amount and are recognised in profit or loss. When revalued assets are disposed of, the amounts included in the revaluation reserve relating to the assets are transferred to retained earnings.

#### 3.10 Intangible assets

##### (i) Goodwill

Goodwill is measured as described in note 14. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'Intangible assets'. Goodwill on acquisitions of joint ventures and associates is included within the carrying amount of the investments. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.10 Intangible assets (continued)

##### (i) Goodwill (continued)

The units or Groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (note 5).

##### (ii) Other intangible assets

Separately acquired intangible assets, such as purchased computer software are shown at historical cost. Brand design fee and other rights acquired in a business combination are recognised at fair value at the acquisition date. These intangible assets have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it related. All other expenditure including costs incurred in the ongoing maintenance of software, is recognised in profit or loss as incurred.

Intangible assets include intangibles with finite lives, which are amortised, on a straight line basis over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life. The estimated useful lives are as follows:

	<b>Years</b>
- Concessions	2- 10
- Brand design fee and other rights	by annual instalments over the remaining term of the lease
- Lease fee premium	by annual instalments over the remaining term of the lease

#### 3.11 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.12 Financial assets

##### 3.12.1 Classification

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,

The classification depends on the purpose for which the assets were acquired. Management determines the classification of its assets at initial recognition.

##### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading, i.e. financial assets acquired principally for the purpose of selling in the short-term. A financial asset is also classified in this category if, on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

##### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise loans and advances, trade and other receivables and cash and cash equivalents in the statement of financial position (refer to accounting policies 3.13, 3.14, and 3.16).

##### 3.12.2 Recognition and derecognition

The Group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date, which is the date on which an asset is delivered to or by the Group. Any change in fair value for the asset to be received is recognised between the trade date and settlement date in respect of assets which are carried at fair value in accordance with the measurement rules applicable to the respective financial assets.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.



# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.12 Financial assets (continued)

##### 3.12.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. The effective interest rate is the rate that exactly discounts estimate future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial assets or financial liability.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

##### 3.12.4 Impairment

At the end of each reporting period the Group assesses whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

#### **Assets carried at amortised cost**

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.12 Financial assets (continued)

##### 3.12.4 Impairment (continued)

#### **Assets carried at amortised cost (continued)**

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment testing of trade receivables is described in note 3.14.

When an asset is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

#### 3.13 Loans and advances

Under the requirements of IAS 39, the Group's loans and advances, consisting in the main of advances to related parties, are classified as loans and receivables, unless the Group has the intention of trading the asset immediately or in the short-term, in which case the loans and advances are categorised as instruments held-for-trading.

All loans and advances are recognised when cash is advanced to the borrowers. Loans and advances are initially recognised at the fair value of cash consideration given or proceeds advanced, plus transaction costs. These financial assets are subsequently carried at amortised cost using the effective interest method. The Group assesses at the end of each reporting period whether there is objective evidence that loans and advances are impaired.

#### 3.14 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited to profit or loss.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### *3.15 Inventories*

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. The cost of inventories comprises the invoice value of goods and, in general, includes transport and handling costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less and the estimated costs necessary to make the sale.

#### *3.16 Cash and cash equivalents*

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statements of financial position.

#### *3.17 Financial liabilities*

The Group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial liabilities, other than derivative financial instruments, are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. Financial liabilities at fair value through profit or loss would be initially recognised at fair value through profit or loss with transaction costs expenses in profit or loss and would be subsequently measured at fair value. The Group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

#### *3.18 Trade and other payables*

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

#### *3.19 Borrowings*

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.19 Borrowings (continued)

facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statements of financial position when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

#### 3.20 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### 3.21 Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.21 *Income tax (continued)*

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

#### 3.22 *Provisions*

Provisions for legal claims and other obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

#### 3.23 *Contingent liabilities*

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by occurrence, or non occurrence, of one or more uncertain future event not wholly within the control of the Group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statement but are disclosed unless the probability of settlement is remote.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

#### (a) Sales of goods

Sales of goods are recognised when the Group has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the risks of obsolescence and loss have been transferred to the customer, and the customer has accepted the products.

#### (b) Sales of services

Revenue from services is generally recognised in the period the services are provided, based on the services performed to date as a percentage of the total services to be performed. Accordingly, revenue is recognised by reference to the stage of completion of the transaction under the percentage of completion method.

Operating lease rental income – refer to accounting policy 3.25 for 'Operating leases'.

#### (c) Interest income

Interest income is recognised in profit or loss for all interest-bearing instruments as it accrues using the effective interest method.

#### (d) Dividend income

Dividend income is recognised when the right to receive payment is established.

#### (e) Vacation ownership arrangements

The group's share of revenue from vacation ownership arrangements is recognised in the period in which the services are rendered, by reference to the stage of completion of the transaction at the end of the reporting period. The recognition criteria for revenue are applied to the separately identifiable components of such transactions in order to reflect the substance of the transactions. To the extent that the upfront fees do not include an identifiable amount for subsequent services and do not relate to the provision of future services, they are recognised as revenue when the service is rendered, at the inception of the arrangement, to the extent that no significant uncertainty as to their collectability exists. The annual fees are recognised in the period to which they relate.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.25 Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the statements of financial position based on their nature.

#### 3.26 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of interest-bearing borrowings.

Other borrowing costs are expensed in the period in which they are incurred.

#### 3.27 Employee benefits

##### (a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statements of financial position.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 3. Significant accounting policies (continued)

#### 3.27 *Employee benefits (continued)*

##### (b) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

##### (c) Contributions to defined contribution pension plans

The Group contributes towards the State defined contribution pension plan in accordance local legislation in exchange for services rendered by employees and to which it has no commitment beyond the payment of fixed contributions. Obligation for contributions are recognised as an employee benefit in profit or loss in the periods during which services are rendered by employees.

#### 3.28 *Dividends*

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

#### 3.29 *Earnings per share*

##### Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company,
- by the weighted average number of ordinary shares outstanding during the financial year.

#### 3.30 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of the Group has appointed a strategic steering committee which assesses the financial performance and position of the Group, and makes strategic decisions and accordingly has been identified as being the chief operating decision maker.



# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 4. Critical accounting estimates and judgements

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The following are estimates, assumptions and management judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### *Fair value of property, plant and equipment*

The fair value of property, plant and equipment is determined by using valuation techniques. Further details of the judgements and assumption made in the fair value estimation of land and buildings are disclosed in note 13.

#### *Impairment of goodwill and other intangible assets*

The key assumptions in calculating the impairment of goodwill and other intangible assets are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The directors estimate discount rates using rates that reflect current market assessments of the time value of money and the risks specific to the CGUs and other intangible assets. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. Further details of the impairment calculations for goodwill are set out in note 14. Details on the impairment calculations of other intangible assets together with a sensitivity analysis of the effects of shifts in unobservable inputs used are set out in note 15.

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are, with the exception of the fair valuation of property and impairment testing of goodwill and other intangible assets, not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 5. Segment information

The standard requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group’s board of directors.

An operating segment is a Group of assets and operations engaged in providing services that are subject to risks and returns that are different from that of other segments.

The Group’s reportable segments under IFRS 8 are as follows:

- The ownership, development and operation of hotels and other leisure facilities in Malta which includes the ownership and operation of the Radisson Blu Resort & Spa, St. Julian’s as well as the ownership of a site of circa 83,530 square meter formerly known as Hal Ferh, situated near the Golden Sands Radisson Blu Resort and Spa in Mellieha with permits to be developed into an upmarket, low-lying tourist resort;
- Catering services in Malta includes the operation of catering services under the Island Caterers brand and the operation of the Costa Coffee retail brand in Malta as well as the operation of fixed catering concessions;
- Catering services in Spain include the operation of the Costa Coffee retail brand in the East Coast of Spain, the Canary and Balearic Islands.

Segment profit or loss before tax represents the profit or loss earned by each segment after allocation of central administration costs and finance costs based on services and finance provided. The Group is not required to report the income tax expense, total assets and liabilities for each reportable segment since such amounts are only provided to the chief operating decision maker on an exception basis.

Information about the Group’s reportable segments is presented below.

	Hotel Malta		Catering Malta		Catering Spain		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	€	€	€	€	€	€	€	€
Segment revenue	12,815,691	10,004,230	16,375,615	13,008,264	4,592,149	1,500,815	33,783,455	24,513,309
Segment EBITDA	4,480,125	2,642,006	581,829	728,423	(1,440,711)	(915,023)	3,621,243	2,455,406
Interest expense	(1,225,492)	(1,157,708)	(302,650)	(285,576)	(377,635)	(149,984)	(1,905,777)	(1,593,268)
Depreciation and amortisation	(2,328,413)	(1,514,314)	(461,706)	(253,644)	(735,771)	(194,290)	(3,525,890)	(1,962,248)
Segment profit/(loss) before tax	935,414	(927,993)	(167,575)	386,215	(2,554,117)	(1,259,296)	(1,786,278)	(1,801,074)
Non-current assets*	65,463,032	63,236,866	13,744,774	14,209,577	9,384,924	9,242,492	88,592,730	86,688,935

\* Non-current assets exclude investments in associates and joint ventures, loans and receivables and other cash at bank.

2015 represents a 14 month period from 1 November 2014 to 31 December 2015 and 2016 represents a 12 month period from 1 January to 31 December 2016.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 5. Segment information (continued)

	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
Segment revenue	33,783,455	24,513,309
Company revenue	82,620	60,065
Elimination of intra-group transactions	(52,979)	(161,867)
Group revenue	<u>33,813,096</u>	<u>24,411,507</u>

	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
Segment loss before tax	(1,786,278)	(1,801,074)
Share of profit from joint ventures	4,159,061	3,442,875
Investment income	249,373	5,107,409
Finance costs	(1,853,649)	(2,980,065)
Amortisation of intangible assets	(1,200,303)	(714,670)
Unallocated amounts	(216,664)	(120,060)
(Loss)/profit before tax	<u>(648,460)</u>	<u>2,934,415</u>

	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
Segment non-current assets	88,592,730	86,688,935
Other assets	19,245	9,230
	<u>88,611,975</u>	<u>86,698,165</u>

Non-current assets exclude investments in associates and joint ventures, loans and receivables and other cash at bank

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 6. Investment income

	Group		Company	
	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
Dividends received from subsidiaries	-	-	2,688,865	3,271,503
Interest income on bank deposits	433	14,330	429	14,238
Interest income on loans and receivables from group undertakings	-	-	1,266,634	1,078,548
Interest income on loans and receivables from joint ventures	-	192,559	-	8,941
Interest income on loans and receivables from immediate parent company	224,528	47,500	224,528	47,500
Interest income on other loans	15,218	22,720	270	-
Other financial income	9,194	-	-	-
Gain on stepped acquisition (note 27)	-	2,965,974	-	-
Gain on bargain purchase upon business combination (note 27)	-	2,061,339	-	-
	<b>249,373</b>	<b>5,304,422</b>	<b>4,180,726</b>	<b>4,420,730</b>

### 7. Finance costs

	Group		Company	
	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
On debt securities	3,006,035	3,511,667	3,006,035	3,511,667
On bank loans and overdrafts	428,649	599,500	-	167,761
Amortisation of bond expenses	73,200	85,400	73,200	85,400
On amounts due to immediate parent company	15,394	-	15,394	-
On amounts due to related parties	-	33,123	-	-
On obligations under finance lease	-	22,273	-	-
Other finance charges	212,002	32,667	-	-
	<b>3,735,280</b>	<b>4,284,630</b>	<b>3,094,629</b>	<b>3,764,828</b>

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 8. Expenses by nature

	Group		Company	
	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
Depreciation of property, plant and equipment (note 13)	3,259,528	1,889,072	-	-
Amortisation of intangible assets (note 15)	1,471,479	790,969	-	-
Net exchange differences	117,677	55,589	36,602	1,854
Staff costs and employee Information (note 10)	11,829,236	9,875,610	-	-
Operating leases (note 29)	4,066,191	2,229,413	-	-
Cost of goods sold	7,124,578	4,741,258	-	-
	<u>36,868,619</u>	<u>29,181,901</u>	<u>36,602</u>	<u>1,854</u>

The analysis of amounts that are payable to the auditors in relation to the period/year presented is as follows:

	Group		Company	
	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
Annual statutory audit	47,000	45,350	11,000	11,000
Other assurance services	-	850	-	850
Tax advisory services	7,250	7,215	2,710	-
Other non-audit services	-	26,023	-	9,835
	<u>54,250</u>	<u>79,438</u>	<u>13,710</u>	<u>21,685</u>

In addition, fees in 2016 charged by other auditors amounted to:

	Part of the network of member firms of PricewaterhouseCoopers €	Not part of the network of member firms €
Annual statutory audit	9,600	16,000
Other assurance services	-	40,520
Non-audit services	-	11,655
	<u>9,600</u>	<u>68,175</u>

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 9. Key management personnel compensation

	Group and Company	
	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
<b>Key management personnel compensation</b>		
<i>Short-term benefits</i>		
Management remuneration	<b>1,593,386</b>	<b>1,790,773</b>

Included in the above are emoluments paid in respect of the current period to the company's directors amounting to €60,603 (2015 - €121,260).

### 10. Staff costs and employee information

	Group and Company	
	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
<i>Staff costs:</i>		
Wages and salaries	<b>12,977,398</b>	11,606,920
Social security costs and other contributions	<b>1,423,484</b>	1,132,556
	<b>14,400,882</b>	12,739,476
Sub-contracted labour	<b>1,788,457</b>	2,411,150
Capitalised labour costs	-	(398,485)
Recharged to joint ventures	<b>(4,360,103)</b>	(4,876,531)
	<b>11,829,236</b>	9,875,610

The average number of persons employed by the Group during the period, including executive directors, was made up as follows:

	Group	
	1 January to 31 December 2016	1 November 2014 to 31 December 2015
Administration	<b>148</b>	120
Operations	<b>486</b>	426
	<b>634</b>	546

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 11. Income tax (credit)/expense in (loss)/profit

The charge for income tax on profits derived from local and foreign operations has been calculated at the applicable tax rates.

	Group		Company	
	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
Current tax expense/(credit)	269,264	79,390	(219,867)	182,790
Deferred tax credit (note 24)	(359,724)	(570,043)	-	-
	<u>(90,460)</u>	<u>(490,653)</u>	<u>(219,867)</u>	<u>182,790</u>

Tax applying the statutory domestic income tax rate and the income tax (credit)/expense for the year/period are reconciled as follows:

	Group		Company	
	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
Profit before tax from continuing operations	(648,456)	2,934,415	1,025,158	607,034
Tax at the applicable rate of 35%	<u>(226,960)</u>	<u>1,027,045</u>	<u>358,805</u>	<u>212,462</u>
<i>Tax effect of:</i>				
Prior year unrecognised deferred tax	(376,447)	-	-	-
Income taxed at different rates	834,888	587,176	(406,250)	(406,250)
Unrecognised deferred tax	653,022	-	-	-
Disallowable expenses	484,440	745,652	267,312	374,714
Acquisition related costs	-	101,045	-	-
Gain on stepped acquisition of subsidiaries	-	(1,759,560)	-	-
Share of profits of joint ventures and associates	(1,455,671)	(1,207,008)	-	-
Other differences	(3,732)	14,997	-	1,864
Income tax (credit)/expense for the year/period	<u>(90,460)</u>	<u>(490,653)</u>	<u>219,867</u>	<u>182,790</u>

The tax rate used for the 2016 and 2015 reconciliations above is the corporate tax rate of 35% payable by corporate entities in Malta.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 12. Earnings per share

Basic earnings per share is calculated by dividing (loss)/profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

	<b>Group</b>	
	<b>1 January to 31 December 2016 €</b>	1 November 2014 to 31 December 2015 €
Basic/diluted (loss)/earnings per share	<b><u>(0.014)</u></b>	<u>0.091</u>

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	<b>Group</b>	
	<b>1 January to 31 December 2016 €</b>	1 November 2014 to 31 December 2015 €
<b>Earnings:</b>		
(Loss)/earnings for the year	<b><u>(558,000)</u></b>	<u>3,425,068</u>
Weighted average number of shares	<b><u>38,583,660</u></b>	<u>37,541,406</u>



# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 13. Property, plant and equipment

Group	Freehold/ leasehold land and buildings €	Motor vehicles €	Plant and machinery €	Furniture fittings and other equipment €	Total €
<b>Cost or valuation</b>					
At 1.11.2014	23,844,941	229,071	5,304,537	12,296,265	41,674,814
Additions	224,190	13,328	1,166,405	2,429,898	3,833,821
Capitalised payroll costs	-	-	-	401,000	401,000
Disposals and write-offs	(897,977)	-	(154,621)	(29,484)	(1,082,082)
Acquisition of subsidiaries (note 27)	23,070,287	17,777	525,254	2,898,264	26,511,582
Revaluation	10,542,188	-	-	-	10,542,188
<b>At 31.12.2015</b>	<b>56,783,629</b>	<b>260,176</b>	<b>6,841,575</b>	<b>17,995,943</b>	<b>81,881,323</b>
Additions	96,372	32,919	692,329	781,827	1,603,447
Disposals and write-offs	-	(17,161)	(272,432)	(207,127)	(496,720)
Revaluation	4,283,880	-	-	-	4,283,880
<b>At 31.12.2016</b>	<b>61,163,881</b>	<b>275,934</b>	<b>7,261,472</b>	<b>18,570,643</b>	<b>87,271,930</b>
<b>Accumulated depreciation</b>					
At 1.11.2014	2,071,000	185,771	3,938,380	7,633,295	13,828,446
Provision for the period	468,214	24,745	471,630	924,481	1,889,070
Eliminated on disposal	-	-	(154,628)	(29,277)	(183,905)
<b>At 31.12.2015</b>	<b>2,539,214</b>	<b>210,516</b>	<b>4,255,382</b>	<b>8,528,499</b>	<b>15,533,611</b>
Provision for the period	613,942	22,760	1,252,481	1,370,345	3,259,528
Eliminated on disposal	-	(11,391)	(269,886)	-	(281,277)
<b>At 31.12.2016</b>	<b>3,153,156</b>	<b>221,885</b>	<b>5,237,977</b>	<b>9,898,844</b>	<b>18,511,862</b>
<b>Carrying amount</b>					
At 31.12.2015	54,244,415	49,660	2,586,193	9,467,444	66,347,712
<b>At 31.12.2016</b>	<b>58,010,725</b>	<b>54,049</b>	<b>2,023,495</b>	<b>8,671,799</b>	<b>68,760,068</b>

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 13. Property, plant and equipment (continued)

#### *Leasehold land and buildings*

Leasehold land and buildings represent the Radisson Blu Resort & Spa, St. Julian's and the Hal-Ferh site near the Radisson Blu, Golden Sands Resort & Spa which was acquired as part of the stepped acquisition of The Heavenly Collection Limited on 17 December 2015 (note 27).

Radisson Blu Resort & Spa, St. Julian's was revalued on 31 December 2016 by the directors assisted by independent professionally qualified property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. The book value of this property has been adjusted as the directors have reviewed its carrying amount on the basis of assessments by professional property valuers. The resultant shift in value, net of applicable deferred income taxes, has been reflected within the revaluation reserve in shareholders' equity.

#### **Valuation processes**

The valuation of this property is performed periodically on the basis of valuation reports prepared by third party qualified valuers. These reports are based on both:

- information provided by the Group which is derived from the respective company's financial systems and is subject to the company's overall control environment; and
- assumptions and valuation models used by the valuers, with assumptions being typically market related and based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation model used by the valuers, are reviewed by designated officers within the Group. This includes a review of fair value movements over the period. When the designated officers consider that the valuation report is appropriate, the valuation report is recommended to the Audit Committee and Board of Directors. The Committee and Board then consider the valuation report as part of their overall responsibilities.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 13. Property, plant and equipment (continued)

#### Valuation technique

In view of a limited number of similar or comparable properties and property transactions, comprising sales or rentals in the respective market in which the property is located, the valuation has been performed using unobservable inputs. The significant inputs are described below:

Income capitalisation or discounted cash flow (“DCF”) approach: considers the free cash flows arising from the projected income streams expected to be derived from the operation of the property, discounted to present value using an estimate of the weighted average cost of capital that would be available to finance such an operation. The significant unobservable inputs utilised with this technique include:

Earnings before interest, taxes, depreciation and amortisation (EBITDA)	based on projected income streams less operating expenditure necessary to operate the property, but prior to depreciation and financing charges;
Growth rate	based on management’s estimated average growth of EBITDA levels, mainly determined by projected growth in income streams;
Discount rate	reflecting the current market assessment of the uncertainty in the amount and timing of projected cash flows. The discount rate reflects the estimated weighted average cost of capital that would be available for financing such an operation. The discount rate is based on an assumed debt to equity ratio; estimation of cost of equity is based on risk free interest rates adjusted for country risk and equity risk premium adjusted for entity-specific risk factor. Estimation of cost of debt is based on risk free interest rates adjusted for country risk and assumed credit spread.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 13. Property, plant and equipment (continued)

The key assumptions for the valuation of the Radisson Blu Resort & Spa, St. Julians are reflected in the table below:

Description by class based on highest and best use	Fair value at 31 2016 €'000	Valuation technique	Significant unobservable inputs			
			Income capitalisation approach (DCF)	Evolution of EBITDA over initial projected five year period FY17-FY21	Pre-tax discount rate (WACC) %	Growth rate %
Current use as hotel (property as classified property plant and equipment):						
Radisson Blu Resort & Spa, St. Julians	40,291		€3.8m - €4.1m	10.50	2.00	7.10

The valuation is based on use of cash flow projections derived from the most recent financial budgets and forecasts approved by the directors covering a five-year period. Cash flows beyond the five year period have been extrapolated using stable growth rates based on the directors' expected economic conditions and do not exceed the long-term average market growth rate. The discount rate is based on the company's weighted average cost of capital adjusted for specific industry risk and the company's optimal desired debt to equity ratio.

Based on the above assessment and internal valuation the Radisson Blu Resort & Spa, St. Julians was revalued by €4,283,880 to a fair value of €40,291,000. The movement was recorded in the statement of other comprehensive income.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 13. Property, plant and equipment (continued)

The Hal-Ferh site near the Radisson Blu, Golden Sands Resort & Spa was valued using a discounted cash flow technique based on forecasted operating cash flows for a period of ten years, a terminal value and applying an appropriate discount rate. The valuation report is prepared by management and approved by the Audit Committee and Board of Directors. The key assumptions for the calculations are those relating to the discount rates, growth rates and expected evolution of property selling prices and direct costs during the period. The company's estimated discount rates reflect current market assessments of the time value of money and the risks specific to the respective operation. The growth rates are based on industry growth forecasts. Evolution in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The key assumptions for the valuation of the Hal Ferh site were a long-term growth rate of 2% (2015 – 2%), a pre-tax discount rate of 11.2% (2015 – 11.2%) and a capitalisation rate of 7.3% (2015 – 9.2%). The valuation is based on €3.2 million average cash flow projections derived from the most recent forecasts approved by the directors covering a ten year period. The ten year cash flow projection assumes a stabilised EBITDA level throughout the five year period upon normalisation of activity levels subsequent to estimated completion of the project. The discount rate is based on the company's weighted average cost of capital adjusted for specific industry risk and the company's optimal desired debt to equity ratio.

The directors are of the opinion that the fair value of the property of €21,575,744 has not altered since the date of the stepped acquisition of the subsidiary (note 27).

#### *Freehold land and buildings*

Freehold land and buildings include the central food manufacturing and processing facility at Tal Handaq which was acquired during 2015 as part of the stepped acquisition of Buttigieg Holdings Limited as described in note 27. The revalued amount at the date of acquisition amounted to €1,494,911. The freehold property was valued by an independent professional qualified appraiser in 2012 and was based on the sales comparison approach. The most significant input into this valuation approach is the price per square meter which ranges between €1,130 and €1,190. The directors are of the opinion that the fair value of the property has not altered since the date of the valuation.

The fair value measurements of freehold and leasehold land and buildings are categorised as Level 3 as they are based on unobservable inputs.

In estimating the fair value of the Group's hotel properties and the central food manufacturing and processing unit, the highest and best use of the property is its current use.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 13. Property, plant and equipment (continued)

Details about the Group's freehold/leasehold land and buildings and information about the fair value hierarchy at 31 December are as follows:

	Fair value measurement at the end of the reporting period using	
	Level 3 €	Total €
2016		
Undeveloped leasehold land and buildings	21,671,748	21,671,748
Hotel properties	34,852,305	34,853,305
Central food manufacturing & processing facility	1,486,672	1,486,672
Total	<b>58,010,725</b>	<b>58,010,725</b>
2015		
Undeveloped leasehold land and buildings	21,575,370	21,575,370
Hotel properties	31,172,277	31,172,277
Central food manufacturing & processing facility	1,496,768	1,496,761
Total	<b>54,244,415</b>	<b>54,224,415</b>

The carrying amount of freehold/leasehold land and buildings that would have been included in the financial statements had these assets been carried at cost less accumulated depreciation is €43,616,145 (2015 - €43,702,234).

As at 1 November 2014, included in the cost of property, plant and equipment are pre-construction costs of €897,977 which were not being depreciated as they were not yet ready for use. Due to a change in the Group's overall business strategy, these assets were written off during the period ended 31 December 2015.

The carrying amount of the Group's plant and machinery and furniture, fittings and other equipment includes €190,846 (2015 - €240,632) in respect of assets held under finance leases.

Freehold and leasehold land and buildings have been pledged to secure borrowings of the parent, Group and related undertakings.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 14. Goodwill

	Goodwill €	Included with investment in joint ventures €	Total €
<b>Carrying amount</b>			
At 31.10.2014	11,020,822	23,370,421	34,391,243
Derecognised upon stepped acquisition of subsidiary	-	(644,000)	(644,000)
Effect of foreign currency exchange differences	-	1,098,933	1,098,933
	<u>11,020,822</u>	<u>23,825,354</u>	<u>34,846,176</u>
At 31.12.2015	11,020,822	23,825,354	34,846,176
Effect of foreign currency exchange differences	-	(2,446,078)	(2,446,078)
	<u>11,020,822</u>	<u>21,379,276</u>	<u>32,400,098</u>

Goodwill reflects on the Group's statements of financial position is allocated to the Group's cash-generating units (CGUs), as follows:

	2016 €	2015 €
Hotels and vacation ownership	25,534,276	27,980,354
Catering	6,865,822	6,865,822
	<u>32,400,098</u>	<u>34,846,176</u>

#### *Hotel Malta CGU*

Note 13 includes information in respect of the key assumptions utilised in respect of the fair valuation of Bay Point Hotel Limited, forming part of the Hotels Malta CGU.

#### *Catering Malta CGU*

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five year period, (reflecting evolution of EBITDA levels from €600k to €643k), a pre-tax discount rate of 9.4% and a capitalisation rate of 6.45%. The cash flows beyond that five year period have been extrapolated using a growth rate of 2%. The discount rates are based on the Group's weighted average cost of capital adjusted for specific industry risks and the Group's optimal desired debt-to-equity ratio. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed the recoverable amount of the cash-generating unit.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 14. Goodwill (continued)

#### *Investment in joint ventures*

The recoverable amount of this investment is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five year period. The cash flows beyond that five year period have been extrapolated using a long-term growth rate. The discount rates are based on the Group's weighted average cost of capital adjusted for specific industry risks and the Group's optimal desired debt-to-equity ratio. The key assumptions in respect of the application of the DCF approach to determine the value in use of this investment are reflected in the table below:

Description by class based on highest and best use	Fair value at 31 2016 €'000	Valuation technique	Significant unobservable inputs weighted average			
			100% share of Evolution of EBITDA over initial projected five year period FY17-FY21	Pre-tax discount rate (WACC) %	Growth rate %	Capitalisation rate %
Joint ventures	21,379	Income capitalisation approach (DCF)	€7.8m - €8.4m	10.11	2.00	8.11

The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the investment.

Based on the above assessment the directors expect the carrying amount of the CGUs and investments including goodwill to be recoverable.



# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 15. Other intangible assets

#### Group

	Concessions €	Brand design fees and franchises €	Lease premium fee €	Total €
<b>Cost</b>				
At 1.11.2014	-	-	-	-
Acquisition of subsidiary (note 27)	518,156	9,109,061	153,783	9,781,000
Additions for the period	-	269,600	70,000	339,600
At 31.12.2015	518,156	9,378,661	223,783	10,120,600
Additions	-	972,933	-	972,933
Reclassification	-	(27,758)	27,758	-
At 31.12.2016	518,156	10,323,836	251,541	11,093,533
<b>Amortisation</b>				
At 1.11.2014	-	-	-	-
Provision for the period	98,256	652,278	40,435	790,969
At 31.12.2015	98,256	652,278	40,435	790,969
Provision for the period	143,592	1,306,215	21,672	1,471,479
At 31.12.2016	241,848	1,958,493	62,107	2,262,448
<b>Carrying amount</b>				
At 31.12.2015	419,900	8,726,383	183,348	9,329,631
<b>At 31.12.2016</b>	<b>276,308</b>	<b>8,365,343</b>	<b>189,434</b>	<b>8,831,085</b>

The lease premium fee represents the payment made to the old tenants in connection with the lease of a retail store. The carrying amount of the lease premium fee will be fully amortised over the term of the new lease arrangement.

The Group has franchise agreements with Costa International Limited to develop and operate the Cost Coffee brand in the Maltese Islands as well as in the territory of Spain (East Coast), the Canary and Balearic Islands. The carrying amount of these franchise agreements of €6,961,810 (2015 - €8,018,521) will be fully amortised in 8 years.

The amortisation expense has been included in the line item 'Depreciation and amortisation expense' in the statement of profit or loss.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 15. Other intangible assets (continued)

The intangible assets are allocated to the CGUs in the following manner:

	€
<b>Costa Coffee Malta</b>	2,753,268
<b>Costa Coffee Spain</b>	6,077,817
	<hr/>
	<b>8,831,085</b>
	<hr/> <hr/>

#### *Costa Coffee Malta*

This cash-generating unit includes the operation of the Costa Coffee retail brand in Malta. At 31 December 2016, the Group operated ten outlets each enjoying a strategic location in areas popular for retail operations.

#### *Costa Coffee Spain*

The Group operates fifteen Costa Coffee outlets in the East Coast of Spain, the Canary and Balearic Islands.

The recoverable amount of these cash-generating units is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors. In relation to the Costa Coffee Spain CGU a fifteen year explicit period has been adopted to reflect more accurately expected renewals of the operational arrangements. The discount rates are based on the Group's weighted average cost of capital adjusted for specific industry risks and the Group's optimal desired debt-to-equity ratio. The cash flow projections from the Costa Coffee Malta CGU are mainly based on the initial five year period, also extrapolated to a fifteen year period to reflect expected renewals of operational agreements.

However, in respect of the Costa Coffee Spain CGU, the directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based, would cause the carrying amount to exceed the recoverable amount of the cash-generating unit.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 15. Other intangible assets (continued)

The key assumptions utilised in determining the value of these CGUs are reflected in the table below:

Description by class based on highest and best use	Valuation technique	Significant unobservable inputs			
		Income capitalisation approach (DCF)	Evolution of EBITDA	Capitalisation rate	
			Pre-tax discount rate (WACC) %	Growth %	rate %
Costa Coffee Malta		€1m - €1.3m initial five year period FY 17-FY21	11.05	2.00	6.26
Costa Coffee Spain		€0m - €1.8m initial five year period FY 17-FY21	14.05	2.00	10.86
		€2.3m - €3.6m second five year period FY 22-FY26			

On this basis the recoverable amount of the Costa Coffee Malta CGUs exceeds the carrying amount with a reasonable headroom.

In respect of the Costa Coffee Spain CGU, the carrying amount approximates the recoverable amount. Sensitivity parameters applied in valuation model are summarised below:

Sensitivity parameter	Related impairment impact
A Stabilising revenue level at 2021 amounts and applying solely 2% inflationary growth thereafter	€1.7m
B Stabilising EBITDA margin at 2024 level throughout the remaining projection period	€1.4m
C Increasing projection risk factor by 50% (from 6% to 9%) giving rise to post-tax WACC of 15.11%	€1.5m

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 16. Financial assets

(i) *Investment in subsidiaries and joint ventures*

#### *Group*

	Investment in joint	
	ventures	Total
	€	€
<b>Equity method</b>		
At 31.12.2015	39,770,336	39,770,336
	<u>39,770,336</u>	<u>39,770,336</u>
<b>At 31.12.2016</b>	<b>38,887,571</b>	<b>38,887,571</b>
	<u><u>38,887,571</u></u>	<u><u>38,887,571</u></u>

#### *Company*

	Investment in subsidiaries	Investment in joint	
	€	ventures	Total
	€	€	€
<b>Carrying amount</b>			
At 01.11.2014	52,801,199	17,314,460	70,115,659
Additions	2,098,508	-	2,098,508
Reclassifications on stepped acquisition	1,314,460	(1,314,460)	-
	<u>56,214,167</u>	<u>16,000,000</u>	<u>72,214,167</u>
At 31.10.2015	56,214,167	16,000,000	72,214,167
	<u>56,214,167</u>	<u>16,000,000</u>	<u>72,214,167</u>
<b>At 31.12.2016</b>	<b>56,214,167</b>	<b>16,000,000</b>	<b>72,214,167</b>
	<u><u>56,214,167</u></u>	<u><u>16,000,000</u></u>	<u><u>72,214,167</u></u>

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 16. Financial assets (continued)

#### *(i) Investment in subsidiaries and joint ventures (continued)*

On 10 June 2015, the company exercised its call option to acquire the remaining 50% shareholding in Buttigieg Holdings Limited (BHL), the parent company of the following wholly owned subsidiaries:

- R.J.C. Caterers Limited, a company operating mainly in the retail and contract catering sector;
- The Coffee Company Malta Limited, a company that operates the Costa Coffee franchise in Malta; and
- The Coffee Company Spain S.L.U., the company that operates the Costa Coffee franchise in the Eastern Coast of Spain and the Canary and Balearic Islands.

By virtue of this acquisition BHL and all its operational subsidiaries became 100% subsidiaries of the company. The objective behind the acquisition is the consolidation of the investment in BHL as part of the Group strategic plan.

The consideration for the acquisition was the issue of 2 million new ordinary shares in the company to the selling shareholders increasing the total issued share capital of the company to 38,583,660 ordinary shares of € 1 each.

On 17 December 2015, the company acquired the remaining 50% shareholding in The Heavenly Collection Limited, a company which owns a site of circa 83,530 square meters formerly known as Hal Ferh, situated near the Golden Sands Radisson Blu Resort and Spa in Mellieha, together with all its other assets and liabilities as set out in note 27 (v), for a total cash consideration of €912,500.

Acquisition related costs on the stepped acquisitions of Buttigieg Holdings Limited and The Heavenly Collection Limited amounted to of €288,701.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 16. Financial assets (continued)

#### (i) Investment in subsidiaries and joint ventures (continued)

The Group consolidates the results and financial position of the following subsidiaries directly or indirectly owned. Unless otherwise stated below, the place of business of subsidiaries is the same as the country where the registered office of the underlying investee is situated:

	<b>Principal activity</b>	<b>Proportion of ownership interest 2016 %</b>	<b>Proportion of ownership interest 2015 %</b>
<b>Subsidiary undertakings:</b>			
<b>Island Hotels Group Limited</b> 22 Europa Centre John Lopez Street Floriana Malta	Holding & management company	<b>100</b>	100
<b>Bay Point Hotel Limited</b> 22 Europa Centre John Lopez Street Floriana Malta	Owner & operator of hotel	<b>100</b>	100
<b>Island Caterers Limited</b> 22 Europa Centre John Lopez Street Floriana Malta	Event catering company	<b>100</b>	100
<b>Bay Point Properties Limited</b> 22 Europa Centre John Lopez Street Floriana Malta	Investment company	<b>100</b>	100
<b>Island Resorts International Limited</b> Akara Building 24 De Castro Street Wickham's Cay 1, Road Town Tortola, British Virgin Islands	Investment company	<b>100</b>	100
<b>Bay Point Collection Limited</b> 24 De Castro Street Wickhams Cay 1, Road Town Tortola, British Virgin Islands	Vacation ownership company	<b>100</b>	100

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 16. Financial assets (continued)

(i) Investment in subsidiaries and joint ventures (continued)

	<b>Principal activity</b>	<b>Proportion of ownership interest 2016 %</b>	<b>Proportion of ownership interest 2015 %</b>
<b>Buttigieg Holdings Limited</b> 22 Europa Centre John Lopez Street Floriana, Malta	Retail catering & holding company	<b>100</b>	100
<b>R.J.C. Caterers Limited</b> 22 Europa Centre John Lopez Street Floriana Malta	Contract catering company	<b>100</b>	100
<b>The Coffee Company Malta Limited</b> 22 Europa Centre John Lopez Street Floriana, Malta	Franchise retail catering company	<b>100</b>	100
<b>The Coffee Company Spain S.L.U.</b> Calle Floridablanca 98 Planta Ent Puerta 2 08015 Barcelona, Spain	Franchise retail catering company	<b>100</b>	100
<b>The Heavenly Collection Limited</b> 22 Europa Centre Floriana Malta	Owner of tract of land in Golden Bay	<b>100</b>	100

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 16. Financial assets (continued)

(i) Investment in subsidiaries and joint ventures (continued)

#### Joint ventures

The Group consolidates the following joint ventures using the equity method. Unless otherwise stated below, the place of business of joint ventures is the same as the country where the registered office of the underlying investee is situated:

	Principal activity	Proportion of ownership interest 2016 %	Proportion of ownership interest 2015 %
<b>Golden Sands Resort Limited</b> The Radisson SAS Golden Sands Resort & Spa, Golden Bay I/o Mellieha, Malta	Hotel	50	50
<b>Azure Services Limited</b> Level 1, LM Complex Brewery Street Mriehel, Malta	Marketing & Promotional services	50	50
<b>Azure Ultra Limited</b> Level 3, Valletta Buildings South Street, Valletta	Luxury yacht leasing	50	50
<b>Vacation Financial Limited</b> 325 Waterfront Drive Omar Hodge Building 2nd Floor Wickham's Cay Road Town Tortola, British Virgin Islands	Financing of vacation ownership	50	50
<b>Heathfield Overseas Limited</b> 325 Waterfront Drive Omar Hodge Building 2nd Floor Wickham's Cay Road Town Tortola, British Virgin Islands	Payment solutions	50	50
<b>Azure Resorts Limited</b> 325 Waterfront Drive Omar Hodge Building 2nd Floor Wickham's Cay Road Town Tortola, British Virgin Islands	Vacation ownership company	50	50



# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 16. Financial assets (continued)

(i) Investment in subsidiaries and joint ventures (continued)

#### Joint ventures

	Principal activity	Proportion of ownership interest 2016 %	Proportion of ownership interest 2015 %
<b>Brookfield Overseas Limited</b> 325 Waterfront Drive Omar Hodge Building 2nd Floor Wickham's Cay Road Town Tortola, British Virgin Islands	Marketing & promotional services	50	50
<b>Medi International Limited</b> 325 Waterfront Drive Omar Hodge Building 2nd Floor Wickham's Cay Road Town Tortola, British Virgin Islands	Internal financing	50	50
<b>MKIC Limited</b> Montekristo Estates Hal Farrug Road Luqa, Malta	Non-trading	50	50
<b>Quality Catering &amp; Retail Services Ltd</b> Miller House Airport Way Tarxien Road Luqa	Retail & Catering Services Company	50	50

The Group's investment in Quality Catering & Retail Services Limited is accounted for at cost amounting to €300. The investment in the joint venture is not consolidated under the equity method in view of the joint venture's policy to distribute all profits to its shareholders on a regular basis resulting in its net assets to be immaterial. The Group's share of net assets in the joint venture as at the latest signed audited financial statements dated 31 January 2016 amounted to €6,346.

On 11 June 2015, the Group terminated the pledge on the shares in Golden Sands Resort Limited issued in favour of a credit institution in relation to banking facilities granted to the Group.

Summarised financial information in respect of the Group's material joint ventures is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs (adjusted by the company for equity accounting purposes and for differences in accounting policies):

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 16. Financial assets (continued)

(i) *Investment in subsidiaries and joint ventures (continued)*

#### *Hotel and vacation ownership at Golden Sands (GSR) – Golden Sands Resort Group (GSR)*

This joint venture includes the Group's investment in Golden Sands Resort Limited and Azure Resorts Group (made up of Azure Resorts Limited, Azure Services Limited, Azure Ultra Limited, Vacation Financial Limited, Heathfield Overseas Limited, Brookfield Overseas Limited, Medi International Limited). Together these companies are engaged in the operation and management of a combined vacation ownership and hotel operation of "The Radisson SAS Golden Sands Resort and Spa", a 5-star resort situated in Golden Sands and which are collectively referred to as the Golden Sands Resort Group.

During 2015 this joint venture included the investment in The Heavenly Collection Limited, a company which owns a site of circa 83,530 square meters in close proximity of the Golden Sands Resort and Spa with plans to develop this into a hotel aimed at sophisticated vacation club buyers. As disclosed in note 27, The Heavenly Collection Limited became a fully owned subsidiary in December 2015.

	<b>GSR Group</b>	
	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	<b>4,461,261</b>	4,421,730
Non-current assets	<b>63,017,634</b>	65,342,534
Current assets	<b>15,306,175</b>	20,230,278
<b>Total assets</b>	<b>82,785,070</b>	89,994,542
Current financial liabilities (excluding trade and other payables and provisions)	<b>4,663,515</b>	4,973,537
Other current liabilities	<b>12,738,509</b>	13,829,570
<b>Current liabilities</b>	<b>17,402,024</b>	18,803,107
Non-current financial liabilities (excluding trade and other payables and provisions)	<b>30,367,059</b>	34,802,909
<b>Total liabilities</b>	<b>47,769,083</b>	53,606,016

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 16. Financial assets (continued)

(i) Investment in subsidiaries and joint ventures (continued)

	GSR Group		BHL Group	
	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
Revenue	40,196,802	42,842,592	-	5,253,022
EBITDA	14,450,921	13,547,109	-	152,298
Depreciation and amortisation	3,303,364	3,780,889	-	380,532
Interest income	34,458	3,720	-	-
Interest expense	1,086,981	1,494,673	-	60,352
Income tax (expense)/income	(1,776,908)	(1,056,541)	-	(90,266)
Profit for the year/period	8,318,127	7,249,612	-	(363,862)
Other comprehensive income	(3,285,364)	1,402,945	-	-
Total comprehensive income	5,032,762	8,652,557	-	(363,862)
Dividends received	1,756,461	2,582,360	-	-

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

As at 31 December 2016	GSR €
Net assets of the joint venture proportion of the Group's ownership interest	35,015,987  50%
	<hr/> 17,507,994
Goodwill (note 14)	21,379,276
<b>Carrying amount of the Group's interest in the joint venture as at 31 December 2016</b>	<hr/> <b>38,887,271</b> <hr/>

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 16. Financial assets (continued)

#### (i) Investment in subsidiaries and joint ventures (continued)

As at 31 December 2015	GSR €
Net assets of the joint venture	31,966,796
Proportion of the Group's ownership interest	50%
	<hr/>
	15,983,398
Goodwill	23,825,354
Other adjustments	(38,714)
	<hr/>
Carrying amount of the Group's interest in the joint venture as at 31 December 2015	<u>39,770,036</u>

#### *Buttigieg Holdings Limited (BHL)*

This joint venture includes the Group's investment in Buttigieg Holdings Limited, a company operating mainly in the retail and contract catering sector including the Costa Coffee franchise in Malta and in the Eastern Coast of Spain and the Canary and Balearic Islands. As set out in note 27, Buttigieg Holdings Limited became a 100% subsidiary of the Group on 10 June 2015. The summarised financial information below represents amounts shown in the joint venture's financial statements for the period to 10 June 2015 prepared in accordance with IFRSs.

In preparing the below summarised financial information, transactions carried out during the financial periods between the said individual companies, as well as period-end balances between the companies, were eliminated.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 16. Financial assets (continued)

#### (ii) Loans and receivables

##### Group

	Other loans with related entities €	Loan to parent €	Total €
Amortised cost			
At 31.12.2015	364,982	6,000,000	6,364,982
Less:			
Amounts expected to be settled within 12 months (shown under current assets)	(43,381)	(6,000,000)	(6,043,381)
Amount expected to be settled after 12 months	321,601	-	321,601
At 31.12.2016	326,539	2,733,200	3,059,739
Less:			
Amounts expected to be settled within 12 months (shown under current assets)	(44,803)	(2,733,200)	(2,778,003)
<b>Amount expected to be settled after 12 months</b>	<b>281,736</b>	<b>-</b>	<b>281,736</b>

Other loans with related entities are unsecured, bear interest at the fixed interest rate of 5% per annum and are repayable in annual instalments of €61,629 inclusive of interest.

Amounts owed by the parent are unsecured, bear interest at the fixed interest rate of 5% per annum and are repayable within one month from the end of the reporting period.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 16. Financial assets (continued)

#### (ii) Loans and receivables (continued)

##### Company

	Loans to subsidiaries €	Loans to parent €	Total
<b>Amortised cost</b>			
At 31.10.2015	25,751,768	6,000,000	31,751,768
Less:			
Amounts expected to be settled within 12 months (shown under current assets)	-	(6,000,000)	(6,000,000)
Amount expected to be settled after 12 months	<u>25,751,768</u>	<u>-</u>	<u>25,751,768</u>
At 31.12.2016	27,515,768	2,733,200	30,248,968
Less:			
Amounts expected to be settled within 12 months (shown under current assets)	-	(2,733,200)	(2,733,200)
<b>Amount expected to be settled after 12 months</b>	<u><b>27,515,768</b></u>	<u><b>-</b></u>	<u><b>27,515,768</b></u>

All the amounts owed by subsidiaries are unsecured. The other terms and conditions are as follows:

- €20,563,201 (2015 – €18,799,201) bears a fixed interest rate of 6.25% (2015 – 6.25%) per annum. This amount is repayable on demand with twelve months' notice to be given by the company;
- €6,952,567 (2015 – €6,952,567) is interest-free and repayable on demand with twelve months' notice to be given by the company.

The amounts owed by the parent are unsecured, bear interest at the fixed interest rate of 5% per annum and are repayable within 1 month from the end of the reporting period.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 17. Inventories

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Food, beverage, consumables and maintenance stocks	<b>923,498</b>	925,259	-	-

### 18. Trade and other receivables

	Group		Company	
	2016	2015	2016	2015
Trade receivables	<b>2,304,630</b>	3,021,718	-	-
Amounts owed by group undertakings	-	-	<b>1,081,003</b>	532,155
Amounts owed by joint ventures	<b>1,660,171</b>	2,767,841	-	62,919
Amounts owed by associates	-	272,275	-	-
Amount owed by ultimate parent	<b>2,898</b>	-	-	-
Amounts owed by immediate parent	<b>560,639</b>	47,500	<b>256,634</b>	47,500
Amounts owed by fellow subsidiaries	<b>93,520</b>	-	-	-
Amounts owed by related parties	<b>352,537</b>	43,771	-	4,360
Indirect taxes	<b>430,282</b>	846,331	<b>4,607</b>	5,732
Other receivables	<b>1,609,485</b>	1,097,131	-	-
Prepayments and accrued income	<b>921,363</b>	810,247	<b>10,700</b>	10,700
	<b>7,935,525</b>	8,906,814	<b>1,352,944</b>	663,366

Amounts owed by group undertakings, joint ventures, associates, ultimate parent, immediate parent, fellow subsidiaries and related parties are unsecured, interest-free and repayable on demand.

The carrying amount of trade and other receivables is considered to be a reasonable approximation of fair value.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 19. Trade and other payables

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Trade payables	4,114,942	5,771,390	37,236	30,023
Advance deposits	727,560	524,252	-	-
Amounts owed to ultimate parent	42,369	33,001	-	-
Amounts owed to immediate parent	-	1,428	-	-
Amounts owed to fellow subsidiaries	1,020,694	-	-	-
Amounts owed to related companies	307,400	981,473	-	-
Amounts owed to joint ventures	186,875	237,834	-	-
Indirect taxes	937,090	909,476	-	-
Other payables	2,972,094	4,722,138	-	-
Accruals and deferred income	4,165,711	4,318,561	1,779,282	1,804,149
	<b>14,474,735</b>	17,499,553	<b>1,816,518</b>	1,834,172
Less:				
Amounts due for settlement within 12 months (shown under current liabilities)	<b>(13,990,269)</b>	(16,640,809)	<b>(1,816,518)</b>	(1,834,172)
Amounts due for settlement after 12 months	<b>484,466</b>	858,744	-	-

Amounts owed to ultimate parent, immediate parent, fellow subsidiaries, related parties and joint ventures are unsecured, interest-free and repayable on demand.

### 20. Bank overdrafts and loans

	Group	
	2016 €	2015 €
Bank overdrafts and overdrawn bank balances (note 26)	4,545,646	3,003,774
Bank loans	5,763,769	4,927,150
	<b>10,309,415</b>	7,930,924
Less: amounts due for settlement within 12 months (shown under current liabilities)	<b>(5,845,337)</b>	(4,170,018)
Amounts due for settlement after 12 months	<b>4,464,078</b>	3,760,906



# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 20. Bank overdrafts and loans (continued)

The bank loans and overdrafts of the Group bear floating interest rates averaging between 4.65% - 6.5% (2015: 4.65% - 6.5%) per annum. These facilities are secured by general and special hypothecs on the Group's assets, privileges on certain assets and guarantees given by related parties, as well as pledges over the shares in subsidiaries. The overdraft balance and €1,299,691 (2015 - €1,166,244) of the bank loans are due for settlement within 12 months.

### 21. Other financial liabilities

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Amount owed to immediate parent	<b>10,866,400</b>	-	<b>10,866,400</b>	-
Amounts owed to group undertakings	-	-	<b>16,535,349</b>	15,758,485
Amounts owed to related parties	<b>196,947</b>	632,947	-	-
Other loans	<b>4,500,000</b>	4,500,000	-	-
Obligations under finance lease (note 23)	<b>213,423</b>	264,784	-	-
	<b>15,776,770</b>	5,397,731	<b>27,401,749</b>	15,758,485
Less: amounts due for settlement within 12 months (shown under current liabilities)	<b>(228,215)</b>	(470,397)	<b>(2,866,303)</b>	(2,089,440)
Amounts due for settlement after 12 months	<b>15,548,555</b>	4,927,334	<b>24,535,446</b>	13,669,045

The amounts due to related parties consist of a loan of €196,947 (2015 – €632,947) which is unsecured, bears interest at the fixed rate of 5% per annum and is repayable in semi-annual instalments by the end of January 2017.

The other loan of €4,500,000 is unsecured, bears interest at the fixed rate of 3.7% per annum and matures on 8<sup>th</sup> February 2019. Interest is payable on maturity date.

The loan owed to the parent of €10,866,400 is unsecured, bears interest at the fixed rate of 4.25% per annum and matures in December 2026.

Except for €2,866,303 (2015 - €2,089,440) which is unsecured, interest-free and repayable on demand, all the remaining amounts owed to group undertakings by the company are interest-free, unsecured and repayable on demand with twelve months' notice.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 22. Debt securities in issue

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
6.5% Bond 2017 - 2019	<b>3,133,600</b>	14,000,000	<b>3,133,600</b>	14,000,000
6% Bond 2024	<b>35,000,000</b>	35,000,000	<b>35,000,000</b>	35,000,000
	<b>38,133,600</b>	49,000,000	<b>38,133,600</b>	49,000,000
Less: amounts due for settlement within 12 months	<b>(3,133,600)</b>	-	<b>(3,133,600)</b>	-
Amounts due for settlement after 12 months	<b>35,000,000</b>	49,000,000	<b>35,000,000</b>	49,000,000

The carrying amount of the bonds is as follows:

	6.5% Bond	6% Bond
	€	€
At 1 January 2015	14,000,000	34,298,521
Amortisation of transaction costs	-	85,400
At 31 December 2015	14,000,000	34,383,921
Amortisation of transaction costs	-	73,200
Redeemed out of proceeds of loan from parent (note 21)	(10,866,400)	-
<b>At 31 December 2016</b>	<b>3,133,600</b>	<b>34,457,121</b>

#### *6.5% Bonds 2017 – 2019*

Debt securities comprise 31,336 (2015 – 140,000) unsecured bonds bearing interest at 6.5% per annum of €100 each and which are listed on the Malta Stock Exchange. The market value of these debt securities on the last trading day before the end of the reporting period was of €102 (2015 - €103.50). The redemption date of these Bonds is between 2017 and 2019. In December 2016, the parent company issued a new bond offering the company's bond holders the option to roll over their bonds in the company for new bonds issued by the parent company. Holders of 108,664 bonds took up this offer and the balance of 31,336 will be redeemed in June 2017.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 22. Debt securities in issue (continued)

#### *6.5% Bonds 2017 – 2019 (continued)*

In line with the Combined Securities note dated 28 August 2009, the company is required to build a sinking fund. As at December 2016 the value of the sinking fund was €1,573,270 (2015 – €507,118). The company engaged Bank of Valletta p.l.c., a trustee authorised in terms of the Trusts and Trustee Act (Cap 331 of the Laws of Malta), to provide the services required by the company in connection with this fund. The value of the sinking fund amounts to 50% of the value of the issued bonds and will be used for part of the redemption in June 2017.

#### *6% Bonds 2024*

On 6 May 2014, the company issued a further 350,000 unsecured bonds bearing interest at 6% per annum of €100 each, which are repayable in 2024, and which are listed on the Malta Stock Exchange. The market value of these debt securities on the last trading day before the end of the reporting period was of €107.3 (2015 - €108.50).

### 23. Obligations under finance lease

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	2016	2015
	€	€	€	€
<i>Amounts payable under finance leases:</i>				
Within one year	<b>60,118</b>	60,118	<b>49,554</b>	47,606
Between two and five years	<b>180,354</b>	242,466	<b>163,870</b>	217,178
	<b>240,472</b>	302,584	<b>213,424</b>	264,784
Less: future finance charges	<b>(27,049)</b>	(37,800)	-	-
Present value of lease obligations	<b>213,423</b>	264,784	<b>213,424</b>	264,784
Less: amounts included in current liabilities			<b>(49,554)</b>	(47,606)
Amounts included in non-current liabilities			<b>163,870</b>	217,178

It is the Group's policy to lease certain fixtures, fittings and other equipment under finance leases. The average lease term is 7 years. For the period ended 31 December 2016 the average effective borrowing rate was 4.95%. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 24. Deferred taxation

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period.

Group	Recognised					Closing balance €
	Opening balance €	Recognised in profit or loss €	in other comprehensive income €	Disposal of subsidiary €	Stepped acquisition of subsidiaries €	
2015						
<i>Arising on:</i>						
<i>Temporary differences</i>						
Property, plant and equipment	(5,094,770)	163,493	(3,689,766)	-	(1,771,290)	(10,392,333)
Intangible assets	-	212,117	-	-	(2,622,013)	(2,409,896)
Unabsorbed capital allowances	1,085,885	(210,776)	-	-	71,094	946,203
Other temporary differences	(639,858)	(22,562)	-	-	-	(662,420)
	<u>(4,648,743)</u>	<u>142,272</u>	<u>(3,689,766)</u>	<u>-</u>	<u>(4,322,209)</u>	<u>(12,518,446)</u>
<i>Arising on:</i>						
Unused tax losses	55,168	427,112	-	-	-	482,280
Unused tax credits	387,692	659	-	-	-	388,351
	<u>442,860</u>	<u>427,771</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>870,631</u>
	<u>(4,205,883)</u>	<u>570,043</u>	<u>(3,689,766)</u>	<u>-</u>	<u>(4,322,209)</u>	<u>(11,647,815)</u>
2016						
<i>Arising on:</i>						
<i>Temporary differences</i>						
Property, plant and equipment	(10,392,332)	277,169	(1,499,358)	-	-	(11,614,521)
Intangible assets	(2,409,896)	354,932	-	-	-	(2,054,964)
Unabsorbed capital allowances	946,203	(645,208)	-	-	-	300,995
Other temporary differences	(662,420)	(5,766)	-	-	-	(668,186)
	<u>(12,518,445)</u>	<u>(18,873)</u>	<u>(1,499,358)</u>	<u>-</u>	<u>-</u>	<u>(14,036,676)</u>
<i>Arising on:</i>						
Unused tax losses	482,280	-	-	-	-	482,280
Unused tax credits	388,351	378,597	-	-	-	766,948
	<u>870,631</u>	<u>378,597</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,249,228</u>
	<u>(11,647,814)</u>	<u>359,724</u>	<u>(1,499,358)</u>	<u>-</u>	<u>-</u>	<u>(12,787,448)</u>

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months from the end of the reporting period. The deferred tax assets and liabilities reflected in other comprehensive income relate to fair valuation of property, plant and equipment and investments in subsidiaries, associates and joint venture which have been measured as available-for-sale financial assets.

At 31 December 2016, a subsidiary of the parent had a deferred tax asset of €387,310 (2015 - €387,310) emanating from unabsorbed capital losses. The crystallisation of this asset remains doubtful given the expected pattern of the subsidiary company's income in the future years and has therefore not been recognised. Unrecognised deferred tax asset in respect of tax losses by a subsidiary amount to €629,745 (2015 - Nil).

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 25. Equity and reserves

#### Share capital

	Ordinary shares	No of shares and share capital (€) Total
<i>Authorised:-</i>		
As at 31.12.2015/31.12.2016	40,000,000	40,000,000
<i>Issued and fully paid up:-</i>		
As at 31.12.2015/31.12.2016	38,583,660	38,583,660

The authorised share capital of the company amounts to €40,000,000 divided into 40,000,000 ordinary shares having a nominal value of €1 each.

As described in note 27, by virtue of a resolution dated 8 May 2015, on 10 July 2015, the company issued 2,000,000 ordinary shares of €1 each fully paid up in consideration for the acquisition of the remaining 50% of Buttigieg Holdings Limited.

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

Shareholders are entitled to vote at shareholders' meetings of the Company on the basis of one vote for each share held. They are entitled to receive dividends as declared from time to time. The shares in issue shall, at all times, rank *pari passu* with respect to any distribution whether of dividends or capital, in a winding up or otherwise.

#### Revaluation reserve

Revaluation reserve relating to movements in property, plant and equipment of entities forming part of the Group:

	Revaluation surplus €'000	Deferred taxation €'000	Net €'000
At 1 November 2014	-	-	-
Revaluation surplus arising during the period: Radisson Blu Resort & Spa, St. Julian's	10,542,188	(3,689,766)	6,852,422
<b>At 31 December 2015</b>	<b>10,542,188</b>	<b>(3,689,766)</b>	<b>6,852,422</b>
Difference between historical depreciation charge and actual depreciation for the year calculated on the revalued amount	(131,777)	-	(131,777)
Revaluation surplus arising during the year: Radisson Blu Resort & Spa, St. Julian's	4,283,880	(1,499,358)	2,784,522
At 31 December 2016	14,694,291	(5,189,124)	9,505,167

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 25. Equity and reserves (continued)

#### *Revaluation reserve (continued)*

The revaluation reserve is non-distributable. The tax impact relating to this component of other comprehensive income is presented above. The difference between depreciation based on revalued carrying amount of the asset and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

#### *Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. Translation reserve movements are presented within the statement of changes in equity.

#### *Retained earnings*

The loss for the year has been transferred to accumulated losses as set out in the statements of changes in equity.

### 26. Cash and cash equivalents and other cash at bank

#### *i) Cash and cash equivalents*

Cash and cash equivalents included in the statements of cash flows comprise the following amounts in the statement of financial position:

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Cash at bank and on hand	<b>2,914,034</b>	1,534,251	<b>1,936,331</b>	237,987
Bank overdrafts (note 20)	<b>(4,545,646)</b>	(3,003,774)	-	-
Cash and cash equivalents in the statements of cash flows	<b>(1,631,612)</b>	(1,469,523)	<b>1,936,331</b>	237,987

#### *ii) Other cash at bank*

	Group	
	2016	2015
Other cash at bank	<b>76,126</b>	137,326
Less amounts due for release within 12 months (shown under current assets)	<b>(41,527)</b>	(63,137)
Amounts due for release after 12 months	<b>34,599</b>	74,189

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 26. Cash and cash equivalents and other cash at bank (continued)

#### *ii) Other cash at bank (continued)*

Other cash at bank represents funds held with a local credit institution which have been pledged as security towards a guarantee facility provided by the same credit institution. These funds will be released over the next 2 year period in accordance with the third party security arrangement.

#### *iii) Significant non-cash transactions*

During the period, the Group and the company entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows:

- (i) during the year ended 31 December 2015 the Group received a net dividend from joint ventures amounting to €1,421,952 which amount has been debited to the joint ventures loan receivable amount; and
- (ii) as disclosed in note 25, on 10 June 2015 the company issued 2,000,000 ordinary shares of €1 each fully paid up in exchange for the acquisition of the remaining 50% of Buttigieg Holdings Limited.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 27. Business combinations

#### *Stepped acquisitions*

2015	Proportion of voting equity interest held as at 31.10.2014	Date of acquisition	Proportion of voting equity interests acquired	Total voting equity interest held at 31.12.2015	Consideration transferred
					€
Buttigieg Holdings Limited	50%	10.06.2015	50%	100%	2,040,000
The Heavenly Collection Limited	50%	17.12.2015	50%	100%	912,500
					<b>2,952,500</b>

#### *(i) Acquisition of Buttigieg Holdings Limited*

On 10 June 2015, the company exercised its call option to acquire the remaining 50% shareholding in Buttigieg Holdings Limited (BHL), the parent company of the 100% owned subsidiaries R.J.C. Caterers Limited, a company operating mainly in the retail and contract catering sector, and The Coffee Company Malta Limited and The Coffee Company Spain S.L.U., that operate the Costa Coffee franchise in Malta and the Eastern Coast of Spain and the Canary and Balearic Islands. By virtue of this acquisition the company has become the 100% shareholder of BHL and all its operational subsidiaries. The objective behind the acquisition is the consolidation of the investment in BHL as part of the Group's strategic plan.

The consideration for the acquisition was the issue of 2 million new ordinary shares of €1 each in the company to the selling shareholders which had a market value of €1.02 per share on the date of the transaction.

#### *(ii) Acquisition of The Heavenly Collection Limited*

On 17 December 2015, the company acquired the remaining 50% shareholding in The Heavenly Collection Limited, a company which owns a site of circa 83,530 square meters, situated near the Golden Sands Radisson Blu Resort and Spa in Mellieha, together with all its other assets and liabilities as set out on note 27 (v), for a total cash consideration of €912,500.

#### *(iii) Acquisition related costs*

Acquisition related costs amounting to €288,701 have been excluded from the consideration transferred and have been recognised as an expense in the profit or loss in 2015 within the 'other expenses' line item.



# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 27. Business combinations (continued)

(iv) *Assets acquired and liabilities recognised at the date of acquisition*

	Buttigieg Holdings Limited	The Heavenly Collection Limited	Total
<b>Current assets</b>			
Cash and cash equivalents	168,284	-	168,284
Taxation recoverable	-	3,909	3,909
Trade and other receivables	2,008,750	72,550	2,081,300
Inventories	412,634	-	412,634
<b>Non-current assets</b>			
Property, plant and equipment	4,935,808	21,575,774	26,511,582
Intangible assets	9,781,000	-	9,781,000
Investment in associates	300	-	300
Loans and receivables	339,549	-	339,549
<b>Current liabilities</b>			
Bank overdraft/ overdrawn bank balances	(679,210)	(86,902)	(766,112)
Bank loans	(1,782,113)	-	(1,782,113)
Trade and other payables	(5,204,027)	(1,272,098)	(6,476,125)
Taxation	(108,183)	-	(108,183)
Other financial liabilities	(28,363)	(80,985)	(109,348)
<b>Non-current liabilities</b>			
Other financial liabilities	(1,000,000)	(16,768,128)	(17,768,128)
Deferred tax	(2,703,090)	(1,619,120)	(4,322,210)
	<u>6,141,339</u>	<u>1,825,000</u>	<u>7,966,339</u>

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 27. Business combinations (continued)

(v) *Goodwill arising on acquisition*

	Buttigieg Holdings Limited €	The Heavenly Collection Limited €
Fair value of consideration transferred	2,040,000	912,500
Add: fair value of investment in joint venture (50%)	2,040,000	912,500
Less: fair value of identifiable assets and liabilities	(6,141,339)	(1,825,000)
<b>Gain on bargain purchase</b>	<b>(2,061,339)</b>	<b>-</b>

The fair value of identifiable assets and liabilities of Buttigieg Holdings Limited exceeded the consideration for the acquisition by €2,061,339 resulting in a gain on bargain purchase which has been included in investment income (note 6).

The bargain purchase was mainly driven by the value of intangible assets arising on the development agreement for the Costa Coffee retail brand in Malta and the East Coast of Spain, the Canary and Balearic Islands.

(vi) *Net cash outflow on acquisition of subsidiaries*

	Buttigieg Holdings Limited €	The Heavenly Collection Limited €	2015 €
Consideration paid in cash	-	912,500	912,500
Acquisition related costs	98,506	190,195	288,701
Net overdrafts acquired	510,925	86,902	597,827
	<b>609,431</b>	<b>1,189,597</b>	<b>1,799,028</b>

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 27. Business combinations (continued)

#### *(vii) Impact of stepped acquisitions on the results of the Group*

The fair value of Island Hotels Group Holdings p.l.c.'s 50% equity interest in Buttigieg Holdings Limited held before the business combination amounted to €2,040,000. Island Hotels Group Holdings Limited recognised a gain of €1,476,585 as a result of measuring at fair value its 50% equity interest in Buttigieg Holdings Limited held before the business combination.

The revenue included in the consolidated statement of comprehensive income for the period ended 31 December 2015 since 10 June 2015 contributed by Buttigieg Holdings Limited was €6,685,434 and the loss for the same period amounted to €752,558. Had Buttigieg Holdings Limited been consolidated from 1 November 2014, the consolidated statement of comprehensive income for the period ended 31 December 2015 would have included revenue of €13,444,171 and a loss of €1,079,726.

The fair value of Island Hotels Group Holdings p.l.c.'s equity interest in The Heavenly Collection Limited held before the business combination amounted to €912,500. The Group recognised a gain of €1,489,389 as a result of measuring at fair value its 50% equity interest in The Heavenly Collection Limited held before the business combination.

No revenue or profit or loss from The Heavenly Collection Limited are included in the consolidated statement of comprehensive income. Had The Heavenly Collection Limited been consolidated from 1 November 2014, the consolidated statement of comprehensive income for the period ended 31 December 2015 would have included revenue of €3,991 and a loss of €578,297.

The total gain on the stepped acquisition of Buttigieg Holdings Limited and of The Heavenly Collection Limited amounted to €2,965,974 and is included in investment income (note 6).

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 28. Related party transactions

Island Hotels Group Holdings p.l.c. is the parent company of the subsidiary undertakings disclosed in note 16.

As from 1 July 2015, the immediate parent and ultimate parent companies of Island Hotels Group Holdings p.l.c are International Hotel Investments p.l.c. and Corinthia Palace Hotel Company Limited respectively, which are both incorporated in Malta.

The financial statements of the company are incorporated in the Group financial statements of International Hotel Investments p.l.c. and of Corinthia Palace Hotel Company Limited and both companies make their financial statements available to the general public. The registered address of these companies is 22, Europa Centre, Floriana, Malta.

During the course of the current and the prior year, the Group and the company entered into transactions with related parties, as set out below.

#### Group

	2016			2015		
	Related party activity €	Total activity €	%	Related party activity €	Total activity €	%
Direct Costs:						
<i>Related party transactions with:</i>						
Other related parties	1,319,562			2,071,279		
	<u>1,319,562</u>	<u>24,452,736</u>	<u>5</u>	<u>2,071,279</u>	<u>16,927,192</u>	<u>12</u>
Administrative costs:						
<i>Related party transactions with:</i>						
Key management personnel	1,593,386			1,790,773		
Ultimate parent	-			115,000		
Joint ventures	290,004			169,169		
	<u>1,883,390</u>	<u>4,922,662</u>	<u>38</u>	<u>2,074,942</u>	<u>4,509,823</u>	<u>46</u>
Investment income:						
<i>Related party transactions with:</i>						
Immediate parent	224,528			47,500		
Joint ventures	-			192,559		
	<u>224,528</u>	<u>249,373</u>	<u>90</u>	<u>240,059</u>	<u>5,304,422</u>	<u>5</u>
Finance costs:						
<i>Related party transactions with:</i>						
Immediate parent	15,394					
Other related parties	15,563			33,123		
	<u>30,957</u>	<u>3,735,280</u>	<u>-</u>	<u>33,123</u>	<u>4,284,630</u>	<u>1</u>

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 28. Related party transactions (continued)

#### Company

	2016			2015		
	Related party activity €	Total activity €	%	Related party activity €	Total activity €	%
Other income:						
<i>Related party transactions with:</i>						
Subsidiaries	54,114			112,088		
Joint ventures	28,506			60,065		
	<u>82,620</u>	<u>82,620</u>	<u>100</u>	<u>172,153</u>	<u>172,153</u>	<u>100</u>
Administrative costs:						
<i>Related party transactions with:</i>						
Other related parties	-	143,559	-	114,258	221,020	52
	<u>-</u>	<u>143,559</u>	<u>-</u>	<u>114,258</u>	<u>221,020</u>	<u>52</u>
Investment income:						
<i>Related party transactions with:</i>						
Subsidiaries	3,955,500			4,350,051		
Joint ventures	-			8,941		
Parent	224,528			47,500		
	<u>4,180,028</u>	<u>4,180,726</u>	<u>99</u>	<u>4,406,492</u>	<u>4,420,730</u>	<u>100</u>
Finance costs:						
<i>Related party transactions with:</i>						
Parent	15,394			-		
	<u>15,394</u>	<u>3,094,629</u>	<u>-</u>	<u>-</u>	<u>3,764,828</u>	<u>-</u>

“Other related parties” consist of related parties other than the parent, ultimate parent, entities with joint control or significant influence over the company, subsidiaries, associates, joint ventures in which the company is a joint venture and key management personnel of the company or its parent.

No expense has been recognised by the Group and the company during the period arising from bad and doubtful debts in respect of amounts due from related parties and there are no provisions for doubtful debts in respect of outstanding amounts due by related parties.

The amounts due from/to related parties at the end of the reporting period are disclosed in notes 16, 18, 19 and 21. Other than as disclosed in the respective notes, no guarantees have been given or received.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 29. Operating leases

	Group	
	2016	2015
Minimum lease payments under operating leases	3,084,960	1,363,301
Contingents rents recognised as an expense for the year	981,231	866,112
	<u>4,066,191</u>	<u>2,229,413</u>

The Group is a party to several operating lease agreements for the lease of land on which the hotels are situated. The Group is committed to pay periodic payments to the lessor. The Group also leases certain catering establishments with rental payments based on a percentage of turnover with minimum guaranteed payments or a fixed amount per annum with specified increases. The Group does not have an option to purchase the leased land or catering establishment at the expiry of the lease periods.

At the end of the reporting period, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	Group	
	2016	2015
	€	€
Within one year	2,901,296	2,757,065
Between two to five years	5,985,675	6,703,989
Over five years	6,498,508	7,586,321
	<u>15,385,479</u>	<u>17,047,375</u>

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 30. Cash flow information

	Group		Company	
	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €	1 January to 31 December 2016 €	1 November 2014 to 31 December 2015 €
<b>Adjustments:</b>				
Depreciation and amortisation	4,731,007	2,680,041	-	-
Bad debts written off	(45,433)	(3,624)	-	-
Property, plant and equipment written off	-	897,977	-	-
Gain on stepped acquisition	-	(2,965,974)	-	-
Gain on bargain purchase upon business combination	-	(2,061,339)	-	-
Profit on disposal of property, plant and equipment	(2,962)	(7,485)	-	-
Share of profits from joint ventures	(4,159,061)	(3,442,875)	-	-
Other expenses	-	288,701	-	-
Net foreign exchange loss	117,677	55,589	-	-
Dividend income	-	-	(2,688,865)	(3,271,503)
Interest expense	3,735,280	4,284,630	3,094,629	3,764,828
	<b>4,376,508</b>	<b>(274,359)</b>	<b>405,764</b>	<b>493,325</b>

### 31. Capital commitments

The commitments for capital expenditure that have not been provided for in these financial statements are as follows:

	Group	
	2016	2015
Property, plant and equipment contracted but not provided for:	-	57,181
Authorised but not contracted for:	651,000	3,907,445

The board of directors of joint ventures have authorised capital commitments for property, plant and equipment amounting to €2,530,781 (2015 - €2,000,000). The Group's share of these commitments is equivalent to 50%.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 32. Fair value of financial assets and financial liabilities

At 31 December 2016 and 31 December 2015, the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively approximate their fair values due to the short-term maturities of these assets and liabilities.

The fair values of other non-current financial assets and non-current financial liabilities that are not measured at fair value, other than debt securities, investments in subsidiaries and interests in associates and joint ventures, are not materially different from their carrying amounts.

The following tables provide an analysis of the Group and the company's financial instruments that are not measured subsequent to initial recognition at fair value, other than investments in subsidiaries, associates and joint ventures and those with carrying amounts that are reasonable approximations of fair value, grouped into Levels 1 to 3.

Group	Level 1	Level 2	Level 3	Total	Carrying amount
	€	€	€	€	€
<b>2016</b>					
<b>Financial assets</b>					
<b><i>Loans and receivables</i></b>					
Assets placed under trust agreement	-	-	1,573,270	1,573,270	1,573,270
Other loans	-	-	326,539	326,539	326,539
Loan to parent company	-	-	2,733,200	2,733,200	2,733,200
Other cash at bank	-	-	76,126	76,126	76,126
<b>Total</b>	<b>-</b>	<b>-</b>	<b>4,709,135</b>	<b>4,709,135</b>	<b>4,709,135</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Carrying amount</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<b>Financial liabilities</b>					
<b><i>Financial liabilities at amortised cost</i></b>					
Bank overdrafts and loans	-	-	10,309,415	10,309,415	10,309,415
Loan from parent company	-	-	10,866,400	10,866,400	10,866,400
Other loans	-	-	4,500,000	4,500,000	4,500,000
Related party loans	-	-	196,947	196,947	196,947
Debt securities	40,751,272	-	-	40,751,272	37,590,721
Finance lease obligations	-	-	213,423	213,423	213,423
<b>Total</b>	<b>40,751,272</b>	<b>-</b>	<b>26,086,185</b>	<b>66,837,457</b>	<b>63,676,906</b>



# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 32. Fair value of financial assets and financial liabilities (continued)

#### Group

2015	Level 1 €	Level 2 €	Level 3 €	Total €	Carrying amount €
<b>Financial assets</b>					
<i>Loans and receivables</i>					
Assets placed under trust agreement	-	-	507,118	507,118	507,118
Other loans	-	-	364,981	364,981	364,981
Loan to parent company	-	-	6,000,000	6,000,000	6,000,000
Other cash at bank	-	-	137,327	137,327	137,327
<b>Total</b>	-	-	7,009,426	7,009,426	7,009,426

	Level 1 €	Level 2 €	Level 3 €	Total €	Carrying amount €
<b>Financial liabilities</b>					
<i>Financial liabilities at amortised cost</i>					
Bank overdrafts and loans	-	-	7,930,924	7,930,924	7,930,924
Other loans	-	-	4,500,000	4,500,000	4,500,000
Related party loans	-	-	632,947	632,947	632,947
Debt securities	52,465,000	-	-	52,465,000	48,383,921
Finance lease obligations	-	-	264,784	264,784	264,784
<b>Total</b>	52,465,000	-	13,328,655	65,793,655	61,712,576

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 32. Fair value of financial assets and financial liabilities (continued)

Company	Level 1	Level 2	Level 3	Total	Carrying Amount
2016	€	€	€	€	€
<b>Financial assets</b>					
<i>Loans and receivables</i>					
Loans to group undertakings	-	-	27,515,768	27,515,768	27,515,768
Other financial assets	-	-	1,573,270	1,573,270	1,573,270
Loans to parent	-	-	2,733,200	2,733,200	2,733,200
<b>Total</b>	<b>-</b>	<b>-</b>	<b>31,822,238</b>	<b>31,822,238</b>	<b>31,822,238</b>
<b>Financial liabilities</b>					
<i>Financial liabilities at amortised cost</i>					
Related party loans	-	-	16,535,348	16,535,348	16,535,348
Loans from parent	-	-	10,866,400	10,866,400	10,866,400
Debt securities	40,751,272	-	-	40,751,272	37,590,721
<b>Total</b>	<b>40,751,272</b>	<b>-</b>	<b>27,401,748</b>	<b>68,153,020</b>	<b>64,992,469</b>
<b>2015</b>					
<b>Financial assets</b>					
<i>Loans and receivables</i>					
Loans to group undertakings	-	-	25,751,768	25,751,768	25,751,768
Assets placed under trust agreement	-	-	507,118	507,118	507,118
Loans to parent	-	-	6,000,000	6,000,000	6,000,000
<b>Total</b>	<b>-</b>	<b>-</b>	<b>32,258,886</b>	<b>32,258,886</b>	<b>32,258,886</b>
<b>Financial liabilities</b>					
<i>Financial liabilities at amortised cost</i>					
Related party loans	-	-	15,758,485	15,758,485	15,758,485
Debt securities	52,465,000	-	-	52,465,000	48,383,921
<b>Total</b>	<b>52,465,000</b>	<b>-</b>	<b>15,758,485</b>	<b>68,223,485</b>	<b>64,142,406</b>

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 33. Financial risk management

The Group is exposed to various risks through its use of financial instruments. The main types of risks are credit risk, foreign currency risk, interest rate and liquidity risk, which result from both its operating and investing activities. The Group's risk management is coordinated at its head office, in close co-operation with the board of directors and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. Long term financial investments are managed to generate lasting returns. The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

#### *Credit risk*

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss for the Group or the company.

Financial assets which potentially subject the Group and the company to credit risk consist principally of loans and receivables, trade receivables and cash at bank.

Allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Other than as disclosed in note 34, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's and the company's maximum exposure to credit risk.

The Group does not hold any collateral as security in this respect.

Credit risk with respect to cash and cash equivalents, other cash at bank and sinking fund cash reserves is limited due to the fact that the Group banks only with financial institutions with high quality standing.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 33. Financial risk management (continued)

#### *Credit risk (continued)*

Credit risk with respect to trade receivables is limited due to credit control procedures and the Group's large customer base. The Group assesses the credit quality of its debtor balances taking into account financial position, past experience and other factors. It has policies in place to ensure that the provision of services is affected to customers with an appropriate credit history. The Group monitors the performance of these financial assets on a regular basis to identify incurred collection losses which are inherent in the Group's receivables taking into account historical experience in collection of accounts receivable. Management does not expect any losses from non-performance by the counterparty. The Group's trade receivables, which are not impaired assets, are principally debts in respect of transactions with customers for whom there is no recent history of default.

Loans and receivables together with other receivables mainly comprise amounts due from related parties (notes 16 and 18). The Group's and the company's concentration to credit risk arising from these receivables is considered limited as there were no indications that these counter parties are unable to meet their obligations.

Included in the Group's trade receivables are amounts which have been due for more than 90 days which amounted to €633,019 (2015 - €863,983). Management has not identified any major concerns in relation to concentration of credit risk with respect to past due debts.

As at period-end, impairment provisions of €70,866 (2015 – €116,299) were made in respect of trade receivables that were overdue and that were not expected to be recovered.

The individually impaired trade receivables mainly relate to a number of independent customers who are in unexpectedly difficult economic situations.

#### *Foreign currency risk*

Foreign currency transactions arise when the Group buys or sells services whose price is denominated in a foreign currency, borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency, or acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency. Foreign currency transactions mainly comprise transactions in GBP.

The translation of the Group's foreign operation with a GBP functional currency into Euro affects the consolidated statement of comprehensive income. The foreign currency risk is managed by regular monitoring of the relevant exchange rates and managements' reaction to material movements thereto.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 33. Financial risk management (continued)

#### *Interest rate risk*

The Group and the company have taken out bank and other facilities to finance their operations as disclosed in notes 20 and 21 to the financial statements. The interest rates thereon and the terms of such borrowings are disclosed accordingly in those notes. The interest rates on loans and receivables are disclosed in note 16.

The Group and the company are exposed to cash flow interest rate risk on borrowings and debt instruments carrying a floating interest rate and to fair value interest rate risk on borrowings and debt instruments carrying a fixed interest rate to the extent that these instruments are measured at fair value. Investments in equity instruments do not expose the Group and the company to interest rate risk.

Management monitors the movement in interest rates and, where possible, reacts to material movements in such rates by restructuring its financing structure.

For financial instruments held or issued, the Group has used a sensitivity analysis technique that measures the change in the cash flows of the Group's financial instruments at the end of the reporting period for hypothetical changes in the relevant market risk variables. The sensitivity due to changes in the relevant risk variables is set out below. The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. The sensitivity analysis is for illustrative purposes only, as in practice market rates rarely change in isolation and are likely to be interdependent.

At period-end, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, pre-tax profit for the year would have been €103,094 (2015 - €79,309) lower/higher.

The Group's floating rate instruments comprise bank borrowings, certain liabilities included with other financial liabilities, certain loans and receivables and balances with banks. The Group's fixed rate instruments consist of certain liabilities included with other financial liabilities together with certain loans and receivables, which are measured at amortised cost.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 33. Financial risk management (continued)

#### *Liquidity risk*

The Group and the company are exposed to liquidity risk in relation to meeting future obligations associated with their financial liabilities, which comprise principally trade and other payables and borrowings as disclosed in notes 19, 20 and 21.

The Group and the company monitor and manage their risk to a shortage of funds by matching the maturity of both their financial assets and financial liabilities as far as possible and by monitoring the availability of credit lines to meet their obligations. Funds are transferred within the Group as and when the need arises. Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period, which is adjusted monthly and monitored on a daily basis, to ensure that any additional financing requirements are addressed in a timely and strategic manner.

At the end of the reporting period, the Group showed a net current liability position of €7,079,924 (2015 - €3,437,843). The directors have reviewed cash flow projections that have been prepared for the next financial year, based largely on current levels of activity. The Group enjoys the support of its bankers and shareholders and the Group's banking facilities and shareholders' advances are expected to continue to form part of the Group's effective financing structures. The Group is therefore confident that it is in a position to continue to meet its commitments as and when they fall due. The Group has been actively pursuing operational initiatives aimed at increasing income and reducing costs.

As at 31 December 2016, the Group had additional undrawn bank facilities amounting to €2,074,354 (2015 – €3,685,249).

As further disclosed in note 22, in terms of the Combined Securities Note dated 28 August 2009, the company is required to build a sinking fund, the value of which will, by the redemption date of the bonds, be equivalent to 50% of the value of the bonds.

The following maturity analysis for financial liabilities shows the remaining contractual maturities using the contractual undiscounted cash flows on the basis of the earliest date on which the Group or the company are expected to pay. The analysis includes both interest and principal cash flows.

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 33. Financial risk management (continued)

*Liquidity risk (continued)*

#### Group

	Carrying Amount €	Contractual cash flows €	On demand or within 1 year €	2 to 5 years €	over 5 years €
<b>2016</b>					
Bank borrowings	10,309,415	10,857,846	6,093,012	4,764,834	-
Trade and other payables	17,942,909	17,942,909	17,458,443	484,466	-
Bonds	37,590,721	55,626,272	5,926,272	8,400,000	41,300,000
Other financial liabilities	15,776,770	22,572,957	757,554	6,792,788	15,022,615
	<u>81,619,815</u>	<u>106,999,984</u>	<u>30,235,281</u>	<u>20,442,088</u>	<u>56,322,615</u>
<b>2015</b>					
Bank borrowings	7,930,924	8,435,170	4,376,637	4,015,299	43,234
Trade and other payables	13,628,105	13,628,105	11,669,676	1,958,429	-
Bonds	48,383,921	71,540,000	3,010,000	25,130,000	43,400,000
Other financial liabilities	6,651,467	7,205,864	1,749,854	5,456,010	-
	<u>76,594,417</u>	<u>100,809,139</u>	<u>20,806,167</u>	<u>36,559,738</u>	<u>43,443,234</u>

#### Company

	Carrying Amount €	On demand Contractual cash flows €	On demand or within 1 year €	2 to 5 years €	over 5 years €
<b>2016</b>					
Trade and other payables	64,412	53,713	53,713	-	-
Other financial liabilities	64,992,469	89,812,553	9,308,458	24,181,480	56,332,615
	<u>65,056,881</u>	<u>89,866,266</u>	<u>9,362,171</u>	<u>24,181,480</u>	<u>56,332,615</u>
<b>2015</b>					
Trade and other payables	154,173	154,173	154,173	-	-
Other financial liabilities	64,142,406	85,618,485	3,419,440	38,799,046	43,400,000
	<u>64,296,579</u>	<u>85,772,658</u>	<u>3,573,613</u>	<u>38,799,046</u>	<u>43,400,000</u>

# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

### 33. Financial risk management (continued)

#### *Capital management policies and procedures*

The Group's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new shares or adjust the amount of dividends paid to shareholders.

The Group monitors the level of capital on the basis of the ratio of aggregated net debt to total capital. Net debt is calculated as total borrowings (as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the respective statement of financial position, plus net debt.

The figures in respect of the Group's equity and borrowings are reflected below:

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Borrowings (note 20)	<b>10,309,415</b>	7,930,924	-	-
Other interest-bearing liabilities (note 21)	<b>15,776,770</b>	5,397,731	<b>27,401,748</b>	15,758,483
Debt securities in issue (note 22)	<b>38,133,600</b>	49,000,000	<b>38,133,600</b>	49,000,000
Less: Cash and cash equivalents (note 26)	<b>(2,914,034)</b>	(1,534,251)	<b>(3,509,601)</b>	(237,988)
Net debt	<b>61,305,751</b>	60,794,404	<b>62,025,747</b>	64,520,495
Total equity	<b>52,994,290</b>	54,053,132	<b>40,446,871</b>	39,641,580
Total capital	<b>114,300,040</b>	114,847,536	<b>102,472,618</b>	104,162,075
Net debt ratio	<b>53.6%</b>	52.9%	<b>60.5%</b>	61.9%

The Group manages the relationship between equity injections and borrowings, being the constituent elements of capital as reflected above, with a view to managing the cost of capital. The level of capital, as reflected in the consolidated statement of financial position, is maintained by reference to the Group's respective financial obligations and commitments arising from operational requirements. In view of the nature of the Group's activities and the extent of borrowings or debt, the capital level at the end of the reporting period determined by reference to the consolidated financial statements is deemed adequate by the directors.



# Island Hotels Group Holdings p.l.c.

## Notes to the financial statements

31 December 2016

---

### 34. Contingent liabilities

#### *Group*

As at the end of the reporting period, Group entities, issued hypothecs and guarantees in relation to bank facilities granted to the Group's shareholder. The borrowings of the shareholders covered by the said hypothecs and guarantees amounted to €11,708,185 million (2015 - nil).

The Group through its subsidiaries also issued hypothecs and guarantees in relation to bank facilities granted to the Group's associates. At the end of the reporting period, the Group's share of the borrowings of these associated undertakings amounted to €116,470 (2015 - €116,470)

At the end of the reporting period, the Group provided third parties with guarantees amounting to €76,126 (2015 – €137,327). The bank provided the Group with facilities covering these amounts. This facility is secured by a cash pledge given by the Group on the bank deposit (note 26 ii).

#### *Company*

At the end of the reporting period, the company issued general and special hypothecs and guarantees in relation to bank facilities granted to Group and joint ventures, which borrowings amounted to €10.2 million (2015 - €8.3million). The company has also provided letters of financial support to certain of its subsidiaries. The extent of which an outflow of funds will be required is dependent on the future operations and performance of such subsidiaries.

### 35. Comparative figures

Comparative figures have been restated retrospectively in order to comply with the current year's presentation of the financial statements