



Financial statements and independent auditors' report
Banader Hotels Company B.S.C.
For the year ended 31 December 2017

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General information

| | | | |
|--------------------------------------|---|--|-----------------|
| Commercial registration | : | 59045 obtained on 20 December 2005 | |
| Directors | : | Mr. Abdulla Hasan Abdulla Buhindi | - Chairman |
| | | Mr. Jehad Yusuf Abdulla Amin | - Vice Chairman |
| | | Mr. Khaled Ali Rashed Al-Ameen | - Director |
| | | Mr. Mohamed Farooq Yusuf Al-Moayyed | - Director |
| | | Mr. Ammar Aqeel Ali Al-Hassan | - Director |
| | | Mr. Sulaiman Ahmed Saeed Al-Houqani (deceased 9 January 2017) | - Director |
| | | Mr. Suhail Mohamed Husain Hajee | - Director |
| | | Mr. Nael Jamil Issa Hashweh | - Director |
| | | Mr. Yusuf Abdulrahman Yusuf Fakhroo | - Director |
| | | Mr. Redha Abdulla Ali Faraj | - Director |
| Audit, Risk and Compliance Committee | : | Mr. Redha Abdulla Ali Faraj | - Chairman |
| | | Mr. Ammar Aqeel Ali Al-Hassan | - Vice Chairman |
| | | Mr. Khaled Ali Rashed Al-Ameen | - Member |
| | | Mr. Mohamed Farooq Yusuf Al-Moayyed | - Member |
| | | Mr. Yusuf Abdulrahman Yusuf Fakhroo | - Member |
| General Manager | : | Mr. Ebrahim M. A. Bucheery | |
| Registered office | : | Office 12, Building 1006 Road 2813, Block 428 Al Seef Area P.O. Box 2474 Manama, Kingdom of Bahrain | |
| Bankers | : | Kuwait Finance House Bank of Bahrain and Kuwait HSBC Bank Middle East Limited | |
| Auditors | : | Grant Thornton - Abdulaal P.O. Box 11175 12 th Floor, Al Nakheel Tower Seef District, Kingdom of Bahrain | |
| Registrar | : | Bahrain Clear B.S.C. (c) P.O. Box 3203 Manama, Kingdom of Bahrain | |
| Support registrar | : | Karvy Computershare W.L.L. P.O. Box 514 Manama, Kingdom of Bahrain | |

Directors' Report

To the Shareholders of Banader Hotels Company (B.S.C.)

It is my pleasure to present to you the twelfth annual report on Banader Hotels Company (B.S.C.) activities during the Year 2017. This report also includes the Audited Financial Statements for the Year-ended on 31st December, 2017.

The following is an outline of significant events and activities for the Company during the Year 2017:

The Extra-ordinary General Meeting (EGM) of the shareholders, which was held on 15th March, 2017, approved the following items on its agenda, based on recommendations from the Board of Directors:

- The EGM passed a resolution to amend and restate the Memorandum and Articles of Association of the Company. This was necessary in the light of the amendment No. (50) of 2014 with respect to the Commercial Companies Law No. (21) of 2001 and in accordance with the Central Bank of Bahrain Decree No. (64) of 2006. The Memorandum and Articles of Association were approved by both the Ministry of Industry, Commerce & Tourism and the Central Bank of Bahrain in March, 2017 and then notarized on 23rd April, 2017.
- The EGM passed a resolution to include in the Memorandum and Articles of Association new necessary activities related to the functioning of its owned Hotel, the Downtown Rotana Hotel.
- The EGM passed a resolution to raise the ceiling of borrowing by the Company from BD. 25 million, approved by the EGM in a previous meeting, to BD. 35 million.
- Based on approval provided by the Central Bank of Bahrain and other related regulatory authorities, the EGM passed a resolution allowing the Company to acquire a secondary loan, convertible to preference shares, in turn convertible to ordinary shares, and not exceeding BD. 16.8 million from BMMI Company, the parent Company.

The depreciation policy for some items which were part of the Hotel project work-in-progress and transferred to Fixed Assets effective March, 2016, the month in which the Hotel started to be operational, has been amended in 2017 in order that it reflected a more realistic accounting treatment. Interior Fit-out were transferred from Building effective 1st January, 2017 and Lifts, Boilers, Chillers and Window Cleaning equipment were transferred from Building to Machinery & Equipment effective 1st March, 2017. For the same reason, Depreciation rates for some items were also changed: Furniture & Fixtures from 5 years to 5-8 years and Machinery & Equipment from 2-8 years to 5-15 years.

During 2017, a major system project related to Asset tagging of all asset items at the Downtown Rotana Hotel, was practically completed. The project, which aimed at maintaining effective control over the Fixed Asset items at the Hotel as well as Corporate Office, was carried out by a consultant firm in collaboration with teams from the Hotel and Corporate Office staff.



With the opening of Downtown Rotana Hotel, a major branch of the Company, and the expansion of the Company's operational risk, it became necessary to get internal audit services including review of internal controls and policies & procedures. Accordingly the Company engaged, a consulting firm, KPMG Fakhro, effective 1st January, 2017.

Downtown Rotana Hotel performance:

The Company's Hotel, Downtown Rotana, was completed during the first quarter of 2016 and was officially opened on 16th March, 2016. The Five-star Hotel is an iconic addition to the business area in Manama and hosts rooms and facilities aiming at providing the guest with excellent experience. The Year 2017 showed a major improvement in the Hotel's operational results. The following table shows a comparison between 2016 and 2017 results:

| Items | 2016 | 2017 |
|---|----------------------------------|-------------------|
| | Mar. – Dec. (BD. millions) | (BD. millions) |
| Total Operating Revenue | 1.923 | 3.034 |
| Total Operating Expenses | (1.542) | (1.577) |
| Net Non-operating Loss | (0.266) | (0.221) |
| Total Overhead Expenses | (1.201) | (1.313) |
| Net Profit / (Loss) | (1.086) | (0.077) |
| Average Occupancy %age | 28.6 | 41.2 |
| Total Manpower at 31 st December | 244 | 195 |
| %age Bahrainis at 31 st December | 16.0% | 15.3% |

The above-stated figures which demonstrate significant improvements in results can be attributable to efforts made by the Company and the Hotel to increase revenue and decrease cost. This was achieved through active marketing campaigns and cost reduction programmes, among which is staff restructuring and cost reduction on various activities, keeping in mind the maintenance, at all time, of the high standard of services provided to its guests. Maintaining high standards is evidenced by excellent standing among other competitors and on various internet booking websites, as indicated by high ranking and good reviews.

The Company, being a public company which is committed to its social responsibility, strives always to provide job opportunities for Bahrainis. The percentage of Bahraini staff of total Hotel staff of the Downtown Rotana Hotel has been maintained for 2017 and the Company hopes to increase this percentage in the future.



Financing and spending:

The Company utilized BD. 23.4 million of the loan facility of BD. 25 million provided by HSBC Bank Middle East Limited in accordance with a loan agreement signed in July, 2015. The balance pertains to retentions on the Hotel building project which is under negotiation and settlement. The Company also sought financial support from BMMI Company, being the parent company. The total advanced by BMMI up to 31st December 2017 stood at BD. 6.7 million. This financial support has been necessary to fund both the Company and Hotel operations, as well as, the repayments of HSBC loan principal and interest.

The Company and Hotel total expenditures, excluding depreciation, amounted to BD. 4.678 million. This comprised Hotel operations cost of BD. 3.111 million, Loan finance cost of BD. 1.227 million, stock expensing of BD. .074 million, and Banader Hotels Corporate expenses of BD. 0.266 million.

The Board of Directors commitment, acknowledgement and appreciation:

The Board of Directors wishes to assure the Shareholders that it will continue to strive to achieve the Company's goals and objectives, and to fulfill their aspirations to operate the Hotel in the manner that it becomes profitable within the shortest possible period of time. These efforts bore fruit in the Year 2017 which witnessed significant improvements in operating results for the Hotel, although, of course, the Hotel performance is a reflection of the overall performance of the hoteling as well as tourism industry in Bahrain.

Finally, the Board wishes to extend its thanks and gratitude to all authorities in general, and to the Central Bank of Bahrain, the Ministry of Industry, Commerce & Tourism, Bahrain Bourse and Bahrain Clear, in particular. The Board also wishes to thank all the parties who have been contributing towards the achievement of the Company's goals and objectives, including HSBC Bank Middle East Limited (for financing), BMMI (for support), the project lead consultants Mohamed Salahuddin Contracting & Engineering Bureau for their continued services, other consulting and professional firms, the sub-contractors who provided their continued support during the Hotel project Defect Liability Period, the Hotel operator Rotana Hotel Management Corporation, the in-house Project team and other Company employees, all for their support and efforts made during 2017.

The Board also wishes to express its gratitude and appreciation to the Company's shareholders for their support, patience and understanding, and to assure them that it will continue exerting its best efforts to meet their expectations.

Abdulla Hasan Abdulla Buhindi
Chairman
11th February, 2018

Independent auditors' report

**To the Shareholders of
Banader Hotels Company B.S.C.**

Report on the Audit of the Financial Statements

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Opinion

We have audited the financial statements of **Banader Hotels Company B.S.C.** (the “**Company**”), which comprise the statement of financial position as at 31 December 2017, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit 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. Below is the key audit matter during the year:

| Impairment testing of property, plant and equipment (Note 3) | |
|--|--|
| Key audit matter / risk | How the key audit matter was addressed in the audit |
| <p>Key audit matter The Company has been incurring significant losses since the previous year. This indicates that certain items of property, plant and equipment (specifically land, building, furniture and fixtures) may be impaired. During the year, the management has performed impairment testing of certain items of property, plant and equipment and appointed external valuer to assess their fair value.</p> <p>Risk The valuation report is highly dependent on assumptions and estimates. Given the materiality of the property, plant and equipment balance, we assess this as a key audit matter.</p> | <p>We evaluated the assumptions and estimates used by the management and independent valuer. Our procedures included evaluation of the competencies, capabilities and objectivity of the external valuer involved. In addition, we also assessed the appropriateness of the disclosures.</p> |

Other information

The Board of Directors is responsible for the other information. The other information obtained at the date of this auditors' report is the Directors' report set out on pages 2-3.

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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. If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as the Board of Directors determines 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 Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' 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 auditors' 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.

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

- Identify and assess the risks of material misstatement of the 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company 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.

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

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

From the matters communicated with 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 auditors' 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

Further, as required by the Bahrain Commercial Companies Law, we report that:

- i) we have obtained all the information that we considered necessary for the purpose of our audit,
- ii) the financial information included in the report of the Board of Directors is consistent with the financial statements, and
- iii) the Company has maintained proper books of accounts.

In addition, we report that, nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the Bahrain Commercial Companies Law or its Memorandum and Articles of Association nor of the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse which would materially affect its activities or its financial position.


Grant Thornton

Mr. Jassim Abdulaal
Partner's Registration No. 30
11 February 2018
Manama, Kingdom of Bahrain

Statement of financial position

| | Notes | 31 December 2017 BD | 31 December 2016 BD |
|-------------------------------------|-------|---------------------------|---------------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 3 | 40,630,847 | 42,267,135 |
| Current assets | | | |
| Inventories | 4 | 61,514 | 153,608 |
| Trade and other receivables | 5 | 400,458 | 330,315 |
| Cash and cash equivalents | 6 | 225,000 | 497,662 |
| | | 686,972 | 981,585 |
| Total assets | | 41,317,819 | 43,248,720 |
| Equity and liabilities | | | |
| Equity | | | |
| Share capital | 11 | 22,950,150 | 22,950,150 |
| Capital adjustment account | 11 | (2,434,650) | (2,434,650) |
| Statutory reserve | 12 | 65,681 | 65,681 |
| General reserve | 13 | 99,132 | 38,460 |
| Accumulated losses | | (9,939,107) | (6,269,577) |
| | | 10,741,206 | 14,350,064 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Term loan | 8 | 19,082,611 | 20,029,755 |
| Amount due to related party | 9 | 7,001,254 | 3,698,473 |
| Employees' terminal benefits | 10 | 60,867 | 65,309 |
| | | 26,144,732 | 23,793,537 |
| Current liabilities | | | |
| Trade and other payables | 7 | 558,194 | 688,714 |
| Current portion of term loan | 8 | 2,273,731 | 1,636,132 |
| Retention payables | | 1,599,956 | 2,780,273 |
| | | 4,431,881 | 5,105,119 |
| Total liabilities | | 30,576,613 | 28,898,656 |
| Total equity and liabilities | | 41,317,819 | 43,248,720 |

These financial statements were approved by the Board of Directors on 11 February 2018 and signed on its behalf by:


Abdulla Hasan Abdulla Buhindi
Chairman


Jehad Yusuf Abdulla Amin
Vice Chairman


The accounting policies and the notes from pages 12 to 29 form an integral part of these financial statements.

Statement of comprehensive income

| | Notes | Year ended | Year ended |
|--|-------|--------------------|--------------------|
| | | 31 December | 31 December |
| | | 2017 | 2016 |
| | | BD | BD |
| Operating revenue | 14 | 3,033,611 | 1,922,983 |
| Cost of operations | 15 | (1,548,268) | (2,020,600) |
| Gross profit/(loss) | | 1,485,343 | (97,617) |
| Expenses | | | |
| Staff costs | | (872,514) | (911,263) |
| General and administrative expenses | 16 | (763,490) | (557,687) |
| Corporate expenses | 17 | (265,814) | (176,975) |
| Pre-opening expenses | 18 | - | (848,365) |
| Depreciation | 3 | (1,965,688) | (1,622,476) |
| Finance costs | | (1,226,695) | (862,968) |
| | | (5,094,201) | (4,979,734) |
| Loss for the year transferred to accumulated losses | | (3,608,858) | (5,077,351) |
| Basic and diluted loss per share | 19 | (0.016) | (0.024) |

These financial statements were approved by the Board of Directors on 11 February 2018 and signed on its behalf by:


 Abdulla Hasan Abdulla Buhindi
 Chairman


 Jehad Yusuf Abdulla Amin
 Vice Chairman

The accounting policies and the notes from pages 12 to 29 form an integral part of these financial statements.

Statement of changes in equity

| | Share capital | Preference shares | Capital adjustment account | Statutory reserve | General reserve | Accumulated losses | Total |
|-------------------------------|-------------------|-------------------|----------------------------|-------------------|-----------------|--------------------|-------------------|
| | BD | BD | BD | BD | BD | BD | BD |
| At 1 January 2016 | 15,000,000 | 6,115,500 | (600,000) | 65,681 | - | (1,153,766) | 19,427,415 |
| Conversion into share capital | 7,950,150 | (7,950,150) | - | - | - | - | - |
| Effect of conversion | - | 1,834,650 | (1,834,650) | - | - | - | - |
| Loss for the year | - | - | - | - | - | (5,077,351) | (5,077,351) |
| Transfer to general reserve | - | - | - | - | 38,460 | (38,460) | - |
| At 31 December 2016 | 22,950,150 | - | (2,434,650) | 65,681 | 38,460 | (6,269,577) | 14,350,064 |
| At 1 January 2017 | 22,950,150 | - | (2,434,650) | 65,681 | 38,460 | (6,269,577) | 14,350,064 |
| Loss for the year | - | - | - | - | - | (3,608,858) | (3,608,858) |
| Transfer to general reserve | - | - | - | - | 60,672 | (60,672) | - |
| At 31 December 2017 | 22,950,150 | - | (2,434,650) | 65,681 | 99,132 | (9,939,107) | 10,741,206 |

The accounting policies and the notes from pages 12 to 29 form an integral part of these financial statements.

Statement of cash flows

| | Year ended 31 December 2017 | Year ended 31 December 2016 |
|---|-----------------------------------|-----------------------------------|
| | BD | BD |
| Operating activities | | |
| Loss for the year | (3,608,858) | (5,077,351) |
| Adjustments for: | | |
| Depreciation | 1,965,688 | 1,622,476 |
| Provision for employees' terminal benefits | 37,621 | 48,905 |
| Finance costs | 1,226,695 | 862,968 |
| Operating loss before working capital changes | (378,854) | (2,543,002) |
| Changes in operating assets and liabilities: | | |
| Change in inventories | 92,094 | 185,186 |
| Change in trade and other receivables | (70,143) | 138,610 |
| Change in trade and other payables | (130,520) | (937,840) |
| Change in retention payables | (1,180,317) | (379,570) |
| Payment of employees' terminal benefits | (42,063) | (21,646) |
| Net cash used in operating activities | (1,709,803) | (3,558,262) |
| Investing activities | | |
| Purchase of property, plant and equipment | (329,400) | (404,705) |
| Additions to capital work in progress | - | (246,516) |
| Net cash used in investing activities | (329,400) | (651,221) |
| Financing activities | | |
| (Repayment of)/proceed from term loan, net | (309,545) | 2,688,536 |
| Proceed from related party | 3,302,781 | 2,783,251 |
| Finance costs paid | (1,226,695) | (862,968) |
| Net cash generated from financing activities | 1,766,541 | 4,608,819 |
| Net change in cash and cash equivalents | (272,662) | 399,336 |
| Cash and cash equivalents, beginning of the year | 497,662 | 98,326 |
| Cash and cash equivalents, end of the year | 225,000 | 497,662 |
| Comprises: | | |
| Cash in hand | 5,087 | 4,600 |
| Bank balances | 219,913 | 493,062 |
| | 225,000 | 497,662 |

The accounting policies and the notes from pages 12 to 29 form an integral part of these financial statements.

Notes to the financial statements

31 December 2017

1. Organisation and activities

Banader Hotels Company B.S.C. (the “Company”) is a public joint stock company registered in the Kingdom of Bahrain with the Ministry of Industry, Commerce and Tourism under commercial registration number 59045-1 dated 20 December 2005. The Company owns the Downtown Rotana Hotel which is managed by Rotana Hotel Management Corporation Limited LLC under a 10 year agreement beginning from the actual date of takeover of the management and renewable for three additional terms of ten years.

These financial statements include operations and results of Downtown Rotana Hotel B.S.C. CR. No. 59045-2 obtained on 15 February 2016. The Downtown Rotana Hotel commenced its operations from 1 March 2016.

The principal activities of the Company are building and investing in hotels.

The Company’s registered office is situated in the Kingdom of Bahrain.

2. Summary of significant accounting policies

2.1 Basis of preparation

The Company’s financial statements have been prepared on the basis of historical cost convention. The Company’s financial statements are presented in Bahrain Dinars. All values are rounded to the nearest Bahrain Dinar.

2.2 Statement of compliance

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

2.3 Standards and amendments not yet effective

Certain new standards, amendments and interpretations to existing standards have been published and are expected to be relevant to the Company but are not yet effective and have not been adopted early by the Company.

- IFRS 9, “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15, “Revenue from Contracts with Customers” (effective from annual periods beginning on or after 1 January 2018); and
- IFRS 16, “Leases” (effective from annual periods beginning on or after 1 January 2019).

Management is yet to fully assess the impact of the above standards, which will be done once these standards are effective, and therefore is unable to provide quantified information.

2.4 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses except freehold land which is measured at cost less any accumulated impairment losses. As no finite useful life for land can be determined, related carrying amounts are not depreciated.

The cost of the property, plant and equipment includes the cost of bringing them to their present location and condition. The cost of replacing part of an item of property, plant and equipment is recognised in carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. All other costs are recognised in the statement of comprehensive income as expenditure incurred.

Depreciation is recognised on the basis of straight line method to write down the cost less estimated residual value of property, plant and equipment other than freehold land. The estimated useful lives of property, plant and equipment for depreciation purpose are as follows:

| | Current | Previous |
|--------------------------------|----------------|-----------------|
| Building | 40 years | 40 years |
| Furniture and fixtures | 5-12 years | 5 years |
| Computers and office equipment | 5 years | 5 years |
| Motor vehicles | 5 years | 5 years |
| Machinery and equipment | 5-15 years | 2-8 years |

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in the statement of comprehensive income within 'other income' or 'other expenses'.

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

During the year, management reassessed the remaining useful lives of certain items of property, plant and equipment which had an impact on depreciation expense (Note 2.15(c)).

2.5 Impairment of assets

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised when the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount is higher of an asset's fair value less cost to sell and value in use. All impairment losses are recognised in the statement of comprehensive income. Impairment losses are reversed only if there is an indication that the impairment loss no longer exist and there has been a change in the estimates used to determine the recoverable amount.

2.6 Inventories

Inventories are stated at lower of cost and net realizable value after making necessary provision required for obsolete, slow moving and defective inventories, if any. Cost is determined on the basis of weighted-average method, comprises of expenditure incurred in the normal course of business in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated cost to complete and cost to sell, if any.

2.7 Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise of cash in hand and bank balances.

2.8 Provisions

Provisions are recognised by considering an obligation of the Company as on date resulting from past events, and where it is probable that such obligation will result in outflow of economic resources and amount can be reliably estimated.

2.9 Employees' terminal benefits

Employees' terminal benefits and entitlements to annual leave, holiday, air passage and other short term benefits are recognized as they accrue to the employees. The Company contributes to the pension scheme for Bahraini nationals administered by the General Organisation for Social Insurance in the Kingdom of Bahrain. The Company's share of contribution to this funded scheme which is defined contribution scheme under IAS-19 - Employee benefits, is recognised as an expense in the statement of comprehensive income.

The expatriate employees of the Company are paid leaving indemnity in accordance with the provisions of the Bahrain Labour Law for private sector 2012, based on length of service and final salary. Provision for this, which is unfunded and which represent a defined benefit plan under IAS-19 has been made by calculating the notional liability had all employees left at the reporting date. The provision is classified as a non-current liability in the statement of financial position.

2.10 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding government levy.

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

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Rendering of services

Revenue from services is recognized upon rendering of services provided the amount of the revenue can be measured reliably.

2.11 Other income

Other income is recognised on an accruals basis or when the Company's right to receive payment is established.

2.12 Borrowing costs

Borrowing costs primarily comprise interest on the Company's borrowings. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported within 'finance costs'.

2.13 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instruments.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs.

Financial assets and liabilities are measured subsequently as described below:

a. Financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, and trade and other receivables fall into this category of financial instruments.

b. Financial liabilities

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in the statement of comprehensive income. The Company's financial liabilities include term loan, trade and other payables, amount due to related party and retention payables.

2.14 Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of economic resources embodying economic benefits is improbable or remote. Possible inflows of economic benefits to the Company that do not meet the recognition criteria of an asset are not considered contingent assets.

2.15 Significant accounting judgments and estimates

The Company's financial statements prepared under IFRS require the Company to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Future events may occur which may cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the Company's financial statements as they become reasonably determinable.

a. Judgments

Judgment and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

b. Use of estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of depreciable assets. Management reviews the useful lives of depreciable assets at each reporting date. At 31 December 2017, management assesses that the useful lives represent the expected utility of the assets to the Company. The carrying amounts are analysed in Note 3. Actual results, however, may vary due to technical obsolescence.

c. Change in accounting estimates

During the year, management reassessed the remaining useful lives of certain items of property, plant and equipment which had an impact on depreciation expense. In Management's view, the Company will derive benefits over the revised useful lives; hence the revision has been undertaken. Had there been no reassessment of the useful lives, the depreciation expense for the year ended 31 December 2017 would have been higher by BD558,962. Management assesses the future impact of this revision to be as follows:

| Year | (Decrease)/increase in depreciation expense (BD) |
|-------------|---|
| 2018 | (390,412) |
| 2019 | (230,157) |
| 2020 | (230,157) |
| 2021 | 156,812 |
| 2022 | 254,577 |
| 2023 | 254,577 |
| 2024 | 73,178 |
| 2025 | 38,202 |
| 2026 | 180,573 |
| 2027 | 108,633 |
| 2028 | 108,633 |
| 2029 | 108,633 |
| 2030 | 108,633 |
| 2031 | 17,560 |

Notes to the financial statements for the year ended 31 December 2017

3. Property, plant and equipment

| Cost | Freehold land | | Building | | Furniture and fixtures | | Computer and office equipment | | Motor vehicles | | Machinery and equipment | | 2017 Total | | 2016 Total | |
|---------------------------------|------------------|-------------------|------------------|----------------|------------------------|------------------|-------------------------------|-------------------|----------------|----|-------------------------|----|------------|----|------------|----|
| | BD | BD | BD | BD | BD | BD | BD | BD | BD | BD | BD | BD | BD | BD | BD | BD |
| At 1 January | 3,048,313 | 36,215,576 | 2,717,281 | 247,905 | 26,525 | 1,650,226 | 43,905,826 | 3,088,194 | | | | | | | | |
| Additions | - | 298,770 | - | 30,630 | - | - | 329,400 | 404,705 | | | | | | | | |
| Transfers | - | (7,169,774) | 5,609,916 | - | - | 1,559,858 | - | 40,412,927 | | | | | | | | |
| At 31 December | 3,048,313 | 29,344,572 | 8,327,197 | 278,535 | 26,525 | 3,210,084 | 44,235,226 | 43,905,826 | | | | | | | | |
| Accumulated depreciation | | | | | | | | | | | | | | | | |
| At 1 January | - | 757,425 | 436,199 | 46,426 | 10,560 | 388,081 | 1,638,691 | 16,215 | | | | | | | | |
| Charge for the year | - | 734,317 | 860,240 | 49,826 | 4,350 | 316,955 | 1,965,688 | 1,622,476 | | | | | | | | |
| Transfers | - | (156,574) | 117,578 | - | - | 38,996 | - | - | | | | | | | | |
| At 31 December | - | 1,335,168 | 1,414,017 | 96,252 | 14,910 | 744,032 | 3,604,379 | 1,638,691 | | | | | | | | |
| Net book value | | | | | | | | | | | | | | | | |
| At 31 December 2017 | 3,048,313 | 28,009,404 | 6,913,180 | 182,283 | 11,615 | 2,466,052 | 40,630,847 | - | | | | | | | | |
| At 31 December 2016 | 3,048,313 | 35,458,151 | 2,281,082 | 201,479 | 15,965 | 1,262,145 | - | 42,267,135 | | | | | | | | |

During the year, the Company has obtained a professional valuation of the freehold land and building (including fixtures) from an independent property valuer, the fair value of which is BD41,903,535.

Freehold land and building are mortgaged against the term loan obtained by the Company (Note 8).

Building includes accumulated borrowing costs of BD1,884,269 directly attributable to the construction of the Building.

4. Inventories

| | 2017 BD | 2016 BD |
|--------------------|---------------|----------------|
| Food and beverages | 61,514 | 79,775 |
| Consumables | - | 73,833 |
| | 61,514 | 153,608 |

5. Trade and other receivables

| | 2017 BD | 2016 BD |
|---------------------------------------|----------------|----------------|
| Trade receivables | 199,381 | 176,867 |
| Prepayments | 69,691 | 74,340 |
| Deposits | 62,800 | 29,083 |
| Advance paid to suppliers/contractors | 36,950 | 36,833 |
| Advances to staff | 1,962 | 2,683 |
| Other receivables | 29,674 | 10,509 |
| | 400,458 | 330,315 |

Trade receivables include an amount of BD41,668 receivable from related parties. These amounts are unsecured, earn no interest and have no fixed repayment terms.

All amounts are short term. The net carrying value of trade and other receivables is considered a reasonable approximate of fair value at the financial position date. The age of trade and other receivables past due but not impaired are disclosed in Note 23e.

6. Cash and cash equivalents

| | 2017 BD | 2016 BD |
|---------------|----------------|----------------|
| Cash in hand | 5,087 | 4,600 |
| Bank balances | 219,913 | 493,062 |
| | 225,000 | 497,662 |

There are no restrictions on bank balances at the time of approval of the financial statements.

7. Trade and other payables

| | 2017 BD | 2016 BD |
|--|----------------|----------------|
| Trade payables | 283,496 | 293,899 |
| Government levy payable | 73,710 | 65,229 |
| Leave salary and air passage | 62,182 | 93,109 |
| Advances from customers | 21,544 | 21,676 |
| Refundable subscription to share capital | 15,733 | 15,733 |
| Management fee payable | 4,257 | 5,037 |
| Payable to consultant | - | 50,225 |
| Payable to contractors | - | 31,100 |
| Other payables | 97,272 | 112,706 |
| | 558,194 | 688,714 |

The carrying values of trade and other payables are considered to be a reasonable approximate of fair value at the financial position date.

8. Term loan

| | 2017 BD | 2016 BD |
|-------------------------------|-------------------|-------------------|
| HSBC Bank Middle East Limited | 21,356,342 | 21,665,887 |
| Less: Current portion | (2,273,731) | (1,636,132) |
| Non - current portion | 19,082,611 | 20,029,755 |

This represents term loan of up to BD25,000,000 obtained from HSBC Bank Middle East Limited to finance the settlement of the Murabaha facility, fund the Project and its pre-operating expenses until the soft opening of the Hotel, and fund the retention payable to the Project's contractors. This loan bears interest rates varying from 2.2% to 2.45% plus the BHIBOR or T-bills rate, as applicable, and is repayable in 29 quarterly instalments ranging from BD131,139 to BD657,011 and final payment of BD11,145,000. The final instalment is falling due on 31 March 2023. The loan is secured against the freehold land and building bearing title deed number 146959 (Note 3) and guarantee of BMMI B.S.C. in the amount of BD25,750,000.

The Company entered into an assignment of receivables agreement with HSBC Bank Middle East Limited on 8 July 2015 whereby the Company irrevocably and unconditionally assigns to the Bank, all monies due and to become due to the Company from its operations until the full amount of loan including the interest is settled.

That portion of the term loan which is repayable within twelve months from the financial position date is classified as current liability in the statement of financial position.

9. Amount due to related party

| | 2017 BD | 2016 BD |
|-----------------------|------------------|------------------|
| BMMI B.S.C. | 7,001,254 | 3,698,473 |
| Less: Current portion | - | - |
| Non - current portion | <u>7,001,254</u> | <u>3,698,473</u> |

The amount due to related party includes loan of BD6,401,254 (2016: BD3,098,473) obtained from BMMI B.S.C. to finance the completion of construction work of the Building and working capital requirements. The loan from BMMI B.S.C. bears interest of 2.45% over BHIBOR and is repayable within a maximum period of 60 months. In the event of default, the Company will carry out a Rights Issuing allowing the conversion of the remaining unpaid instalments into preference shares with the process expected to result in the final allotment by 2020.

During the year, the Company obtained additional loan of BD3,095,156.

That portion of the amount due to related party which is repayable within twelve months from the financial position date is classified as current liability in the condensed interim statement of financial position.

10. Employees' terminal benefits

The movement in leaving indemnity liability applicable to expatriate employees is as follows:

| | 2017 BD | 2016 BD |
|------------------------------|-----------------|-----------------|
| At 1 January | 65,309 | 38,050 |
| Amount provided for the year | 37,621 | 48,905 |
| Amount paid during the year | <u>(42,063)</u> | <u>(21,646)</u> |
| At 31 December | <u>60,867</u> | <u>65,309</u> |

The number of expatriate staff employed by the Company at 31 December 2017 was 167 (2016: 206).

11. Share capital

| | 2017 BD | 2016 BD |
|--|------------|------------|
| Authorized share capital: | | |
| Ordinary shares | | |
| 300,000,000 ordinary shares of 100 fils each (2016: 300,000,000 ordinary shares of 100 fils each) | 30,000,000 | 30,000,000 |
| Irredeemable preference shares | | |
| 64,500 preference shares of BD100 each (2016: 64,500 preference shares of BD100 each) | 6,450,000 | 6,450,000 |
| Issued share capital: | | |
| Ordinary shares | | |
| 229,501,500 ordinary shares of 100 fils each (2016: 229,501,500 ordinary shares of 100 fils each) | 22,950,150 | 22,950,150 |

Out of the total issued and paid up ordinary share capital, BD3,000,000 was in kind pertaining to contribution of land by one of the Company's shareholders (BMMI B.S.C.).

An extraordinary general meeting of the Shareholders held on 29 March 2012 resolved to issue non-participating, irredeemable, non-cumulative, convertible preference shares to the existing Shareholders and authorised the Board of Directors to process the related formalities.

Subsequently, on 7 May 2012, the Board of Directors passed a resolution to call for Shareholders' subscription towards the issue of 57,500 convertible, non-redeemable, non-cumulative, non-participating preference shares of BD100 each, at par, with a maturity period of two years from the date of the allotment with a possible extension for up to additional two years at the discretion of the Board.

The Shareholders of the Company approved to increase the total number of the irredeemable preference shares to 64,500 in their extra ordinary annual meeting held on 8 October 2013.

On 13 March 2014, the Annual General Meeting approved the total Shareholders' subscription towards the issue of 61,155 convertible, non-redeemable, non-cumulative, non-participating preference shares of BD100 each, at par.

On 8 April 2014, the Capital Markets Supervision Directorate of the Central Bank of Bahrain issued a no objection letter for the increase in share capital through the issuance of 61,155 shares of BD100 each non-participating, irredeemable, non-cumulative, convertible preference shares. Accordingly, share certificates were issued to preference shareholders. Transaction costs pertaining to the underwriting fees to BMMI B.S.C. in the amount of BD600,000 was deducted from the preference shares.

On 10 April 2016, the 61,155 preference shares were converted to 79,501,500 ordinary shares. The difference of BD1,834,650 between the par value of ordinary shares issued and the conversion value of the preference shares was recorded in the statement of financial position under "Capital Adjustment Account".

Additional information on ordinary shares shareholding pattern

| | | | 31 December 2017 |
|--------------------------|------------------|-------------------------------------|------------------|
| Nationality | Number of shares | Percentage of shareholding interest | |
| BD | | | |
| BMMI B.S.C. | Bahraini | 123,726,880 | 53.91% |
| Nasser Mohamed Al Nuwais | Emirati | 11,250,000 | 4.90% |
| General public | Various | 94,524,620 | 41.19% |
| | | 229,501,500 | 100% |

| | | | 31 December 2016 |
|--------------------------------|------------------|-------------------------------------|------------------|
| Nationality | Number of shares | Percentage of shareholding interest | |
| BMMI B.S.C. | Bahraini | 123,726,880 | 53.91% |
| Sulaiman Ahmed Saeed Al-Hoqani | Omani | 14,939,993 | 6.50% |
| Nasser Mohamed Al Nuwais | Emirati | 11,250,000 | 4.90% |
| General public | Various | 79,584,627 | 34.69% |
| | | 229,501,500 | 100% |

The Shareholders of ordinary shares have equal voting rights.

The distribution pattern of ordinary shares, setting out the number of shareholders and percentages in the following categories is as follows:

| | | | 31 December 2017 |
|-----------------------|------------------------|------------------|--|
| | Number of shareholders | Number of shares | Percentage of total outstanding shares |
| Less than 1% | 3,183 | 82,558,298 | 35.97% |
| 1% up to less than 5% | 4 | 23,216,322 | 10.12% |
| 50% and above | 1 | 123,726,880 | 53.91% |
| | | 3,188 | 229,501,500 |
| | | | 100% |

| | | | 31 December 2016 |
|-------------------------|------------------------|------------------|--|
| | Number of shareholders | Number of shares | Percentage of total outstanding shares |
| Less than 1% | 3,192 | 69,915,704 | 30.46% |
| 1% up to less than 5% | 4 | 20,918,923 | 9.12% |
| 5% up to less than 10% | 1 | 14,939,993 | 6.51% |
| 10% up to less than 50% | 1 | 123,726,880 | 53.91% |
| | | 3,198 | 229,501,500 |
| | | | 100% |

The percentage of shares held by the Directors to the total number of shares at 31 December 2017 was 1.15% (2016: 7.49%).

12. Statutory reserve

Under the provisions of the Bahrain Commercial Companies Law, an amount equivalent to 10% of the Company's profit for the year before appropriations is required to be transferred to a non-distributable reserve account up to a minimum of 50% of the issued share capital. No transfer has been made to this reserve as the Company has incurred a loss (2016: Nil).

13. General reserve

General reserve represents funds set aside for the future capital expenditure. It is calculated based on 2% of the gross revenue in the first two years of operations, 3% of the gross revenue on the next two years of operations and 4% thereafter.

14. Operating revenue

| | 2017 BD | 2016 BD |
|-----------------------------|------------------|------------------|
| Rooms | 2,096,846 | 1,323,008 |
| Food and beverages | 795,965 | 545,662 |
| Other operating departments | 140,800 | 54,313 |
| | <u>3,033,611</u> | <u>1,922,983</u> |

15. Cost of operations

| | 2017 BD | 2016 BD |
|-------------------------|------------------|------------------|
| Food and beverages | 274,986 | 257,696 |
| Other overhead expenses | 350,473 | 358,051 |
| Direct labour | 848,976 | 924,029 |
| Consumables | 73,833 | 480,824 |
| | <u>1,548,268</u> | <u>2,020,600</u> |

16. General and administrative expenses

| | 2017 BD | 2016 BD |
|--|----------------|----------------|
| Commission | 181,330 | 122,104 |
| IT Costs | 88,897 | 60,944 |
| Management fees | 60,672 | 38,460 |
| Complimentary food, beverage and gifts | 59,380 | 50,052 |
| Contract services | 50,513 | 42,099 |
| Advertisement and business promotion | 49,687 | 62,224 |
| Legal and professional fees | 41,110 | 29,808 |
| Loyalty programs and affiliation fees | 40,971 | - |
| Printing and stationery | 40,637 | 54,913 |
| Reservation | 20,933 | 12,967 |
| Entertainment expenses | 19,218 | 13,492 |
| Selling expenses | 14,972 | 5,916 |
| Cleaning expenses | 14,026 | 12,127 |
| Travelling expenses | 6,317 | 4,576 |
| Other expenses | 74,827 | 48,005 |
| | 763,490 | 557,687 |

17. Corporate expenses

| | 2017 BD | 2016 BD |
|----------------------------------|----------------|----------------|
| Legal and professional fees | 95,408 | 17,973 |
| Staff costs | 66,469 | 66,714 |
| Stock exchange subscription fees | 24,437 | 31,384 |
| Sitting fees | 20,700 | 18,800 |
| Rent | 9,600 | 7,546 |
| Advertisement expenses | 7,256 | 7,673 |
| Other expenses | 41,944 | 26,885 |
| | 265,814 | 176,975 |

18. Pre-opening expenses

| | 2016 BD |
|--|----------------|
| Staff costs | 474,289 |
| Advertisement | 95,696 |
| Consumables | 89,342 |
| Professional fees | 53,908 |
| Printing and stationery | 40,142 |
| Utilities expenses | 39,554 |
| Insurance | 20,780 |
| Cleaning expenses | 17,910 |
| Courier charges, clearing and customs duty | 9,580 |
| Miscellaneous expenses | 7,164 |
| | 848,365 |

19. Loss per share

| | 2017 BD | 2016 BD |
|---|--------------------|--------------------|
| Numerator | | |
| Net loss for the year used in basic and diluted EPS | (3,608,858) | (5,077,351) |
| Denominator | | |
| Weighted average number of ordinary shares issued used in basic EPS | 229,501,500 | 207,779,779 |
| Effects of: | | |
| Convertible preference shares issued | - | - |
| Weighted average number of shares used in diluted EPS | <u>229,501,500</u> | <u>207,779,779</u> |
| Basic and diluted loss per share | <u>(0.016)</u> | <u>(0.024)</u> |

20. Segmental information

The Company's activities are restricted to building and investing in hotels. As the Company has hotel operations as its only business segment, no business segmental information has been presented.

The Company's operations are restricted to the Kingdom of Bahrain therefore no geographical segmental information has been presented.

21. Related party transactions

The Company's related parties include the Shareholders, Directors, their close relatives and businesses under their control. The Company's transactions with related parties are in the ordinary course of business. The balances with related parties at financial position date have been separately disclosed in the financial statements.

The following are the related parties transactions;

| Name of the related party | Relationship | Nature of transactions | 2017 BD | 2016 BD |
|---------------------------|---------------------|-------------------------------------|------------|------------|
| Board of Directors | Other related party | Sitting fee | 20,700 | 18,800 |
| BMMI B.S.C. | Parent company | Purchases | 31,232 | 70,450 |
| BMMI B.S.C. | Parent company | Interest on loan from related party | 207,625 | 70,115 |
| BMMI B.S.C. | Parent company | Rent expense | 9,600 | 5,600 |

The total salaries to members of key management in 2017 (including salaries and benefits) was BD85,800 (2016: BD92,035).

22. Commitments

a. Operating lease commitments

The Company's future minimum lease payments under non-cancellable operating leases are as follows:

| | 2017 BD | 2016 BD |
|--|-------------------|-------------------|
| Within one year | 115,600 | 158,400 |
| More than one year but within five years | - | 116,800 |
| | 115,600 | 275,200 |

b. Capital commitments

Commitments on capital work in progress as at 31 December 2016 were as follows:

| | 2016 BD |
|--------------------|-------------------|
| Construction costs | 2,937 |

23. Financial assets and liabilities and risk management

The Company's principal financial instruments comprise of cash and cash equivalents, trade and other receivables, trade and other payables, amount due to related party, term loan, and retention payables.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors approves policies for managing each of these risks, which are summarized below.

a. Interest rate risk

The Company's policy is to minimize interest rate risk exposures on long-term financing. The Company is exposed to the risk of changes in market interest rates as the Company's term loan, bank overdraft and certain amount due to related party which bear interest rate ranging from 2% to 2.45% plus BHIBOR. Sensitivity of profit to reasonably possible change in interest rate is not disclosed as it is not expected by the management to materially affect the result of the operation of the Company.

Notes to the financial statements for the year ended 31 December 2017

b. Liquidity risk

Liquidity risk is the risk arising from the Company not being able to meet its obligations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents.

The following table shows the maturity profile of financial liabilities as at 31 December 2017:

| Particulars | Due within | Due between | Total |
|-----------------------------|------------------|-------------------|-------------------|
| | 1 year | 1 to 5 years | |
| | BD | BD | BD |
| Retention payables | 1,599,956 | - | 1,599,956 |
| Trade and other payables | 474,468 | - | 474,468 |
| Amount due to related party | - | 7,001,254 | 7,001,254 |
| Term loan | 2,273,731 | 19,082,611 | 21,356,342 |
| | 4,348,155 | 26,083,865 | 30,432,020 |

The following table shows the maturity profile of financial liabilities as at 31 December 2016:

| Particulars | Due within | Due between | Total |
|-----------------------------|------------------|-------------------|-------------------|
| | 1 year | 1 to 5 years | |
| | BD | BD | BD |
| Retention payables | 2,780,273 | - | 2,780,273 |
| Trade and other payables | 573,929 | - | 573,929 |
| Amount due to related party | - | 3,698,473 | 3,698,473 |
| Term loan | 1,636,132 | 20,029,755 | 21,665,887 |
| | 4,990,334 | 23,728,228 | 28,718,562 |

c. Foreign currency risk

The Company's primary exposure to the risk in changes in foreign currency relates to the transactional currency exposures. Such exposure arises when the transaction is denominated in currencies other than the functional currency of the operating unit or the counterparty.

The currency risk on foreign currencies is actively monitored by the Management. The Company's transactions are predominantly in Bahrain Dinars.

d. Credit risk

Credit risk is the risk that counterparty fails to discharge an obligation to the Company. The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. A regular annual review and evaluation of these accounts are carried out to assess the credit standing of the customers.

Notes to the financial statements for the year ended 31 December 2017

The table below shows the gross maximum exposure to the Company's credit risk, without considering the effects of collateral, credit enhancements and other credit risk mitigation techniques as at 31 December:

| | 2017 BD | 2016 BD |
|-----------------------------|----------------|----------------|
| Trade and other receivables | 293,817 | 219,142 |
| Bank balances | 219,913 | 493,602 |
| | 513,730 | 712,744 |

e. Credit quality per class of financial asset

The Company continuously monitors defaults of customers or other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls.

Where available at reasonable cost, external credit ratings and/or reports on customers or other counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties.

The Company's management considers that all the above financial assets that are past due but not impaired for each of the reporting dates under review are of good credit quality.

The table below shows the age analysis of the Company's financial assets as at 31 December 2017.

| Particulars | Past due but not impaired | | | | Total BD |
|-----------------------------|---|-----------------------|-------------------------|--|----------------|
| | Neither past due nor impaired BD | 0 to 90 days BD | 91 to 180 days BD | More than 180 days but less than 1 year BD | |
| Trade and other receivables | 113,871 | 157,112 | 16,983 | 5,851 | 293,817 |
| Bank balances | 219,913 | - | - | - | 219,913 |
| | 333,784 | 157,112 | 16,983 | 5,851 | 513,730 |

The table below shows the age analysis of the Company's financial assets as at 31 December 2016.

| Particulars | Past due but not impaired | | | | Total BD |
|-----------------------------|---|-----------------------|-------------------------|--|----------------|
| | Neither past due nor impaired BD | 0 to 90 days BD | 91 to 180 days BD | More than 180 days but less than 1 year BD | |
| Trade and other receivables | 91,818 | 55,201 | 59,853 | 12,270 | 219,142 |
| Bank balances | 493,602 | - | - | - | 493,602 |
| | 585,420 | 55,201 | 59,853 | 12,270 | 712,744 |

24. Capital management policy

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize Shareholders' value.

The Company monitors capital using capital to overall financing ratio, which is capital divided by overall financing.

| | 2017 BD | 2016 BD |
|------------------------------------|-------------------|-------------------|
| Total equity | 10,741,206 | 14,350,064 |
| Less: Cash and cash equivalents | (225,000) | (497,662) |
| Capital | 10,516,206 | 13,852,402 |
| Total equity | 10,741,206 | 14,350,064 |
| Borrowings | 28,357,596 | 25,364,360 |
| Overall financing | 39,098,802 | 39,714,424 |
| Capital to overall financing ratio | 0.27 | 0.35 |

25. Contingent item

The Company has filed a claim on 16 March 2017 in Bahrain Chamber for Dispute Resolution against a banker for an amount of BD1,731,455. This relates to the letter of guarantee issued by the bank for the contractor on the construction of the building. As per the legal confirmation, the Court appointed an expert and his report states that the client is entitled to the amount of BD121,484 only. The verdict was issued on 15 January 2018 obliging the counterparty to pay the amount of BD121,484 only plus interest 2% interest from the date the claim was filed, BD3,000 fees and BD100 lawyer fees. However, the verdict is not yet final. The judgement is expected to be issued in February 2018.

26. Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.

27. Comparative figures

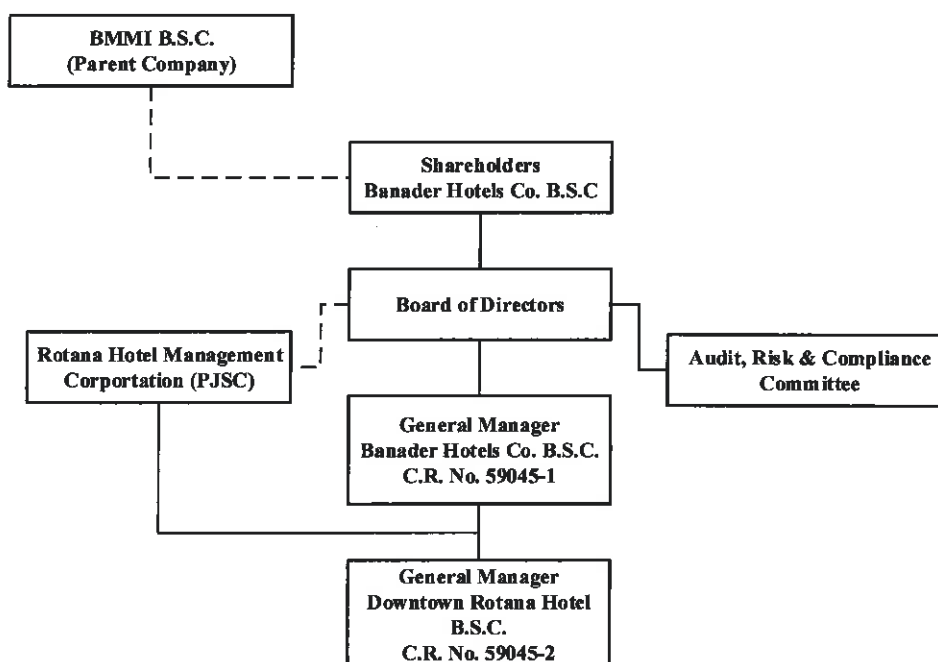
The statements of comprehensive income, changes in equity and the cash flows for the year ended 31 December 2017 are not comparable with the prior period figures which include only ten months operations of the hotel. However, comparative figures for the previous period have been reclassified/re-arranged wherever necessary to conform with the presentation in the current year's financial statements.

Corporate Governance Report

Corporate Governance is about promoting corporate fairness, transparency and accountability. It is a continual process, which aims at transforming corporations into more democratic entities with a view to enhancing responsible corporate management geared towards long-term value creation, The Company is committed to the formulation of its corporate governance policies and the programmed implementation of these policies. The Corporate Governance Code for the Company was approved and introduced by the Board of Directors in 2015. This Code is deemed to be based on the High Level Control Module Volume 6 of CBB Rule Book. No changes to the Company Corporate Governance guidelines were made during the Year 2017.

Banader Hotels Company owns, as its branch, Downtown Rotana Hotel. The Hotel was opened in March 2016. With a manpower standing at 195 employees at the end of December 2017. The Hotel is being managed by Rotana Hotel Management Corporation, a well-known corporation with its own hotel management systems which incorporates all the necessary procedures and controls. Banader Hotels Company, the owner of the Hotel, however, operates with a small strength of manpower.

Governance Structure:



Responsibility:

As a responsible public company, all efforts are exerted to ensure the operation of the Company and the Hotel is performed in accordance with the Corporate Governance Code. The function of Compliance is handled by the General Manager under the umbrella of the Audit, Risk & Compliance Committee. The Company also engaged, with effect from January 2017, a professional consulting firm, KPMG Fakhro, to provide internal audit service for both the Company and the Hotel.



Revised Memorandum & Articles of Association

The original Memorandum & Articles of Association was first formulated in 2005 at the inception of the Company. Since then, a number of changes, related to capital structure and size, and the amendments to the Commercial Companies Law, have occurred, and necessitated the amendments of the Memorandum & Article of Association. The final draft of the current Memorandum & Articles of Association, having been reviewed and recommended by the Board of Directors and approved by the Company's Extra-ordinary General Meeting, was then approved by both the Ministry of Industry, Commerce & Tourism and the Central Bank of Bahrain, and then notarized on 23rd April, 2017.

Shareholding:

The majority of the Company's shareholding is held by institutional investors as well as prominent business persons to the extent of more than 85%. The shareholding of the Directors amounted to 1.15% at 31st December 2017. More details are given in Note 11 to the Financial Statements. The Company General Manager ownership at 31st December, 2017 amounted to 0.015%. All shares owned by directors and management have been acquired through personal purchase.

The following is a table showing the distribution of ownership by nationality:

| Distribution of Ownership by Nationality as at 31 st December, 2017 | | | |
|--|---------------------|-----------------------|----------------|
| Nationality | No. of Shareholders | Total Ordinary Shares | %age to Equity |
| Bahraini | 958 | 195,901,220 | 85.36 |
| Emarati | 16 | 23,466,557 | 10.23 |
| Saudi | 2013 | 5,698,547 | 2.48 |
| Kuwaiti | 63 | 1,950,978 | 0.85 |
| Qatari | 62 | 181,328 | 0.08 |
| Others | 76 | 2,302,870 | 1.00 |
| Total | 3188 | 229,501,500 | 100.00 |

Policies and procedures:

With the current status of the Company whereby there are limited staffing and organizational functions, and where the number of transactions is relatively small, it has not yet developed policies and procedures. The Company recognizes the importance of developing policies and procedures as and when appropriate. However, the Downtown Rotana Hotel, which is owned by the Company, is operated/managed by Rotana Hotel Management Corporation, whereby, there exist well-established policies and procedures, for managing the Hotel. The engagement of a professional consulting firm to provide internal audit service in relation to the operation of the Company and the Hotel, effective January, 2017, is aimed at ensuring that operations are carried out within an environment that facilitates controls and adherence to good governance requirements.

Anti-money laundering:

The Company has not come across any suspicious transactions that could be related to money laundering or terrorism financing.



Integrity, credibility, compliance, confidentiality and transparency:

The Company is committed at all levels to the principle of integrity. It provides clear, comprehensive and accurate information to related parties such as shareholders, employees and legal and regulatory authorities. It abides by all relevant laws, regulations and standards, and would explain any necessary deviation or non-applicability. It would not inappropriately share any information on transaction concerning shareholders, employees, suppliers and business partners, except with those authorities with whom the sharing of information is permitted or required by laws and regulations. As a public shareholding company, Banader Hotels Company is committed to the disclosure of information of public nature promptly, accurately, thoroughly and comprehensively. It strives to establish transparent and close communication with the shareholders. In absolute necessary circumstances, and as required by the Law, the Company would communicate with shareholders in writing. However, due to the large number of shareholders, communication would generally be conducted publically through other public media such as newspapers, etc. The Financial Statements are prepared and audited in accordance with generally accepted international accounting and auditing standards. The External Auditors would comment, in their management report, on principal risks and uncertainties faced by the business.

Board of Directors:

Banader Hotels Co. Board is the primary governing body for the Company. The Board works within the framework and stipulations of the Commercial Companies Law 2001 and all amendments thereof, and the Company's Memorandum and Articles of Association.

The mandate of the Board is set out in the Company's Corporate Governance Code Guidelines. Due to the small size of organization, all material decisions are normally made at the Board level. Board terms is for three years. Renewal or new election is conducted every three years at the Annual General Meeting. Next Board election is due at the Company's Ordinary Annual General Meeting which is scheduled to be held in March, 2018.

The Company directors, as apparent from their profiles, included in this report, have vast experience in management and directorship. New directors are normally provided with the necessary Corporate Governance guidelines, and other established guidelines. The Company has adopted a written code of ethical business conduct, and the Board monitors the application of the code through its Audit, Risk & Compliance Committee.

As of 31st December, 2017, Banader Hotels Co. Board comprised 9 members. Next full election will be in the 2018 Annual General Meeting:

| | | | |
|--|---------------|-----------------|---------------|
| Abdulla Hassan Abdulla Buhindi | Chairman | Independent | Non-Executive |
| Jehad Yusuf Abdulla Amin | Vice Chairman | Non-independent | Non-Executive |
| Khaled Ali Rashed Al Ameen | Member | Independent | Non-Executive |
| Mohammed Farooq Yusuf Al Moayyed | Member | Independent | Non-Executive |
| Suhail Mohammed Husain Hajee | Member | Non-independent | Non-Executive |
| Ammar Aqeel Ali Al Hassan | Member | Non-independent | Executive |
| Solaiman Ahmed Al-Hoqani | Member | Independent | Non-Executive |
| Nael Jamil Issa Hashweh | Member | Independent | Non-Executive |
| Yusuf Abdulrahman Yusuf Fakhro | Member | Independent | Non-Executive |
| Redha Abdulla Ali Faraj | Member | Non-independent | Non-Executive |
| Note: Mr. Soleiman Ahmed Saeed Al-Hoqani, deceased on 9 th January, 2017. | | | |



Profile of Board Directors:

Mr. Abdulla Hasan Abdulla Buhindi (*Chairman*)

Appointed to the Board in November, 2005, Mr. Buhindi is one of the leading businessmen in Bahrain. He is a Bachelor in Commercial Banking from Kuwait University. He holds various positions in several institutions both locally and internationally. He is Chairman of the Board of National Investment Company, Buhindi Group, Aer Rianta M.E., Banz Group, BMMI Company, United Paper Industries. He is also Managing Director of Bahrain Duty Free Complex. He holds directorship in Oasis Capital Bank. He is appointed as Honorary Consul to Irish Consulate Bahrain since July 2009.

Mr. Jehad Yusuf Abdulla Amin (*Vice-Chairman*) (*representative of BMMI*)

Mr. Amin has been a board member since November, 2005 and was appointed on 8th February, 2012 as the vice chairman of Banader Hotels Co. Mr. Amin has 18 years of experience in the investment field. He holds various board and committee positions. He has been since 1999, a board member and a member of the executive/investment committee in the Bahrain National Holding (BNH). He is a board member in the Bahrain National Insurance (BNI). He is a board member and a member of the investment committee of United Insurance. He is a board member, a member of the audit committee, and a member of Metro Market committee of the General Company for Trading and Food Industries (Trafco). He is a board member and a member of the executive committee of Bahrain Live Stock. He is a board member and a member of the executive/investment committee of BMMI. He is a board member and a member of the executive committee of Bahrain Cinema Company. He is a board member and a member of the investment committee of the Bahrain Duty Free Complex.

Mr. Khaled Ali Rashed Al-Ameen

Appointed to the Board in March, 2009, Mr. Al-Ameen is a prominent entrepreneur in Bahrain and plays an instrumental role in developing his family-owned businesses. He holds key positions as a member of the Bahrain Economic Development Board, a board member of the executive office of the Board of Bahrain Chamber of Commerce and Industry (BCCI) and Vice Chairman of Tamkeen (Labour Fund). He is also a board member of Ali Rashid Al Amin Trading Company. Furthermore, he is the CEO of Midway Supermarket. He is also the chairman of the Food and Agriculture Sector Committee of the Bahrain Chamber of Commerce & Industry, and the Bahrain India Business Council. He is a member of the executive committee of Bahrain Life Stock Company, the board of trustees of Ibn Khuldoon National School, and CHIANE DES ROTISSEURS.

Mr. Mohammed Farooq Yusuf Almoayyed

Appointed to the Board in November, 2005, Mr. Almoayyed holds a Bachelor's degree in Business Administration (Major in Finance) from George Washington University, Washington D.C., USA. He is the chairman of Almoayyed International Group. As a promising entrepreneur, he has actively participated in the group's business activities since the year 2000. He also extends his managerial support to the parent group Y.K. Almoayyed & Sons BSC ©. Currently, he holds board positions in Y.K. Almoayyed & Sons BSC ©, Almoayyed Contracting Group, Bahrain Economic Development Board, Bahrain Chamber of Commerce & Industry, National Finance House BSC ©, BMMI, Lanterns Lounge W.L.L., Mirai Restaurant W.L.L., Global Sourcing & Supply, and Bayader Company Restaurant Management SPC.



Mr. Suhail Mohammed Husain Hajee (*representative of BMMI*)

Appointed to the Board in March, 2012, Mr. Hajee holds an MBA from McGill University, and a BSC Computer Engineering from Concordia University, both from Montreal, Canada. Mr. Hajee began his investment/banking career in 1990 with Arab Insurance Group (ARIG), Bahrain. In 1991, he joined Integrated Financial Concept, Vancouver, Canada. Between 1996 and 2006, Mr. Hajee held a succession of senior management positions and was a member of a number of high level committees at Bank of Bahrain & Kuwait. In 2007, as a founding member in the establishment of Instrata Capital, a MENA focused asset management firm, he held the position of Chief Executive Officer in this organisation. In 2014, as part of an acquisition transaction he joined Arqaam Capital in the role of Executive Director in charge of the Infrastructure Asset Management Group. Mr. Hajee has served in various committees and board memberships. He is currently a board member of BMMI, BFC and Al Dur Power in Bahrain and board member of ACWA Power Barka in Oman. He is also a member of Stakeholder Council of SuRe, the Standard for Sustainable and Resilient Infrastructure under the Global Infrastructure Basel (GIB) Foundation based in Basel.

Mr. Ammar Aqeel Ali Al Hassan (*representative of BMMI*)

Appointed to the Board in April, 2011, Mr. Alhassan has 20 years of experience in Finance, Accounting and Executive Leadership. He is a fellow member of the Chartered Institute of Management Accountants (CIMA) and holds a Master of Business Administration (MBA) from University of Manchester - Manchester Business School. He held various finance roles in BMMI, including his current role as Deputy CE & CFO.

Mr. Solaiman Ahmed Saeed Al Hoqani (*deceased on 9th January, 2017*)

Appointed to the Board in March, 2012, Mr. Solaiman was chairman and board member of Global Financial Investments Holding SAOG (Oman), United Finance SAOG (Oman), Gulf Stone SAOG (Oman), Batina Hotels SAOG (Oman), Sohar Gases LLC (Oman), Oman Sayyrat International SAOC (Oman), and Ithraa Capital (UAE). He was also a founder and owner of Globalinvest (Oman), Global Omani Development & Investment (Oman), Batina for Investment SAOG (Oman), Dhofar Holding SAOC (Oman) and First National LLC (Oman). He was also investor in listed stocks across MENA region.

Mr. Nael Jamil Issa Hashweh

Appointed to the Board in March, 2012. After completing his studies in Hotel Management, Mr. Hashweh started his career with Intercontinental Hotel group. During his 11 years of service with the group, he held executive financial positions in Jerusalem, the Mariana Islands (South of Japan) and the UAE. In 1983, he joined Abu Dhabi National Hotel Company, first as Senior Auditor and later heading the departments of Finance and Administration as well as Hotels Operations Controls. In 1995, Mr. Hashweh joined the founders of Rotana as a partner and board member besides holding the position of Executive Vice President and CFO. For three years before his retirement in July, 2012, he served with Rotana as Consultant. Mr. Hashweh is currently a board member for Rotana Hotel Management Corporation (PJSC) and other affiliated companies in the UAE, Bahrain and Jordan.

Mr. Yusuf Abdulrahman Yusuf Fakhro

Appointed to the Board in March, 2012, Mr. Fakhro holds a bachelor of International Relations from Tufts University in Boston, Massachusetts. He also sits on the board of the publicly listed Bahrain Car Parks Company. Mr. Fakhro is the managing director of Yusif Bin Yusif Fakhro where he has been managing different business lines and divisions of the group. Previous to joining Yusif Bin Yusif Fakhro, he was at Citi Bank Bahrain as an assistant manager in the Treasury for a period of 3 years. Mr. Fakhro holds several board positions in various local and regional businesses, governmental entities and charitable organizations. He also serves as the Chapter Chair for the Young Presidents Organization Bahrain chapter.



Mr. Redha Abdulla Ali Faraj

Appointed to the Board since April, 2016, Mr. Redha Faraj is a fellow member of the Association of Chartered Certified Accountants (UK). He commenced his career as Finance and Accounts Manager with British Petroleum Company. In 1976, he joined Arab Shipbuilding and Repair Yard Company (ASRY) as Deputy General Manager for administrative affairs. In 1991, he became partner with Ernst & Young, where his client profile included a variety of banks, insurance companies, retail, manufacturing and airlines. Mr. Faraj is an active founder and member of several social, professional and charitable organizations, the major of which being: founder, member and president of Bahrain Accountants Association; founder and member of Accounting and Auditing Organization for the GCC and Import/Export Society; and member of Arab Society of Certified Accountants, Arab Institute of Accountants and Arab Federation of Accountants and Auditors, British Institute of Management, the GCC Board of Directors Institute, Alraja School and American Mission Hospital. Mr Faraj is a Board Member of BMMI, YK Almoayyed and Sons B.S.C., Almoayyed International Group, Almoayyed Contracting Group, Bahrain National Holding Company and National Concrete Company W.L.L. Mr. Faraj is a member of the Shura Council, Kingdom of Bahrain and founder as well as the managing director of Al Faraj Consulting Company WLL and Al Faraj Horizon Developments Co. W.L.L.

Executive Management

Mr. **Ebrahim Mohamed Abdulla Bucheery** previously served the Company as the General Manager (last-held position) from November, 2009 to 31st Decemeber, 2012. He re-joined the Company, in January 2014, in the same position. He has over 50 years of work experience and held various key positions including managerial positions in the field of finance, accounting and administration in The Bahrain National Oil Company, The Bahrain National Gas Company and The Bahrain Petroleum Company. He holds Higher National Diploma in business studies from the North Staffordshire University, United Kingdom. During his working career, he was exposed to numerous conferences, seminars, courses and workshops covering wide range of fields, from accounting and insurance to management, in the USA, United Kingdom, the GCC and Kingdom of Bahrain.

Board Meetings:

The Board met 4 times during the period from January to December, 2017. The attendance of these meetings by members was as follows:

| Board Meeting No./Year | Date | Number of Members Attended | Number of Members Excused |
|------------------------|--------------------------|----------------------------|---------------------------|
| 1/2017 | 8 th February | 9 | - |
| 2/2017 | 15 th March | 9 | - |
| 3/2017 | 4 th May | 9 | - |
| 4/2017 | 31 st October | 8 | 1 |



Board Members Meeting Attendance during 2017

| Board Member | Position | 8 th Feb | 15 th March | 4 th May | 31 st Oct. | %age |
|----------------------------------|---------------|------------------------|---------------------------|------------------------|--------------------------|------|
| Abdulla Hassan Abdulla Buhindi | Chairman | x | x | x | x | 100% |
| Jehad Yusuf Abdulla Amin | Vice Chairman | x | x | x | x | 100% |
| Khaled Ali Rashed Al Ameen | Member | x | x | x | x | 100% |
| Mohammed Farooq Yusuf Al Moayyed | Member | x | x | x | - | 75% |
| Suhail Mohammed Husain Hajee | Member | x | x | x | x | 100% |
| Ammar Aqeel Ali Mohamed | Member | x | x | x | x | 100% |
| Nael Jamil Issa Hashweh | Member | x | x | x | x | 100% |
| Yusuf Abdulrahman Yusuf Fakhro | Member | x | x | x | x | 100% |
| Redha Abdulla Ali Faraj | Member | x | x | x | x | 100% |

Board Committees:

The Board has in place an Audit, Risk & Compliance Committee, which oversees the financial reporting process, assesses risks, reviews compliance with all relevant laws, regulations and codes of business practices, and reviews all auditing requirements. For the purpose of mitigating and managing risk, the Company appointed, with effect from January 2017, a professional consulting firm to provide internal audit service. During 2017, the Audit, Risk & Compliance Committee has been entrusted with the overall responsibility for the existence of necessary internal controls. In accordance with the Corporate Governance Committee Charter, it normally meets at least four times a year, preferably once in each quarter, the meetings could also be combined with the Board meetings.

Attendance of Audit, Risk & Compliance Committee

| Audit Committee Members | Position | 8 th Feb. | 4 th May | 31 st Oct. | %age |
|----------------------------------|---------------|-------------------------|------------------------|--------------------------|------|
| Redha Abdulla Ali Faraj | Chairman | x | x | x | 100% |
| Ammar Aqeel Ali Al Hassan | Vice Chairman | x | x | x | 100% |
| Khaled Ali Rashed Al Ameen | Member | x | x | x | 100% |
| Mohammed Farooq Yusuf Al Moayyed | Member | x | x | - | 67% |
| Yusuf Abdul Rahman Yusuf Fakhro | Member | x | x | x | 100% |

The Board will introduce other committees in accordance with the requirement of Corporate Governance as and when feasible and commensurate with its organizational development and necessity for compliance.

During the course of business, the Board may also appoint, non-regulatory-required committees. These committees could be formed for specific time and task, and as and when required.

**Company Secretary:**

The role of Company Secretary is delegated to the General Manager, who also acts as a secretary for Board committees. Meeting minutes are maintained and all resolutions are documented.

Internal and External Auditing:

The Board recognizes its responsibility for the internal control in the Company. Despite the fact that policies and procedures within the framework of internal control will need to be developed in future along with the organizational development of the Company. Nevertheless, since the opening of the Hotel in March, 2016, the Board recognized the added responsibility, operational risks, and additional reporting requirements for the Hotel. Accordingly, it has added to the external auditor engagement further mandate to cater for the auditing and reporting of the Hotel operations. Grant Thornton - Abdulaal continued as the External Auditors of the Company. The external auditors did not provide any non-audit services during the year. Additionally, the function of internal auditing was outsourced from a professional consulting firm, KPMG Fakhro, with effect from January, 2017. The engagement has been signed for two years. The engagement will cover internal audit services, including the review of internal controls, policies and procedures.

Insider Trading and Key Person Dealing Policies:

The Company has in place these policies and their related procedures. Insiders and Key Persons have been made aware of their responsibilities under these policies and the procedures to be followed to comply with them.

The Board ensures that any director's conflict of interest related to any transaction to be decided by the Board is dealt with in accordance with business ethical guidelines. In this respect, any Board director who would have a conflict of interest in relation to any matter discussed by or decided upon by the Board, would be excluded from the decision making process. Related party transactions are carried out in accordance with guidelines issued by respective regulatory authorities and in compliance with the respective laws and the Company Memorandum & Articles of Association. These transactions are disclosed in the Company Financial Statements.

Remuneration and Bonus Shares:

The Company has in place a remuneration and nomination policy, and aiming to establish related committees as and when necessary. It is guided by the stipulations of its Memorandum and Articles of Association in as far as Board member remunerations are concerned. Directors are only remunerated with nominal sitting fees for attending Board and committee meetings. Board and committee members received a total of BD.20,700, for this purpose, during 2017.

Corporate Governance Code Non-Compliance:

As per **Principle 8** of the Code, the Board shall report to the shareholders on the Company's compliance with its **Rules and Guides**, and explain the extent and justification of any non-compliance.