# Report and financial statements prepared in accordance with International Financial Reporting Standards

**IHI Magyarország Zrt.**

Year ended 31 December 2016

# Contents

# Directors' report

The directors present their report together with the audited financial statements of IHI Magyarorszag Zrt. (the 'Company') for the year ended 31 December 2016.

**Mission and Strategy**
The Company's mission is to maximise shareholders' wealth by owning and operating assets at the top end of the market within which it operates.

**Principal activities**
The Company operates the Corinthia Hotel Budapest, a landmark five-star deluxe hotel located in the heart of Budapest drawing on an unrivalled 110-year history of excellence and tradition. The Company also owns and operates the Royal Residence and the Royal Spa.

The Company's sole shareholder is IHI plc, a company domiciled in Malta.

**Result for the year**
The results for the year are set out in the statement of profit or loss and other comprehensive income on page 6 of the financial statements. During the year, the hotel's operating performance continued to be positive.

The profit for the year of €4.128 million (2015: €3.519 million) will be added to the retained earnings.

**Equity**
The statement of changes in equity is set out on page 8 of the financial statements.

**Directors**
The board of directors is made up as follows:

Frank Xerri de Caro
Joseph Galea
Joseph Pisani

The company's Articles of Association do not require any directors to retire.

Approved by the Board of Directors on 17 January 2018 and signed on its behalf by:

Frank Xerri de Caro
Chairperson

Joseph Galea
Director
Erzsébet krt 43-49
1073 Budapest
Hungary

# *Independent auditor's report*

To the Shareholders of IHI Magyarorszag Zrt.

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

### *Our opinion*

In our opinion:

- IHI Magyarorszag Zrt's financial statements give a true and fair view of the company's financial position as at 31 December 2016, and of the 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

**What we have audited**

IHI Magyarorszag Zrt's financial statements, set out on pages 6 to 34, comprise:

- the statement of profit or loss and other comprehensive income for the year ended 31 December 2016;
- the statement of financial position as at 31 December 2016;
- the statement of changes in equity for the year then ended;
- the statement 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 company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

# *Independent auditor's report - continued*

To the Shareholders of IHI Magyarorszag Zrt.

## *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 and we do not express any form of assurance thereon.

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.

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

## *Responsibilities of the directors 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 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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

# *Independent auditor's report - continued*

To the Shareholders of IHI Magyarorszag Zrt.

## *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.

As part of an audit in accordance with ISAs, we exercise professional judgement 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 company'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 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 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 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 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.

**PricewaterhouseCoopers**
78, Mill Street
Qormi
Malta

Simon Flynn
Partner

17 January 2018

# Statement of profit or loss and other comprehensive income

| | Notes | 2016 €'000 | 2015 €'000 |
|---|---|---|---|
| Revenue | 6 | 23,659 | 23,139 |
| Direct costs | | (10,980) | (10,417) |
| **Gross profit** | | **12,679** | **12,722** |
| Marketing costs | | (1,555) | (1,491) |
| Administrative expenses | | (4,027) | (4,560) |
| Operating expenses | | 3 | - |
| Depreciation | | (1,896) | (1,882) |
| **Results from operating activities** | 7 | **5,204** | **4,789** |
| Finance income | | 81 | 12 |
| Finance costs | | (405) | (867) |
| **Net finance costs** | 10 | **(324)** | **(855)** |
| **Profit (loss) before tax** | | **4,880** | **3,934** |
| Tax (expense) credit | 11 | (752) | (415) |
| **Profit for the year** | | **4,128** | **3,519** |
| **Other comprehensive income:** | | | |
| Impairment revaluation of hotel property | 12 | **18,613** | **9,824** |
| Income tax relating to components of other comprehensive income | 22 | **(1,675)** | **(2,799)** |
| Other comprehensive income for the year, net of tax | | **16,938** | **7,025** |
| **Total income for the year** | | **21,066** | **10,544** |

# Statement of financial position

| | Notes | 2016 €'000 | 2015 €'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current** | | | |
| Property, plant and equipment | 12 | 122,458 | 104,800 |
| | | **122,458** | **104,800** |
| **Current** | | | |
| Inventories | 13 | 985 | 964 |
| Trade and other receivables | 14 | 1,660 | 1,396 |
| Cash and cash equivalents | 15 | 1,722 | 4,559 |
| | | **4,367** | **6,919** |
| **Total assets** | | **126,825** | **111,719** |
| **Equity** | | | |
| Called-up share capital | 16 | 3,862 | 3,862 |
| Capital reserve | | 15,038 | 15,038 |
| Revaluation reserve | 17 | 39,855 | 22,917 |
| Retained earnings | 18 | 197 | (3,931) |
| **Total equity** | | **58,952** | **37,886** |
| **Liabilities** | | | |
| **Non-current** | | | |
| Borrowings | 20 | - | 24,490 |
| Other long term loans | 21 | 57,229 | 37,715 |
| Deferred tax liabilities | 22 | 5,513 | 3,883 |
| | | **62,742** | **66,088** |
| **Current** | | | |
| Borrowings | 20 | - | 2,447 |
| Other loans | 21 | 241 | 748 |
| Trade and other payables | 23 | 4,361 | 4,519 |
| Current taxation | | 529 | 31 |
| | | **5,131** | **7,745** |
| **Total liabilities** | | **67,873** | **73,833** |
| **Total equity and liabilities** | | **126,825** | **111,719** |

The financial statements on pages 6 to 34 were authorised for issue by the board of directors on 17 January 2018 and signed on its behalf by:

Frank Xerri de Caro
Chairperson

Joseph Galea
Director

# Statement of changes in equity

| | Share capital | Capital reserve | Revaluation reserve* | Retained earnings | Total |
|---|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 | €'000 |
| **Balance at 1 January 2015** | **3,862** | **15,038** | **15,892** | **(7,450)** | **27,342** |
| Total comprehensive income for the year | - | - | 7,025 | - | 7,025 |
| Profit for the year | - | - | - | 3,519 | 3,519 |
| **Balance at 31 December 2015** | **3,862** | **15,038** | **22,917** | **(3,931)** | **37,886** |
| | | | | | |
| **Balance at 1 January 2016** | **3,862** | **15,038** | **22,917** | **(3,931)** | **37,886** |
| Other comprehensive income for the year | - | - | 16,938 | - | 16,938 |
| Profit for the year | - | - | - | 4,128 | 4,128 |
| **Balance at 31 December 2016** | **3,862** | **15,038** | **39,855** | **197** | **58,952** |

* Not available for distribution

# Statement of cash flows

| | Notes | 2016 €'000 | 2015 €'000 |
|---|---|---|---|
| **Profit before tax** | | **4,880** | **3,934** |
| Adjustments | 24 | 2,093 | 2,640 |
| Working capital changes: | | | |
| Inventories | | (20) | 34 |
| Trade and other receivables | | (264) | (167) |
| Trade and other payables | | (121) | 903 |
| **Cash from operating activities** | | **6,568** | **7,344** |
| Tax paid | | (245) | (80) |
| **Net cash from operating activities** | | **6,323** | **7,264** |
| **Cash from investing activities** | | | |
| Payments to acquire property, plant and equipment | | (970) | (1,426) |
| Interest received | | 8 | 12 |
| **Net cash used in investing activities** | | **(962)** | **(1,414)** |
| **Cash from financing activities** | | | |
| Bank loan/IC loan repayments* | | (33,798) | (5,296) |
| Interest paid | | (269) | (771) |
| IC loan received** | | 25,869 | - |
| **Net cash used in financing activities** | | **(8,198)** | **(6,067)** |
| **Net (decrease) increase in cash and cash equivalents** | | **(2,837)** | **(217)** |
| Cash and cash equivalents at 1 January | | 4,559 | 4,776 |
| **Cash and cash equivalents at 31 December** | 14 | **1,722** | **4,559** |

*The company repaid €6,354,686 parent company loan and €26,937,153 bank loan in 2016
**The company received €25,868,660 EUR loan from IHI PLC to repay the total bank loan

# Notes to the financial statements

## 1. Nature of operations

The Company's main business is connected with the ownership and operation of a hotel and adjacent apartments and spa in Budapest, Hungary.

## 2. General information

IHI Magyarország Zrt., (the 'Company'), is a limited liability company incorporated in Budapest, Hungary. The Company's registered address is Erzsébet krt. 43-49, 1073 Budapest, Hungary.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial statements are presented in thousands of euro (€'000) which is also the functional currency of the Company.

## 3. Change in accounting policies

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

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

- Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 ; and
- Annual improvements to IFRSs – 2010 - 2014; 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 Company's accounting policies impacting the Company's financial performance and position.

### 3.2 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 Company 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 Company's financial statements in the period of initial application, except for IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers'.

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. Subject to the endorsement process by the EU, the standard is effective for accounting periods beginning on or after 1 January 2018, although early adoption is permitted. The Company 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 2017 and earlier application is permitted, subject to endorsement by the EU. The Company is assessing the impact of IFRS 15.

## 4. Summary of accounting policies

### 4.1 Overall considerations

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable and reliable in the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the following notes:

Note 13: Property, plant and equipment

The accounting policies have been consistently applied by Company entities and are consistent with those used in previous years.

### 4.2 Interest-bearing loans

Interest-bearing loans are stated at their amortised cost, being the net proceeds received. Loan interest is recognized on an accrual basis and expensed when incurred. Loans denominated in foreign currencies at the balance sheet date are translated at the year-end rates of exchange.

### 4.3 Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in income statement.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

### 4.4 Revenue

Revenue comprises revenue from the sale of goods and the rendering of services.

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for goods supplied and services provided, excluding VAT, rebates, and trade discounts.

Revenue is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Company's different activities has been met.
Rental income from property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.
Interest income is recognized in the income statement as it accrues, taking into account the effective yield.

### 4.5 Lease payments

Payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

### 4.6 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

### 4.7 Retirement benefit costs

The Company is required to pay defined employer contributions to the State in accordance with local legislation. Pension costs are charged against profit in the period in which the contributions are payable.

### 4.8 Property, plant and equipment

Land and building held for use in production or administration are stated at revalued amounts. Revalued amounts are fair market values determined in appraisals by external professional valuers annually.

Any revaluation surplus is recognised in other comprehensive income and credited to the 'revaluation reserve'. To the extent that any revaluation decrease or impairment loss has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase recognised in other comprehensive income. Downward revaluations are recognised upon appraisal or impairment testing, with the decrease being charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and any remaining decrease recognised in profit or loss. Any revaluation surplus remaining in equity on disposal of the asset is transferred to retained earnings.

Items of plant and equipment comprising furniture and fittings, plant and equipment, are initially recognised at acquisition cost. Subsequently they are carried at acquisition cost less subsequent depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised as part of the cost of such assets.
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Depreciation is recognised on a straight-line basis to write down the cost or valuation of assets less estimated residual value over their estimated useful lives. The periods generally applicable are:

| | Years |
|---|---|
| - Freehold buildings | 50 |
| - Hotel plant and equipment | 3-15 |
| - Furniture, fixture and fittings | 3-10 |
| - Motor vehicles | 5 |

As no finite useful life for freehold land can be determined, related carrying amounts are not depreciated.

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 profit or loss for the year. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognised directly in equity. Any loss is recognised immediately in profit or loss. However, to the extent the amount is included in the revaluation surplus for that property the decrease is recognised in other comprehensive income and reduces the revaluation surplus within the equity.

## 4.9 Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from the said goodwill and represent the lowest level within the Company at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units 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 or cash-generating unit's carrying amount exceeds its recoverable amount. Cash flows and discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

## 4.10 Financial instruments

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

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, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

**Financial liabilities**

The Company's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'finance costs' or 'finance income'.

### 4.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

### 4.12 Income taxes

Tax expense recognised in profit or loss comprise the sum of deferred tax and current tax not recognised directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land), in which case the related deferred tax is also recognised in other comprehensive income.

### 4.13 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### 4.14 Equity and reserves

Share capital represents the nominal value of shares that have been issued.

When share capital recognised as equity is purchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

The revaluation reserve within equity comprises gains and losses due to the revaluation of property, plant and equipment. Retained earnings include all current and prior period losses and retained profits.

### 4.15 Provisions, contingent liabilities and contingent assets

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination. In a business combination contingent liability are recognised in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognised, less any amortisation.

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

## 5. 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 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.

The fair value of property, plant and equipment and investment properties is determined by using valuation techniques. Further details of the judgements and assumption made are disclosed in Note 12.

This note highlights information about the fair value estimation of land and buildings and investment property, together with a sensitivity analysis of the effects of shifts in unobservable inputs used in determining these fair values.

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, not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

## 6. Revenue

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Accommodation | 16,197 | 15,873 |
| Food and beverages | 5,622 | 5,716 |
| Other hotel revenue | 1,840 | 1,550 |
| | **23,659** | **23,139** |

## 7. Results from operating activities

Results from operating activities are after the following charges:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Operating lease costs | 13 | 15 |
| Depreciation of property, plant and equipment | 1,897 | 1,881 |
| Auditors' remuneration | 25 | 24 |

## 8. Personnel expenses

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Wages and salaries | 2,904 | 3,096 |
| Casual workforce | 1,121 | 1,077 |
| Payroll related taxes | 741 | 789 |
| Other payroll related expenses | 530 | 377 |
| | **5,296** | **5,339** |

## 9. Average number of employees

| | 2016 | 2015 |
|---|---|---|
| Management and administrative | 64 | 53 |
| Operating | 307 | 321 |
| | **371** | **374** |

## 10. Finance income and finance costs

| | 2016<br>€'000 | 2015<br>€'000 |
|---|---|---|
| Interest receivable on: | | |
| Bank deposits | 4 | 9 |
| Other financial income | 5 | 3 |
| Interest on Group Balances* | 60 | - |
| **Finance income** | **69** | **12** |
| Interest payable on: | | |
| Bank borrowings | (302) | (771) |
| Interest on group balances | (33) | (8) |
| Exchange loss-net | (56) | (87) |
| Other charges | (2) | (1) |
| **Finance costs** | **(393)** | **(867)** |
| **Net finance costs** | **(324)** | **(855)** |

* The hotel building was pledged as collateral against a bond issued by the parent company amounting to €55 million. Interest receivable in relation to the collateral provided was accrued for at 0.25% or €60,347.

During the year the company paid back the bank loan. (note 21)

## 11. Tax expense

| | 2016<br>€'000 | 2015<br>€'000 |
|---|---|---|
| Current taxation | (798) | (210) |
| Deferred taxation (note 22) | 46 | (205) |
| | **(752)** | **(415)** |

In 2016 the corporate income tax rate in Hungary is 10% for taxable profits up to HUF 500 million with any profits in excess of this amount taxed at 19%.

Refer to Note 22 for information on the entity's deferred tax assets and liabilities.

## 11.1 Tax expense reconciliation

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Profit before tax | 4,880 | 3,934 |
| Income tax using the Company's domestic tax rate | 488 | 393 |
| Tax effect of tax exempt profits | - | (86) |
| Tax effect of provision for exchange differences | 503 | 76 |
| Tax effect of excess of capital allowances over depreciation | 78 | 12 |
| Effect of other temporary differences | (317) | 20 |
| **Tax expense** | **752** | **415** |

## 11. 2 Tax recognised in other comprehensive income

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Deferred tax credit on revaluation of hotel property | (1,675) | (2,799) |

## 12. Property, plant and equipment

| | Land and buildings €'000 | Plant and equipment €'000 | Furniture, fixtures and fittings €'000 | Motor vehicles €'000 | Assets in the course of construction €'000 | Total €'000 |
|---|---|---|---|---|---|---|
| **Cost/revalued amount** | | | | | | |
| Balance at 1 January 2015 | 112,870 | 8,896 | 5,351 | - | 68 | 127,185 |
| Additions | - | - | - | - | 1,569 | 1,569 |
| Reallocations | 786 | 173 | 22 | - | (981) | - |
| Disposals | - | (180) | (6) | - | - | (186) |
| Revaluation surplus | 9,823 | - | - | - | - | 9,823 |
| **Balance at 31 December 2015** | 123,479 | 8,889 | 5,367 | - | 656 | 138,391 |
| Balance at 1 January 2016 | 123,479 | 8,889 | 5,367 | - | 656 | 138,391 |
| Additions | - | - | - | - | 945 | 945 |
| Reallocations | 702 | 435 | 5 | - | (1,142) | - |
| Disposals | - | (76) | (69) | - | - | (145) |
| Revaluation surplus | 18,613 | - | - | - | - | 18,613 |
| **Balance at 31 December 2016** | 142,794 | 9,248 | 5,303 | - | 459 | 157,804 |
| **Depreciation and impairment losses** | | | | | | |
| Balance at 1 January 2015 | 18,903 | 8,438 | 4,544 | - | - | 31,885 |
| Depreciation for the year | 1,642 | 183 | 56 | - | - | 1,881 |
| Disposals | - | (170) | (5) | - | - | (175) |
| Balance at 31 December 2015 | 20,545 | 8,451 | 4,595 | - | - | 33,591 |
| Balance at 1 January 2016 | 20,545 | 8,451 | 4,595 | - | - | 33,591 |
| Depreciation for the year | 1,632 | 207 | 58 | - | - | 1,897 |
| Disposals | - | (76) | (66) | - | - | (142) |
| Balance at 31 December 2016 | 22,177 | 8,582 | 4,587 | - | - | 35,346 |
| Carrying amounts | | | | | | |
| At 1 January 2015 | 93,967 | 458 | 807 | - | 68 | 95,300 |
| At 31 December 2015 | 102,934 | 438 | 772 | - | 656 | 104,800 |
| **At 1 January 2016** | 102,934 | 438 | 772 | - | 656 | 104,800 |
| **At 31 December 2016** | 120,617 | 666 | 716 | - | 459 | 122,458 |

### 12.1 Fair valuation of property

The principal elements of the Company's land and buildings, within property, plant and equipment, were 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 the carrying amount of the property as at 31 December 2016 on the basis of assessments by the property valuers.

The Company is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which, the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

• Quoted prices (unadjusted) in active markets for identical assets (Level 1);
• Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
• Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The Company's land and buildings, within property, plant and equipment, consists principally of hotel property that is owned and managed by companies forming part of the Corinthia Group.

The Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the current and preceding financial years.

### Valuation processes

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

• information provided by the Company which is derived from the 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 models used by the valuers, are reviewed by designated officers within the Company. 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.

### Valuation techniques

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 properties are located, the valuations have been performed using unobservable inputs. The significant inputs to the approach used are generally those described below:

The fair valuation as at 31 December 2016 of the Corinthia Hotel Budapest was determined on the basis of the adjusted sales comparison approach, whereas at 31 December 2015, the income approach was utilised. The valuation technique considered by the external valuer to be the most appropriate for the respective property has been utilised to attain a more representative measurement at fair value.

Adjusted sales comparison approach: a sales price per square metre or per room related to transactions in comparable properties located in proximity to the respective property, with adjustments for differences in size, age, exact location and condition of the property.

The valuation as at 31 December 2015 was made on the basis of the income capitalisation or discounted cash flow ("DCF") approach which 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. |

**Information about fair value measurements using significant unobservable inputs (Level 3) as at 31 December 2016 and 2015.**

| Description by class highest and best use | Valuation technique | Fair value at 31 December €'000 | Significant unobservable inputs | | | |
|---|---|---|---|---|---|---|
| | **Income capitalisation approach (DCF)** | | **Evolution of EBITDA over initial projected five- year period FY16-FY20** | **Pre-tax discount rate (WACC)** | **Growth rate** | **Capitalisation rate** |
| **2015** | | **104,800** | **€6.7m- €7.0m** | **8.20 %** | **2.00 %** | **5.36 %** |
| | **Adjusted sales Comparison Approach** | | | **Sales price per room** | | |
| **2016** | | **122,458** | | **€1,769** | | |

With respect to the adjusted sales comparison approach, the higher the sales price per square metre, the resultant fair valuation.

In relation to the DCF approach, an increase in the projected level of EBITDA and growth rate would result in an increased fair value of the property, whereas a higher discount rate would give rise to a lower fair value.

As evidenced in the tables above, the highest and best use of the Company properties is equivalent to their current use as at 31 December 2016.

A shift in unobservable inputs of +/- 0.5% would result in a shift in property valuation of +/- €720,000 (2015: €700k), whereas a shift in cash flows of +/- 0.5% would result in a shift in value of +/- €5,600,000 (2015: €5,200k).

### 12.2 Adjustments to carrying amount of property

Revaluation surplus and impairment charges recognised on other comprehensive income (within revaluation reserve)

| | €'000 |
|---|---|
| **At 1 January 2015** | 17,659 |
| Revaluation of hotel property carried out at year end | 9,824 |
| **At 31 December 2015** | **27,483** |
| **Revaluation of hotel property carried out at year end** | **18,613** |
| **At 31 December 2016** | **46,096** |

### 12.3 Carrying amount of hotel property

Following the adjustment to revision of the hotel property carrying amount to reflect the outcome of the fair valuation process referred to above at each reporting period, the carrying amount of the hotel property is €122.458 million (€104.8 million).

### 12.4 Historic cost of hotel property

The carrying amounts of the land and buildings that would have been included in these financial statements had these assets been carried at cost less accumulated depreciation there on would be €74.523 million (2015: €75.452 million).

### 12.5 Use as collateral

The hotel property was hypothecated in favour the banks providing bank loan facilities until their repayment in 2016. Subsequently, the hotel property was pledged as collateral against a bond issued by the parent company.

## 13. Inventories

| | 2016<br>€'000 | 2015<br>€'000 |
|---|---|---|
| Food and beverages | 147 | 154 |
| Cleaning materials and consumables | 140 | 166 |
| Stationery and promotional material | 62 | 17 |
| Utensils, crockery, cutlery, chinaware and linen | 636 | 627 |
| | **985** | **964** |

## 14. Trade and other receivables

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Trade receivables | 1,261 | 978 |
| Amounts owed to: | | |
| Ultimate parent company | - | 13 |
| Other related companies | 47 | 5 |
| Other debtors | 30 | 11 |
| **Financial assets** | **1,338** | **1,007** |
| Advance payments to contractors for capital expenditure | 24 | 12 |
| Prepayments | 298 | 377 |
| **Total receivables - current** | **1,660** | **1,396** |

*Impairment losses*

The ageing of trade receivables at the reporting date was:

| | Gross amount 2016 €'000 | Impaired amount 2016 €'000 | Gross amount 2015 €'000 | Impaired amount 2015 €'000 |
|---|---|---|---|---|
| Not past due | 905 | 2 | 687 | - |
| Past due 0-30 days | 238 | 1 | 141 | - |
| Past due 31-120 days | 124 | 2 | 125 | - |
| Past due 121-360 days | - | 1 | - | |
| More than one year | 157 | 157 | 191 | 166 |
| | **1,424** | **163** | **1,144** | **166** |

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Balance at 1 January | 166 | 222 |
| Impairment losses recognised | 7 | 2 |
| Impairment losses reversals | (10) | (58) |
| **Balance at 31 December** | **163** | **166** |

The impairment loss at 31 December 2016 relates to specific provision for doubtful debtors that have been overdue for more than one year. Such balances were unsecured.

The provision accounts in respect of trade receivables are used to record impairment losses unless the Company deems that no recovery of the amount owing is possible; at that point, the amounts are considered irrecoverable and are written off against the financial asset directly.

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

## 15. Cash and cash equivalents

Cash and cash equivalents include the following components:

| | 2016 €'000 | 2015. €'000 |
|---|---|---|
| Debt service reserve account* | - | 1,605 |
| FF&E reserve account | - | 179 |
| Other bank accounts | 1,644 | 2,704 |
| Pledged bank accounts | **1,644** | **4,488** |
| Cash in hand | 78 | 71 |
| **Cash and bank balances** | **1,722** | **4,559** |
| **Cash and cash equivalents in the statement of cash flows** | **1,722** | **4,559** |

*The debt service reserve account was closed, following the repayment of the bank loan.

## 16. Share capital

### 16.1 Authorised and issued share capital

| | Ordinary shares of €1 each | |
|---|---|---|
| | 2016 €'000 | 2015 €'000 |
| On issue at 1 January (100,000 ordinary shares) | 3,862 | 3,862 |
| On issue at 31 December - fully paid up (100,000 ordinary shares) | 3,862 | 3,862 |

### 16.2 Shareholders rights

Shareholders are entitled to vote at meetings of the shareholders 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.

## 17. Revaluation reserve

| | Note | Revaluation surplus €'000 | Deferred taxation €'000 | Net €'000 |
|---|---|---|---|---|
| **At 1 January 2015** | | **17,659** | **(1,767)** | **15,892** |
| Revaluation of hotel property carried out at year end | | 9,824 | (2,799) | 7,025 |
| **At 31 December 2015** | | **27,483** | **(4,566)** | **22,917** |
| **Revaluation of hotel property carried out at year end** | | 18,613 | (1,675) | 16,938 |
| **At 31 December 2016** | | **46,096** | **(6,241)** | **39,855** |

The revaluation reserve represents the impairment on property, plant and equipment net of deferred tax.

## 18. Retained earnings

The gain for the year has been transferred to retained earnings as set out in the statement of changes in equity for the year ended 31 December 2016.

## 19. Capital management policies and procedures

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the return on capital, which the Company defines as the profit for the year divided by total equity.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Company seeks to maximise the return on shareholders' equity and to reduce the incidence of interest expense.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

## 20. Bank borrowings

The bank loan which was secured by a mortgage on the hotel property was fully repaid in 2016.
Subsequently, the hotel property was pledged as collateral against a bond issued by the parent company for €55 million used to fund the repayment of the bank loan.

## 21. Intercompany loan

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Amounts owed to: | | |
| Parent company (IHI PLC) | 57,229 | 37,715 |
| Group company | 241 | 748 |
| | **57,470** | **38,463** |
| **Non current liabilities** | | |
| Amounts owed to: | | |
| Parent company (non interest liability) | 31,361 | 37,715 |
| Parent company (interest bearing liability) | 25,868 | - |
| | **57,229** | **37,715** |
| **Current liabilities** | | |
| Amounts owed to: | | |
| Group company | 241 | 748 |
| | **241** | **748** |

The terms of the amounts owed to the related parties are as follows:

| | | | Terms | |
|---|---|---|---|---|
| | €'000 | Interest | Repayable by | Security |
| IHI PLC | 31,361 | - | non-current | None |
| IHI PLC | 25,868 | 0,25% | non-current | None |
| Group company | 241 | 6M EURIBOR + 1% | non-current | None |
| | **57,470** | | | |

## 22. Deferred tax asset and liability

| | 2016.12.31 €'000 | 2015.12.31 €'000 |
|---|---|---|
| Excess of tax base over carrying amount of tangible fixed assets | (201) | (210) |
| Unrelieved tax losses* | - | 78 |
| Tax effect on revaluation of land and buildings | (5,623) | (4,473) |
| Provision for exchange differences | 311 | 722 |
| | **(5,513)** | **(3,883)** |
| The movement in the deferred tax can be analysed as follows: | | |
| **Recognised directly in other comprehensive income** | | |
| Deferred tax on revaluation of hotel property carried out at year end | (1,675) | (2,799) |
| **Recognised in profit or loss** | 46 | (205) |
| | **(1,629)** | **(3,004)** |

*Unrelieved tax losses

| Year | Expiry | Losses Recoverable €'000 | Losses Used €'000 | Remaining Balance €'000 | Unrelieved Tax Losses €'000 |
|---|---|---|---|---|---|
| 2004-2009 | 2025 | 3,232 | 3,232 | - | - |
| 2010-2013 | - | - | - | - | - |
| 2014 | 2019 | 1,351 | 1,351 | - | - |
| | | **4,583** | **4,583** | **-** | **-** |

The company reversed €78,000 previous years tax losses in 2016. The company doesn't have tax losses anymore.

## 23. Trade and other payables

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Trade payables | 647 | 913 |
| Other payables | | |
| Fellow subsidiary companies | 16 | 283 |
| Other related companies | 42 | 91 |
| Other creditors | 693 | 599 |
| Accruals | 1,857 | 1,823 |
| **Financial liabilities** | **3,255** | **3,709** |
| Advance payments | 1,106 | 651 |
| Statutory liabilities | - | 159 |
| **Total payables - current** | **4,361** | **4,519** |

## 24. Cash flow adjustments

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Adjustments:** | | |
| Depreciation | 1,897 | 1,881 |
| Unrealized foreign exchange gain net | (64) | - |
| Finance cost-net | 261 | 759 |
| | **2,093** | **2,640** |

## 25. Commitments

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Capital expenditure** | | |
| Contracted for | 54 | 71 |
| Authorised but not yet contracted for | - | - |
| | **54** | **71** |

## 26. Related parties

**The Company's realted parties include its associates, key management, fellow subsidiaries and shareholders of ultimate parent company.**

None of the transactions incorporates special terms and conditions and no guarantees were given or received. Transactions with related companies are generally effected on a cost plus basis or on the basis of pre agreed arrangements. Outstanding balances are usually settled by bank payment. Amounts owed by/to related parties are shown separately in Notes 14, 21 and 23.

| | 2016<br>€'000 | 2015<br>€'000 |
|---|---|---|
| **Revenue** | | |
| Services rendered to | | |
| Ultimate parent company | 47 | 3 |
| Fellow subsidiaries | 13 | 25 |
| Other related companies | - | 17 |
| | **60** | **45** |
| **Expenses** | | |
| Other related companies | 1 | 3 |
| Charged by Corinthia group members | 44 | 384 |
| | 45 | 387 |
| Marketing costs | | |
| Charged by CHI Limited | 322 | 245 |
| Charged by Corinthia group members | 45 | 148 |
| | 367 | 393 |
| Administrative expenses | | |
| Management fee charged by: | | |
| Parent company | 139 | 62 |
| CHI Limited | 593 | 47 |
| Charged by Corinthia group members | - | 194 |
| | 732 | 303 |
| | **1,144** | **1,083** |
| **Financing** | | |
| Interest payable - Fellow subsidiaries | 32 | 9 |
| Interest receivable – Parent company | (60) | - |
| | **(28)** | **9** |
| **Net expense** | **1,056** | **1,047** |

### 26.1 Transactions with key management personnel

In addition to the remuneration paid to the directors, in the course of its operations, the Company has a number of arrangements in place with its officers, executives and other related parties whereby concessions are made available for hospitality services rendered to them according to accepted industry norms.

## 27. Risk management objectives and policies

The Company is exposed to various risks through its use of financial instruments. The main types of risks are market risk, credit risk and liquidity risk, which result from both its operating and investing activities. The Company's risk management is coordinated at its head office, in close co-operation with the board of directors and the audit committee and focuses on actively securing the Company'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 Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company's activities. The Company, 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 Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. 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.

The most significant financial risks to which the Company is expored to are described below. See also 28.4 for a summary of the Company's financial assets and liabilities by category.

### 27.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. The Company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

| | 2016<br>€'000 | 2015<br>€'000 |
|---|---|---|
| Classes of financial assets – carrying amounts | | |
| Trade and other receivables | 1,338 | 1,019 |
| Cash and cash equivalents | 1,722 | 4,559 |
| | **3,060** | **5,578** |

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

The Company has, over the years, conducted business with various corporates, tour operators and individuals located in different jurisdictions and, due to the spread of the Company's debtor base, there is no concentration of credit risk.

The Company has a credit policy in place under which new customers are analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, where available, and in some cases bank references.

Customers that fail to meet the Company's benchmark creditworthiness may only transact with the Company only on a cash basis.

In monitoring customer credit risk, customers are individually assessed. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are only made on a prepayment basis.

The Company does not ask for any collateral in respect of trade and other receivables. The Company establishes an allowance for doubtful recoveries that represents its estimate of losses in respect of trade and other receivables. See Note 14 for further information on impairment of financial assets that are past due.

*Cash at bank*

The Company's cash is placed with quality financial institutions, such that management does not expect any institution to fail to meet repayments of amounts held in the name of the companies within the Company.

Management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. See Note 14 for further information on impairment of financial assets that are past due.

### 27.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company actively manages its cash flow requirements. Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

At 31 December 2016, the Company has financial liabilities including estimated interest payments with contractual maturities which are summarised below:

| 31 December 2016 | Current | | Non-current | |
|---|---|---|---|---|
| | Within 6 months €'000 | 6-12 months €'000 | 2-5 years €'000 | More than 5 years €'000 |
| Bank borrowings | - | - | - | - |
| Parent company loan (non interest) | - | - | - | 31,361 |
| Parent company loan (int. bearing liabilities) | - | - | - | 25,868 |
| Trade and other payables | 241 | - | - | - |
| | 3,255 | - | - | - |
| | 3,496 | - | - | 57,229 |

This compares to the maturity of the Company's financial liabilities in the previous reporting period as follows:

| 31 December 2015 | Current | | Non-current | |
|---|---|---|---|---|
| | Within 6 months €'000 | 6-12 months €'000 | 2-5 years €'000 | More than 5 years €'000 |
| Bank borrowings | 1,205 | 1,242 | 24,490 | - |
| Parent Company loan (non interest) | - | - | - | 37,715 |
| Other interest bearing borrowings | 748 | - | - | - |
| Trade and other payables | 3,709 | - | - | - |
| | **5,662** | **1,242** | **24,490** | **37,715** |

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet date.

### 27.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

### 27.3.1 Foreign currency risk

The Company operates internationally and is exposed to currency risk on sales and purchases that are denominated in a currency other than its functional currency which is the euro. The currency giving rise to the highest risk is the Hungarian Forint (HUF).

In respect of monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level. The Company further manages its exposure by entering into short term forward contract with its bankers when deemed advantageous.

The company's revenues, purchase and operating expenditure, financial assets and liabilities, are mainly denominated in euro except for financial assets amounting to €497,000 and financial liabilities amounting to €332,000 which are denominated in HUF.

At 31 December 2016, if the EUR had weakened/strengthened by 10% against the HUF with all other variables held constant, post-tax profit for the year would have been €83,905 lower/€83,905 higher as a result of foreign exchange losses/gains on translation of the EUR denominated borrowings.

## 27.4 Summary of financial assets and liabilities by category

The carrying amounts of the Company's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows. See Note 4.10 for explanations about how the category of financial instruments affects their subsequent measurement.

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Current assets** | | |
| Loans and receivables | | |
| - Amounts due from related companies | 47 | 18 |
| - Trade receivables | 1,261 | 989 |
| - Other receivables | 30 | 11 |
| Cash and cash equivalents | 1,722 | 4,559 |
| | **3,060** | **5,577** |
| **Non-current liabilities** | | |
| Financial liabilities measured at amortised cost | | |
| - Bank and other borrowings | - | 24,490 |
| - Parent company loan | 57,229 | 37,715 |
| | **57,229** | **62,205** |
| **Current liabilities** | | |
| Financial liabilities measured at amortised cost | | |
| - Bank borrowings | - | 2,447 |
| - Other interest bearing borrowings | 241 | 748 |
| - Trade payables | 647 | 913 |
| - Amounts due to related companies | 58 | 374 |
| - Other payables | 693 | 1,409 |
| - Accruals | 1,857 | 1,823 |
| | **3,496** | **7,714** |

## 28. Parent company

The Company is a subsidiary of International Hotel Investments plc (IHI), the registered office of which is situated at 22 Europa Centre, Floriana Malta. The Company's ultimate parent company is Corinthia Palace Hotel Company Limited, the registered office of which is the same as that of IHI.

The parent company prepares consolidated financial statements of which the Company forms part. These financial statements are filed and are available for public inspection at the Registry of Companies in Malta.

## 29. Directors

The Company has three directors, who received the total remuneration of € 31,552 for the current period, same as a prior year.

## 30. Events after balance sheet date

No adjusting or significant non-adjusting events have occurred between the balance sheet date and the date of authorisation by the board.