Delivering Growth

ACTION HOTELS

Action Hotels plc Annual Report & Accounts 2014


فندق ايبيس
السالمية
ibis
HOTEL

Established in 2005, Action Hotels is recognised as a leading developer, owner and asset manager of economy and midscale hotels in the Middle East and Australia.

Action Hotels is a leading provider of economy midscale accommodation at exceptional value in the key markets of the Middle East, where the market is under supplied.

Our strong partnerships with leading international hotel brands allow us to access significant marketing capabilities and to deliver superior operating performance.

Our portfolio consists of 1,488 completed rooms across 8 hotels in six countries. Our committed pipeline of 1,882 rooms will continue to grow as we target 5,000 rooms by 2020.

2014 HIGHLIGHTS

Completed hotel rooms
1,488
(+48%)

Like for like Occupancy
78%
(+1.3%)

Average Daily Rate (ADR)
USD 113
(+9%)

Revenue Per Available Room (RevPAR)
USD 84
(+5.4%)

Revenue
USD 37.6m
(+26%)

Operating Profit
USD 6.1m
(2013 restated: USD 0.3m)

Adjusted EBITDA[1]
USD 11.3m
(+34%)

Profit After Tax
USD 1.9m
(2013 restated: USD (7.8m))

Loan to Value
37%
(2013 restated: 45%)

Net Asset Value
USD 186m
(+9%)

Adjusted Net Asset Value[2]
USD 194.8m
(+8%)

Proposed Full year Dividend
GBP 2.17p
(+126%)

[1] *Adjusted EBITDA is defined as operating profit before depreciation, amortisation, restructuring and listing costs, gains and losses arising from the disposal of property, plant and equipment and pre-opening costs*
[2] *Adjusted net asset value is the net asset value of the Group adjusted for the deferred tax provision required on the revaluation of properties to the Statement of Financial Position*

“Continued growth across all our operational metrics”

Premier Inn, Sharjah

Action Hotels - Changing the hotel market in the Middle East

2004
Sheikh Mubarak A M Al-Sabah identifies gap in the market

2004
Initiated partnership with Accor to develop & operate ibis branded hotels in Middle East & Australia

2007
Opening
ibis Glen Waverley, Melbourne

2009
Opening
ibis Amman, Jordan

2006
Action Hotels set up as standalone company

2008
Alain Debare joins Action Hotels as GM

2008
Opening
ibis Salmiya, Kuwait

Opening
ibis Muscat, Oman

2010
Opening
ibis Sharq, Kuwait

Founded by Sheikh Mubarak Al-Sabah in 2006, 2014 represents 8 years of growth, going against the market norms of luxury hotels and the emergence of a market leader in the development and management of internationally branded economy and midscale hotels across the Middle East and Australia.

2013
Opening
Holiday Inn Muscat
Al Seeb, Oman

Admission to AIM of London Stock Exchange and raising USD 50m

2015
Opening
Premier Inn
Sharjah, UAE

April 2015
Leasehold hotel in
Riyadh, Saudi Arabia

AIM London Stock Exchange

Premier Inn

2014
February
Whitbread announnced partnership with AHC to develop Premier inn Hotels in the Middle East

March 2014
ibis Amman wins innovative award for Tourism Promotion by the Jordanian Society of Tourism and Travel

May 2014
Acquisition of prime plot of land in Sharq Kuwait

Oct 2014
Announced partnership with Golden Tulip for new 104-room hotel in Ras Al-Khaimah, UAE

December 2014
Opening
ibis Seef, Bahrain

GEOGRAPHICAL PRESENCE

1,050m² development land Sharq, Kuwait

ibis Sharq, Kuwait

ibis Salmiya, Kuwait

ibis Seef, Bahrain

Premier Inn, Bahrain

Ibis Amman, Jordan

Premier Inn Jeddah Industrial Estate, KSA

3* Riyadh Olaya, KSA

Staybridge Suites, Abu Dhabi, UAE

Mediterranean Sea

AMMAN

JORDAN

KUWAIT

KUWAIT CITY

BAHRAIN

DUBAI

ABU DHABI

MUSCAT

UAE

RIYADH

SAUDI ARABIA

OMAN

JEDDAH

Red Sea

Action Hotels - Changing the hotel market in the Middle East

Premier Inn Sharjah, UAE

4 Dubai Healthcare City, Dubai, UAE*

Tulip Inn Ras Al Khaimah, UAE

Operating	
Pipeline	
Land	

Holiday Inn Al Seeb, Muscat, Oman

ibis Muscat, Oman

ibis Styles Sohar, Oman

Australia

ibis Brisbane

ibis Glen Waverley, Melbourne

CHAIRMAN'S STATEMENT

Our strategy to become the leading developer, owner and asset manager of three and four star hotels across the Middle East continues at full pace.

2014 has been an exciting period for us not only being Action Hotel's first full year as a publicly listed company, but also seeing the completion of two new hotels in two new countries taking our operating portfolio to eight hotels, with 1,488 rooms across six countries. In addition to the projected number of pipeline rooms stated at the time of our IPO, I am pleased to report that we have added 300 new rooms taking the total committed pipeline to 1,332, an increase of 29%, without requiring the need for the issuance of equity, further enhancing shareholder value.

"the recent oil price volatility presents Action Hotels with further opportunities as more business travellers seek less expensive hotel accomodation without sacrificing quality"

"I am delighted to announce that the Board is recommending a final dividend of GBP 1.45 pence sterling per share for 2014 resulting in a full year dividend of GBP 2.17 pence sterling per share"

Middle East

The macro-economic conditions in the region continue to underpin our strategy of focusing only on the economy and midscale segments of the hotel sector. The growth of intra-regional travellers, both business and leisure, and their associated demand for affordable, consistent, value-for-money accommodation continues to accelerate. This is all supported by increasing per capita incomes, ease and availability of air travel within the region.

The recent oil price volatility presents Action Hotels with further opportunities as more business travellers seek less expensive hotel accommodation without sacrificing quality.

Operational and Financial performance

At an operational level, Action Hotel's operating hotel portfolio of 1,488 rooms continues to deliver, with year-on-year growth in average daily rate (ADR) and revenue per available room (RevPAR) of 9% and 5% respectively resulting in total revenue growth of 26% and operating profit growth of 37%.

I am also delighted to report that we exceeded market expectations at the profit after tax (net profit) level coming in at USD 1.9 million (2013 restated: USD 7.8 million loss) and the net asset value (NAV) which increased by 9% to USD 186.0 million, increasing NAV per share by 9.6% to USD 1.26 from 2013 restated.

Board, management and colleagues

Across the Group, we run a lean operation with carefully selected colleagues experienced in their respective fields such as finance, development, design and operations. During 2014, we strengthened the team even further with some key hires in technical, operations and finance. Along with the board and management team, I am delighted to have the team that will take us to our goal of over 5,000 rooms by 2020 and send a sincere thank you to all of Action's colleagues for their efforts during 2014 and 2015 to date. I would also like to thank the staff working in our operating hotels for their hard work in servicing our customers and delivering superior performance.

On the board of directors, I continue to be impressed by the experience, involvement and support of all board members and their contribution on an operational and strategic level. During the year we welcomed Rawaf Bourisli to the board, who brings a wealth of experience in design and construction and who as Development Director will oversee the construction and delivery of our pipeline of hotels. In November we said farewell to our Finance Director, Alaister Murray, who left due to personal reasons and I wish him well for the future. I would also like to welcome Krish Sundaresan as Chief Financial Officer of Action Hotels Company. Krish is a highly accomplished finance professional and I am delighted he will join us later this month.

Development Pipeline

We are mindful that the execution of our hotel pipeline remains one of our key priorities. In recognition of this, your Board established a dedicated Development Committee with the sole purpose of constant monitoring of the progress of our development programme. This committee meets twice a month and is chaired by my Deputy Chairman, Stefan Allesch-Taylor. This Committee enables the Board to have full visibility of each development on a regular basis and allows immediate action where and when required.

Dividends

All of our operating hotels to date have positively contributed to EBITDA shortly after opening, and even though we continue to accelerate our hotel developments of both greenfield sites and conversions, the profitability and cash profile of our operating business enables a dividend to be paid to shareholders. I am delighted to announce that the board is recommending a final dividend of GBP 1.45 pence sterling per share for 2014, resulting in a full year dividend of GBP 2.17 pence sterling per share (2013: GBP 0.96 pence sterling per share). The board are confident of maintaining a progressive dividend policy and look forward to confirming the interim dividend for 2015 at the publication of the 2015 interim results.

Outlook

The first 4 months of 2015 have been encouraging. Our existing hotel portfolio continues to perform well. Ibis Seef, our first hotel in Bahrain has started positively, breaking even in its first month of operation. The other hotels continue to perform in line with our expectations and collectively contributed a 22% increase in Gross Operating Profit on the same period last year.

We are also actively working towards new hotel developments, which we will report on in due course.

Sheikh Mubarak A M Al-Sabah
Founder and Non-Executive Chairman

Our Strategy

"Only 13% of the current pipeline of hotels within the Middle East region fall within the branded economy and midscale categories" *(STR Global March 2015)*

Economy and midscale hotels

Economy and midscale hotel sectors

We focus only on hotels in the economy and midscale segment of the market, addressing the growing demand from increasingly 'value-conscious' business and leisure travellers seeking quality, affordable accommodation in prime locations.

We have vast experience in developing and managing economy and midscale hotels which brings many advantages:

Operational

- Lower operating costs
- Fast path to hotel profitability
- Higher returns

Development

- Efficient use of land/ real estate
- Less complex design and specifications
- Quicker construction time

Middle East and Australia

Middle East

The member states of the Gulf Cooperation Council (GCC) experienced another year of solid macroeconomic growth in 2014, resulting in a better than expected increase of 4.8% in gross domestic product (GDP) (Centre for Economics and Business Research).

Whilst the latter part of 2014 and early 2015 brought about a significant drop in oil prices, the International Monetary Fund (IMF) has forecasted that the economy within the Middle East, particularly within the UAE and Saudi Arabia, will continue to show positive trends, heading towards a 4.5% economic growth for 2015. The IMF states that the sharp decrease in oil price has been the catalyst for non-oil diversification, with booming sectors such as tourism and hospitality propelling the economy forward.

Travel to the region has increased, with arrivals to Dubai Airport surpassing 71 million passengers overtaking London Heathrow as the world's busiest airport, with further growth plans to accommodate 160 million passengers by 2020 (Jones Lang LaSalle, 2014). Growth of intra-regional travel is being driven by demographics, approximately 40% of the population of the GCC is below the age of 25 years (CIA factbook 2014) as well as the proliferation of budget airlines throughout the region.

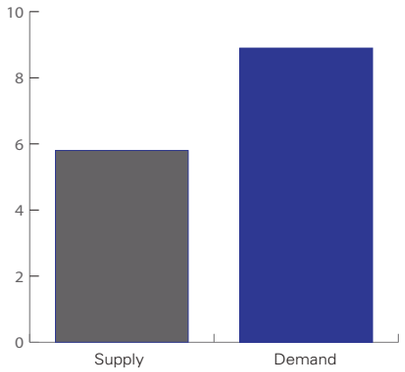
In 2014, the Middle East experienced the highest increase in hotel demand globally, with a 9% increase year on year in demand (STR Global 2014). The number of travellers within the GCC more than doubled between 2000 and 2013, from 24.1m to 60.3m (Alpen Capital 2014) – an increase of 150%, showing the accelerating travel trend within the region.

Regional governments are also aware of this gap between demand and supply in the market, and are encouraging development of hotels in this sector, with the Dubai government announcing investment incentives and allocating land for the development of both economy and midscale hotels in anticipation of strong growth in arrivals.

The gap between demand and supply of affordable accommodation within the region is vast, with the majority of the announced pipeline of hotels falling within the upscale and luxury sectors, leaving the market for economy and midscale hotels largely undersupplied.

Middle East supply and demand

Supply & Demand % Change, December 2014 YTD

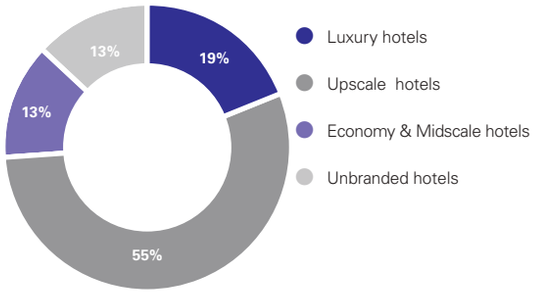


Source: STR Global March 2015

"Demand for hotels within the Middle East continues to outgrow the supply"

Middle East hotel pipeline by segment

Pipeline by room count



Source: STR Global March 2015

Australia

In partnership with Accor, we have operated a 155-room ibis branded hotel in Glen Waverley, Melbourne since 2007. On the back of a very successful first investment in Australia, we are currently developing a second partnered property expected to be completed by December 2015 in central Brisbane, which will be the largest ibis hotel in Australia.

The Australian hotel investment market saw a large improvement in sentiment, with 2014 setting a benchmark for hotel transactions in excess of AUS$2.2 billion, an increase of 24% over 2013 (Alpen Capital, 2014). There has been little in the way of new hotel developments across Australia and there remains a limited supply of prime hotel assets in key locations. This, along with the increasing domestic and international travellers, has been driving solid performance across key cities.

Partnering with leading hotel brands

Partnerships with global hotel operators

Global hotel operators have identified the strong potential in the Middle East and are keen to accelerate growth in key markets.

The Middle East has strong barriers to entry, requiring hotel brands to partner with local or regional investors. Action Hotels has established itself as a leading company in the economy and midscale hotel segment and has built strong credibility with global hotel operators.

We currently partner with four leading hotel operators who are carefully selected and appointed on their:

- operational expertise
- brand recognition
- sales, distribution and marketing capabilities
- loyalty programs and digital reach

"We are very optimistic about growth in the Middle East, with visitor arrivals on the rise and the region recognised as one of the fastest growing international meetings market in the world. International events such as EXPO 2020 are also expected to shape the hospitality industry over the next few years. We have 79 hotels open in the Middle East across five of our brands, and another 26 hotels due to open in the coming years. This puts us in a great position to work alongside our hotel owners, such as ***Action Hotels****, to capitalise on the strong sentiments in the market"*

Pascal Gauvin, *Chief Operating Officer, India, Middle East and Africa, IHG*

"Accor is currently the undisputed global leading Operator, and sees the Middle East hospitality market as one of the key markets for Accor's expansion. Accor Middle East, with a compounded average growth rate of 15% per year, intend to double its number of operated rooms in the Middle East within the next 4 years with a balanced portfolio representing respectively 30% on the economy and 38% on the midscale segments. We are privileged to count ***Action Hotels*** *amongst Accor top investors in the region sharing same values and ambition for growth''*

Christophe Landais,
Chief Operating Officer,
Accor Hotel Services Middle East

"We are rapidly expanding the Premier Inn brand in the Middle East with six hotels today across Dubai, Abu Dhabi and Sharjah in the UAE. We have a great partner in ***Action Hotels*** *who fully understand the potential of the brand, which is growing in popularity amongst Middle Eastern customers who value Premier Inn's signature quality accommodation and high service standards at an affordable price. At Whitbread we are very excited about the opportunities for Premier Inn outside of the UK and are targeting around 50,000 rooms by 2020"*

Adam Nicholls, *Managing Director*
Premier Inn Middle East and North Africa

*"We work closely with regional tourism boards to promote the destinations and the hotels, sharing our expertise and taking advantage of our presence in several countries, especially across the Middle East & North Africa. Our expansion objective is to work closely with owners such as **Action Hotels** addressing the gap in the markets to open more economy to midscale hotels in the region, providing job opportunities and development for the local people"*

Dr. Amine E. Moukarzel, *President of Louvre Hotels Group and Golden Tulip, MENA Region*

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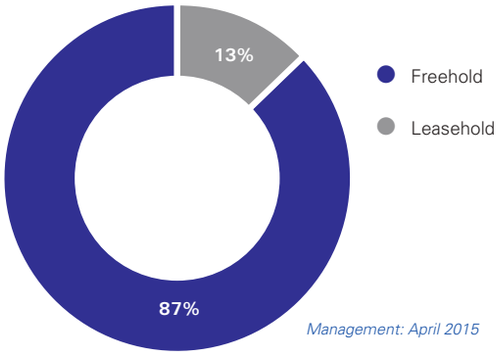
Freehold & Leasehold

Freehold and leasehold – balancing growth
Action Hotels combines both freehold and leasehold hotels within its portfolio and pipeline to obtain optimal shareholder value.

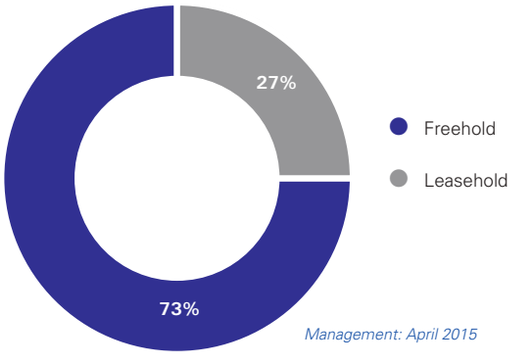
We continue to be an asset-backed business. However we will consider leasing hotels, which gives us the opportunity to accelerate growth with reduced capital commitment and enter certain markets or locations we would not be able to enter otherwise.

Action Hotels percentage of freehold vs leasehold rooms (operating)



Management: April 2015

Action Hotels percentage of freehold vs leasehold rooms (operating and pipeline)



Management: April 2015

ibis Styles Sohar, Oman

Our Partnership Model

We work very closely with a number of hotel operators to create opportunities, develop, design and build economy and midscale hotels. The Operator is selected in the early stages of each development to ensure the property is designed to the standards of the brand which drives optimum performance and operational efficiencies.

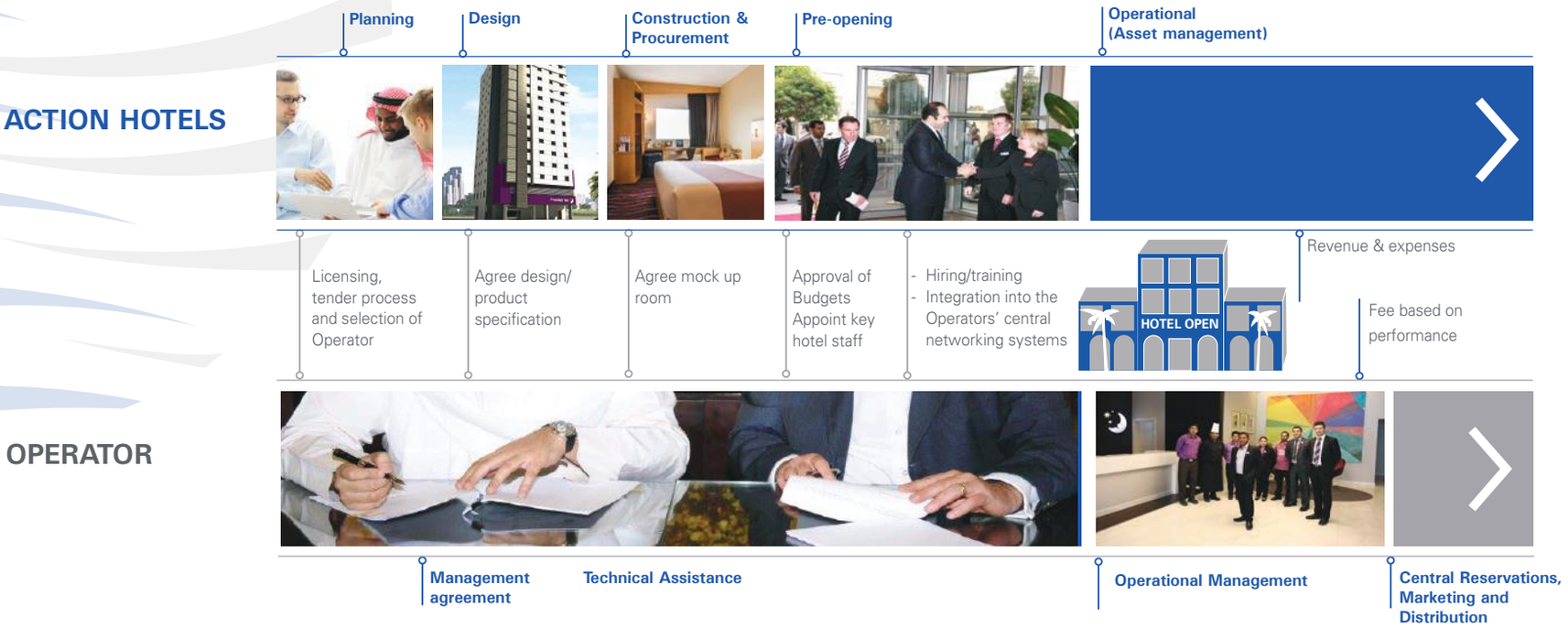
The key benefit to working with leading hotel brands is not only their operational expertise, but also their strong marketing capabilities. The brands we work with are internationally recognised, have extensive web and booking channels as well as loyalty programmes, which drive stronger performance.

Our partnership model explained

1. All revenue and operating costs of the hotel accrue to Action Hotels
2. The Operator is responsible for the management and operations of the hotel
3. All key decisions are made jointly between Action Hotels and the Operator
4. Interests are closely aligned with revenue and profit-based fees

Upon completion, we work alongside our hotel Operators to maximise performance and ensure the hotel benefits from the marketing power and operational expertise of its partner brands.

Post construction, we work alongside our Operators to manage the hotels on our behalf and to maximise performance under long-term management agreements.



ibis Sharq, Kuwait

Our Partnerships

We have strong relationships with leading global hotel operators. We are able to objectively determine the most appropriate brand for each development and create competitive tension to obtain highly attractive terms.

ACCOR

Established over 40 years ago, Accor is one of the world's leading hotel operators, present in 92 countries with nearly 3,600 hotels and 160,000 employees.

IHG
InterContinental Hotels Group

InterContinental Hotels Group (IHG) is the world's largest hotel group by number of rooms. IHG franchises, leases, manages or owns over 4,800 hotels and more than 710,000 guest rooms in nearly 100 countries, with over 1,200 hotels in its development pipeline.

WHITBREAD

Premier Inn is the UK and Ireland's biggest and fastest growing hotel company. The group operates over 650 budget hotels offering quality accommodation at affordable hotel prices.

GOLDEN TULIP
HOTELS - SUITES - RESORTS
MENA

As part of the Louvre Hotels Group, the worldwide hotel chain operates three well-known hotel brands: Tulip Inn, Golden Tulip and Royal Tulip with a total of over 240 hotels in 45 countries. Each establishment combines high standards with the unique personality of staff and the local flavour.

ibis Glen Wavewrley, Melbourne

Ibis is one of the economy brands of Accor and has more than 1,000 hotels and 124,000 rooms in 59 countries. The brand innovates constantly to illustrate its values of modernity, comfort and availability. For example, it has created the revolutionary bedding concept Sweet BedTM by ibis; new common areas; the Ibis Kitchen modern food and beverage offer. It also cultivates a spirit of service that drives each of its employees. Created in 1974, today ibis is the European leader in economy hotels and in 4th place in its category worldwide. Action Hotels partners with Accor under this brand in six operational hotels.

Accor and Action Hotels

Six operational hotels

- ibis Sharq (Kuwait)
- ibis Salmiya (Kuwait)
- ibis Amman (Jordan)
- ibis Muscat (Oman)
- ibis Glen Waverley (Australia)
- ibis Seef (Bahrain)

Holiday Inn: Started over 60 years ago and with 1,200 hotels worldwide today, the Holiday Inn® brand is one of the most widely recognised lodging brands in the world. For four consecutive years, the Holiday Inn brand has been ranked "Highest in Guest Satisfaction Among Mid-scale Full Service Hotel Chains", according to the J.D. Power and Associates North America Hotel Guest Satisfaction Index StudySM. There are currently 23 Holiday Inn properties in the Middle East and a further six hotels due to open over the next three to five years.

Staybridge Suites: The Staybridge Suites® brand is an innovative all-suite hotel brand designed to meet the needs of upscale extended stay guests. It is ideal for travellers seeking a residential-style hotel that is perfect for business, relocation and vacations. Three suite types (deluxe studio, one-bedroom and two-bedroom/two-bath suites) all feature comforts and conveniences of a fully equipped kitchen, free wifi, separate living and sleeping areas and enough space to settle in and stay awhile. Staybridge Suites currently has more than 200 hotels and 22,000 rooms globally, with 95 hotels in the pipeline. In the Middle East, there are currently three Staybridge Suites properties, with an additional five due to open over the next three to five years, including one with Action Hotels in Abu Dhabi.

IHG and Action Hotels

Holiday Inn Seeb Muscat (Oman)

— Our first Holiday Inn branded hotel
— Opened December 2013
— 185 rooms

Holiday Inn Al Seeb, Muscat, Oman

WHITBREAD

Premier Inn International Hotels is part of the UK-listed company, Whitbread PLC, which owns and operates the UK's largest hotel brand, Premier Inn. Internationally, there are currently eight Premier Inn hotels across the Middle East and India and the brand has ambitious expansion plans to grow to fifty hotels (around 10,000 rooms) across the Middle East, India and Southeast Asia by 2018. Award-winning Premier Inn provides great value for money and uniquely offers customers a 'great night guarantee'. All bedrooms feature en-suite bathrooms, TV with various channels, and 30 minutes free WiFi Internet access.

Premier Inn and Action Hotels

— Premier Inn Sharjah

Premier Inn Sharjah

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TULIP INN

Golden Tulip: Tulip Inn

As part of the Golden Tulip hotel group, the Tulip Inn portfolio comprises 78 hotels with a total of 8,184 rooms across 24 countries. Created in 1993, the brand offers midscale, non-standardised hotels located in city centres and business districts, that are comfortable and functional and offering friendly service. Hotels within the Tulip Inn brand are designed to offer exceptional value for money.

Tulip Inn Ras Al-Khaimah, UAE

Action Hotels - Changing the hotel market in the Middle East

ibis Salmiya, Kuwait

Our Customers and Locations

Business Mix

"Our customers are intra regional travellers, both business and leisure"

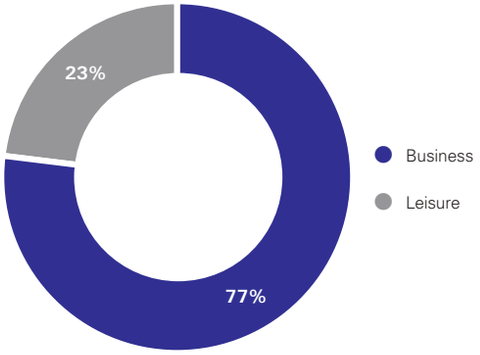
– Intra-regional travel is increasing within the region

– Increasing business related travel

– Increasing affluence and freedom to travel

– Proliferation of regional low cost airlines

Action Hotels 2014: Business / Leisure customer split



Our customer base is predominantly made up of business travellers, accounting for approximately 77%, and leisure travellers 23%. This is reflected in the mix of amenities on offer – most of our hotels offer gym and car parking facilities, free WiFi, 24-hour restaurants, business centres with fully-equipped meeting rooms and conference facilities as well as modern public spaces.

Premier Inn, Sharjah, UAE

CHIEF EXECUTIVE OFFICER'S REVIEW

2014 was a year of improved operational performance and significant investment into new hotel developments as we began to deploy the funds raised at the time of our IPO towards our objective to be the leading company in economy and midscale hotels across the Middle East.

On a reported financial basis we saw material growth in revenue (26%), Adjusted EBITDA (34%) and a maiden net profit of USD 1.9m (2013 restated: USD 7.8m loss). We also continued to further strengthen our asset backed position with a 9% increase in net asset value to USD 186m for the year.

During 2014 we remained focused on progressing the pipeline, ensuring that we complete our hotels on time and on budget as well as maximising the performance of our six operational hotels and creating new development opportunities.

We were delighted to announce the completion of two new freehold hotels, both in new countries for us. Ibis Seef Bahrain is our sixth hotel partnering with Accor, and Premier Inn Sharjah, our first hotel partnership with Premier Inn and a first management agreement for Premier Inn outside of the UK. On an operational room basis we added 484 new rooms, which takes us to eight hotels with 1,488 rooms, a 48% increase on last year.

The performance of our operating hotels has continued to improve as the number of business and leisure travellers within the region continues to increase. Our hotels cater for all types of travellers, however business customers remain our focus, which accounted for 77% of total revenue in 2014. Revenue per available room (RevPAR) increased by 5.4% to USD 84 (2013: USD 79).

Focused strategy

Our strategy remains focused on branded economy and midscale hotels in the key cities in the Middle East and Australia, which is an under supplied segment of the hotel market. Our partnership with the leading hotel brands and operators along with our development expertise is a powerful combination for success.

The completion of an additional two hotels during 2014 and 2015 to date takes the number of operational hotels now to eight. Our committed pipeline is currently made up of a further eight properties, which will take us to 2,820 rooms by the end of 2017 and on course to achieving our objective of 5,000 rooms by 2020.

Hotel partnerships

We continue to strengthen our relationships with the leading hotel operators, which see the Middle East as a major area for growth especially in the economy and midscale sector, where demand continues to outgrow a limited supply. STR Global, the global leader in hotel industry data, reported that only 13% of the total supply of rooms in the region falls into this segment. We work closely with our hotel operators to select the brand that will have the best fit for each project. During the operator selection process, we are able to create competitive tension between the operators and obtain attractive terms. Hotel operators have identified the strong opportunity within the economy and midscale segments and are keen to find opportunities for new hotels. High barriers to entry in the Middle East make us a partner of choice for economy and midscale hotels.

Leading operators are actively looking for hotel owners like Action Hotels to partner with and we are in various discussions with them about potential new hotels.

Pipeline additions

During the year, we announced the addition to the portfolio of the 104 room Tulip Inn Ras Al Khaimah, which will be Action's first hotel within the Emirate and its first brand partnership with Golden Tulip. In April 2015 we also announced a new 130-room hotel in Riyadh, Saudi Arabia. We are actively pursuing new opportunities, which we will update our shareholders of in due course.

Operating portfolio performance

Our operational hotels delivered another year of strong performance. During 2014 the portfolio consisted of five stabilised hotels (beyond third year of operation) and the Holiday Inn Muscat in its first full year. The objective to increase the financial performance of our stabilised operational hotels was achieved by a 5% increase in RevPar as a result of active revenue management positively impacting room rates.

Kuwait

Kuwait continues to be one of our strongest markets, evident by our operating hotels ibis Salmiya and ibis Sharq, both contributing the highest occupancy rates across the portfolio of above 80% and an average increase in RevPAR of 5%. Adjusted Gross Operating Profit (AGOP) margins grew by 7.3%, as we worked with our operators to further improve efficiency and synergies in the hotels. Whilst Kuwait has experienced a 13.9% CAGR in business tourism arrivals between 2004 and 2013 (Alpen Capital 2014), the economy and midscale hotel market remains largely underserved with Action Hotels the market leader in this segment.

Oman

Ibis Muscat performed well, in its fifth year of operation with an 8.6% increase in RevPAR supported by strong demand from business travellers driving up the rates.

We are also pleased to report a good first year of trading at the Holiday Inn Muscat. The new hotel (which opened in December 2013) broke even at an EBITDA level in its first month of operation, and has seen progressive growth during 2014, with a first year average occupancy of 57% and an ADR of USD 140. The hotel is receiving positive feedback and currently ranks number 6 out of the 39 hotels in Muscat on Tripadvisor.

Jordan

Ibis Amman maintained a solid occupancy of 79% for 2014 as a result of increased corporate groups and meetings, conferences and events (MICE). On the back of a strong demand for MICE, we further utilised hotel space to create two additional conference rooms and the addition of a hotel bar, which has contributed to the 30% growth in food and beverage revenues, partially compensating for accelerating energy costs in the country.

Bahrain

In December we completed our first hotel in Bahrain, Ibis Seef, on schedule and on budget. The hotel, which comprises of 304 rooms including 18 apartments, is well positioned to attract families and business travellers. Since opening we have seen a strong demand in tourism from Saudi Arabia. We continue to be positive on the outlook for tourism in Bahrain, which is forecast to increase, underpinned by a stabilised political system and the return of the Grand Prix since 2012. During its first three months of opening, Ibis Seef achieved an average occupancy rate above 50%, breaking even in its first month.

United Arab Emirates

We have also completed the construction of our first hotel in the UAE with Premier Inn in Sharjah. The 168-room hotel, located on the central King Faisal Street in Sharjah, which was completed on schedule, experienced a slight delay in opening due to slower than anticipated connection to the power supply. All issues are now resolved and early business enquiries are encouraging.

Australia

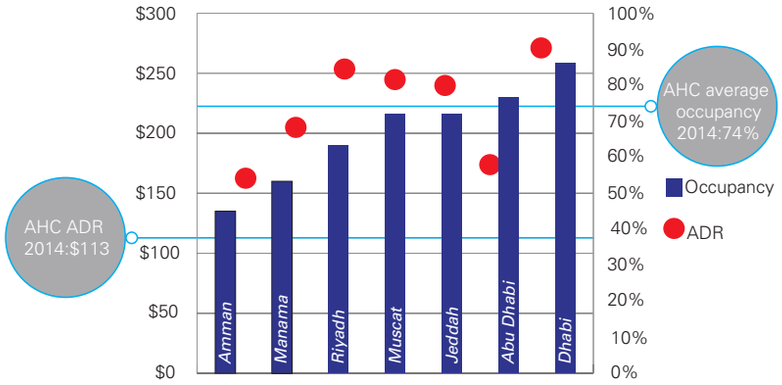
Ibis Glen Waverley continues to be a strong performer within our portfolio, with a year on year increase across all operating metrics driven predominantly from corporate business. Ibis Glen Waverley will be joined by our second property in Australia later in the year, ibis Brisbane, which is currently under construction and will be the largest ibis hotel in Australia.

Hotel pipeline

We are pleased to report that we continue to increase the number of rooms in our development pipeline, which now stands at 1,332 rooms taking our total room count to 2,820 rooms, a 13% increase across the total portfolio on last year.

The Board is also actively evaluating new development opportunities towards our target of 5,000 rooms by 2020.

Middle East countries by occupancy & ADR
Feb 2015 YTD



STR Global March 2015

Current trading update

The first quarter of 2015 started well with an increase in ADR of 3% to USD 111 (2014: USD 108), reflecting an increase in revenue across the portfolio up 22% to USD 11.3m (2014: USD 9.3m). Hotel AGOP increased by an impressive 25% to USD 6m (2014: USD 4.8m). On the development side, we are progressing all eight of the pipeline hotels, the majority of which are under construction or conversion. Our largest hotel, ibis Brisbane, remains on schedule and we expect completion by the end of 2015. Tulip Inn Ras Al-Khaimah, Ibis Styles Sohar and Premier Inn Jeddah are also under active construction or conversion, with other properties in the pipeline scheduled to commence construction or conversion later this year.

I am also delighted to welcome Krish Sundaresan to our senior management team as group Chief Financial Officer. Krish has substantial financial and strategic experience particularly in real estate and hospitality. I look forward to him joining the team on 17 May 2015 and introducing him to our shareholders in due course.

Alain Debare
Chief Executive Officer

"The wider economic outlook remains positive and we aim to deliver continued growth"

Premier Inn Sharjah

Our six hotels performed well during 2014, with all our operating key performance indicators improving on a like for like basis.

On the financial KPI's we saw growth across both revenue and profit and we are pleased to report a maiden positive net profit figure ahead of market expectations.

Operational Key Performance Indicators – Occupancy, ADR and RevPAR

Occupancy for the year was 74% (2013: 77%) a slight decline on last year as we included Holiday Inn Muscat's first year of trading. However on a like for like basis across the stabilised five hotels, occupancy increased to 78% (2013: 77%). Our Middle East based hotels continued to contribute average occupancies of above 80%. Holiday Inn Muscat delivered a strong first year with average occupancy at 57%.

Ibis Glen Waverley saw a 3% increase in occupancy, which is a very pleasing result for a stabilised hotel in its seventh year of operation.

Average Daily Rates for the year increased 9% to USD 113, positively impacted by the inclusion of our first four star hotel, Holiday Inn Muscat, into the mix.

RevPAR increased by 5% compared to last year, the reason being strong ADR performance and stabilised occupancy.

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000 Restated
Revenue	**37,572**	29,763
Adjusted EBITDA[1]	**11,262**	8,421
Operating profit	**6,079**	332
Profit/(loss) before tax	**2,226**	(7,749)
Tax charge	**(332)**	(91)
Profit/(loss) for the year attributable to owners of the company	**1,894**	(7,840)

Prior period restatement

In the condensed interim information as at 30 June 2014, the consolidated statement of comprehensive income and consolidated statement of financial position for the year ended 31 December 2013 were restated. Further adjustments have been made to the opening position as at 1 January 2014 within these financial statements.

Revenue

Reported revenue for the period grew 26.2% to USD 37.6 million (2013: USD 29.8 million). The Middle East operating hotels contributed 82% of the total revenue for the year, with a revenue growth of 35% as a result of improved performance and the first year of Holiday Inn Muscat.

Operating profit, Adjusted EBITDA[1] and Profit after tax

Operating profit increased from USD 0.3 million (restated) to USD 6.1 million and Adjusted EBITDA increased by 34% to USD 11.3 million. Stonger performances from our existing hotels in addition to a first full year of trading from Holiday Inn Muscat contributed to 37% of the increase in operating profit with the remaining largely attributable to a reduction in restructuring and listing costs (relating to our 2013 IPO).

This increase in operational performance and reduction in costs contributed to an improvement at the profit after tax level. We achieved a maiden net profit of USD 1.9 million for the year, significantly ahead of last year (2013 restated: USD 7.8 million loss) and our forecasted break even figure.

Dividends

The Board intends to propose a final dividend in respect of the year ended 31 December 2014 of GBP 1.45 pence sterling per share, taking the total dividend for the year to GBP 2.17 pence sterling per share. The dividend is expected to be paid on 1 June 2015, subject to approval of the dividend at the Company's annual general meeting, which is expected to occur on 28 May 2015. It is expected that the company's ordinary shares will be marked with ex-entitlement to such dividend on 21 May 2015, and the dividend will be payable to all shareholders on the Company's share register at the close of business on 22 May 2015.

Financial Position

Total bank debt as at 31 December 2014 remained pretty much constant at USD 109.9 million (2013: USD 108.3 million). Cash and cash equivalents decreased as we began investing the proceeds from our equity fundraising into the development of new hotels. Net debt increased by 59% as we accelerated expenditure on assets under-construction and other hotel developments during the year. Total gearing at the year end was 55% (2013 restated: 38%) and Loan to Value (LTV)[2] decreased to 37% (2013 restated: 45%).

Total equity increased by USD 15.5 million or 9% to USD 186 million as the value of our property assets increased, the majority being derived from the completion of ibis Seef Bahrain and Premier Inn Sharjah.

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Bank loans	**109,901**	108,316
Loans due to related parties	**–**	57
Less: Cash and bank balances	**(6,734)**	(43,626)
Net debt	**103,167**	64,747
Total equity	**185,989**	170,509
Total capital resources	**289,156**	235,256
Net debt to equity ratio	**55%**	38%
Loan to Value (LTV)[2]	**37%**	45%

[1] Adjusted EBITDA is defined as operating profit before depreciation, amortisation, restructuring and listing costs, gains and losses arising from the disposal of property, plant and equipment and pre-opening costs.

[2] Loan to Value is defined as total debt as a percentage of non-current assets

Property revaluations

Independent professional valuations were prepared by CBRE on our Middle Eastern properties and Jones Lang Lasalle on our Australian properties as at 31 December 2014.

The valuations of the freehold hotels are included in the Statement of Financial Position at fair value, which are revalued annually.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration receivable excluding discounts, rebates and other sales taxes or value added taxes.

Net Asset Value and adjusted Net Assets

Reported Net Asset Value for the Group increased by 9% to USD 186 million as we continued to progress our hotel pipeline. Adjusted Net Asset Value is the net asset value of the Group adjusted for the deferred tax provisions on the revaluation of our properties. The deferred tax provisions at the year end amounted to USD 8.7 million and would only become payable if these revalued assets were sold.

As at 31 December 2014 the adjusted net asset value was USD 194.8 million an increase of 8.4% on 2013 (2013 restated: USD 179.6 million) and an adjusted net asset value per share of GBP 1.32 pence Sterling per share (2013: GBP 1.22 pence Sterling per share).

USD'000	**2014**	2013 Restated
Net assets	**185,989**	170,509
Deferred tax provision	**8,770**	9,098
Adjusted net asset value	**194,759**	179,607
Number of shares	**147,637**	147,637
Adjusted net asset value per share	**1.32**	1.22

Looking ahead

The first three months of 2015 have started strong. Hotel revenue for the quarter was up 22% on the same period last year, as our new hotels started to contribute, and ADR strengthened up by 3% compared to Q1 of 2014.

At the operating hotel level the adjusted GOP also saw a sharp increase of 22% and an increase in operational EBITDA of 26% over the same period last year.

Major contributions came from the two Kuwait hotels which achieved occupancy levels of 90%.

We look forward to updating on financial progress at our 2015 interim results.

Shady Remeily
Financial Controller

PRINCIPAL RISKS AND UNCERTAINTIES

The Board regularly reviews the risks to which the Group is exposed and actively ensures that these risks are minimised as far as possible.

Risks relating to the Middle East

- Instability and uncertainties relating to the legal and regulatory environment in the countries in which the Group operates or may operate in the future could have a material adverse effect on the Group's business, financial condition and results of operations.

- Governmental authorities in some countries in which the Group operates or may operate in the future may have a high degree of discretion and, at times, act selectively or arbitrarily, and sometimes in a manner that is contrary to law or influenced by political or commercial considerations which may include, among other things, the expropriation of property without adequate compensation or limitations on repatriation of profits and/or dividends.

- Conducting business in international markets brings with it inherent risks associated with security of staff or property, enforcement of obligations, fraud, bribery and corruption. In certain jurisdictions, fraud, bribery and corruption are more common than in others. Action Hotels has adopted an anticorruption and fraud policy with which it requires its employees to comply. The Group also intends to implement other safeguards and programs across its business, designed to promote the highest standard of business practices and prevent the occurrence of fraud, bribery and corruption.

- Instability and unrest in the MENA region may significantly impact the economies in which the Group does business, including both the financial markets and the real economy. Such impacts could occur through a lower flow of foreign direct investment into the region, capital outflows or increased volatility in the global and regional financial markets. Although the GCC (in which the Group generally operates) has not been directly impacted by the unrest in the broader region to date, it is unclear what impact this unrest may have on the GCC or any of the countries in which the Group does business in the future.

- The Group operates predominantly in the GCC, which is generally viewed as an area with developing economies. Some countries in which the Group does business do not have firmly established legal and regulatory systems, and some of them, from time to time, have experienced economic, social or political instability. Some of these countries are in the process of transitioning to a market economy and, as a result, are experiencing changes in their economies and their government policies that can affect the Group's business in these countries.

- GCC jurisdictions have local ownership requirements stating that only nationals of the relevant jurisdiction or of the GCC may hold interests in real estate property. Although each of the Group's real estate properties is held by a GCC entity, ultimately the Company, which is incorporated in Jersey, has an indirect economic interest in the relevant real estate property interests. Having taken appropriate legal advice, the Group has sought to address this issue by implementing a corporate structure, as a result of which 100% of the voting rights of the intermediate holding company resident in the GCC is owned directly by Action Group Holdings (the principal shareholder).

Risks relating to Action Hotels' business

- The rapid development and establishment of hotels in the markets in which the Group intends to operate may raise unanticipated operational or control risks. The Group has experienced substantial growth and development in a relatively short period of time and the Directors believe that the Group will continue to grow its business at a relatively rapid rate for the foreseeable future. Management of growth will require, among other things:

    - continued development of financial and management controls and information technology systems and their implementation in newly established or acquired assets;

    - integration of business culture and adoption of policies and best practices;

    - increased marketing activities; and

    - identifying, hiring and training new qualified personnel.

Majority shareholder risk

Action Group Holdings (AGH) holds 64.7% of the issued share capital and voting rights in the Company. Whilst the Company has entered into the Relationship Agreement with AGH to govern the relationship between them, AGH owns a significant proportion of the Ordinary Shares and will control a large proportion of the voting rights in the Group. The interests of AGH could conflict with the interests of other holders of Ordinary Shares, and AGH could make decisions that could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects or trading price of the Ordinary Shares.

Key employee risk

The Group believes that its growth is largely attributable to the efforts and abilities of the members of its senior management team and in part on its relationship with Sheikh Mubarak, who has played and continues to play an important role in the business. If one or more of the members of this team were unable or unwilling to continue in their present position, the Group might not be able to replace them easily, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Risks relating to Action Hotels' properties and operations

Property investments are subject to varying degrees of risks. Values are affected (among other things) by changing demand, changes in general economic conditions, changing supply within a particular area of competing space and attractiveness of real estate relative to other investment choices. The value of the Group's property portfolio may also fluctuate as a result of other factors outside the Group's control, such as changes in regulatory requirements and applicable laws (including in relation to taxation and planning), political conditions, the condition of financial markets, potentially adverse tax consequences, interest and inflation rate fluctuations and higher accounting and control expenses. The Group's operating performance could be adversely affected by a downturn in the property market in terms of capital values.

Construction and capital expenditure requirements

Some of the Group's new hotels are under construction or in the initial stages of development. These and the pipeline hotels have significant capital expenditure requirements. The Group's operating hotels will need renovations and other capital improvements, including replacements, from time to time, of FF&E.

Some of these capital improvements are mandated by health, safety or other regulations or by the standards of the hotel operators. Construction of new hotels and capital improvements of operating hotels may give rise to a variety of risks:

- inability to obtain construction financing or, if the Group finances development projects through construction loans, permanent financing, in any case, at all or on favourable terms;
- requirement to make significant current capital expenditures for certain hotels without receiving revenue from these hotels until future periods;
- inability to complete development projects on schedule or within budgeted amounts;
- delays or refusals in obtaining all necessary zoning, land use, building, occupancy and other required governmental permits and authorisations; and
- fluctuations in occupancy rates and ADR at newly developed or renovated properties due to a number of factors, including market and economic conditions, that may result in the Group's investments not being profitable.

Risks relating to the hotel industry

- a downturn in international market conditions or the national, regional and/or local political, economic and market conditions in the countries in which the Group operates, may diminish the demand for leisure and business travel and meeting/ conference space;
- the impact of acts of war or increased tensions between countries, increased threats of terrorism or actual terrorist events, impediments to means of transportation (including airline strikes, road closures and border closures), extreme weather conditions, natural disasters, travel-related accidents, outbreaks of diseases and health concerns, rising fuel costs or other factors that may affect travel patterns and reduce the number of business and leisure travellers;
- increased competition and periodic local oversupply of guest accommodation in the cities in which the Group has hotels;
- changes in travel patterns or in the structure of the travel industry, including any increase in, or the imposition of new taxes on, air travel;
- increases in operating expenses as a result of inflation, increased personnel costs and health-care related costs, higher utility costs (including energy costs), increased taxes and insurance costs, as well as unanticipated costs as a result of acts of nature and their consequences and other factors that may not be offset by increased room rates;
- seasonality, in that the Group's hotels are located in the Middle East and Australia where they may experience varying levels of occupancy during different seasons; and
- changes in governmental laws and regulations, including those relating to employment, the preparation and sale of food and beverages, smoking, health and alcohol licensing laws and environmental concerns, fiscal policies and zoning ordinances and the related costs of compliance.

The impact of any of these factors (or a combination of them) may adversely affect room rates and occupancy levels in the Group's hotels, or otherwise cause a reduction in the Group's income.

Such factors (or a combination of them) may also adversely affect the value of the Group's hotels and in either such case would have a material adverse effect on the Group's business, financial condition and results of operations.

Risks relating to Action Hotels' borrowing

The Group funds and will continue to fund its hotel projects partially through borrowings. The debt to equity ratio is likely to differ in respect of each project, and increases in interest rates could affect the Group's ability to fund future developments on favourable terms. The extent of borrowings and their terms will depend on the Group's ability to obtain credit facilities, the lender's estimate of the stability of each project's cash flow and the Middle East and Australian debt markets at any time. Any delay or failure in obtaining suitable and adequate financing from time to time may impair the Group's ability to develop the hotel projects within the anticipated timeframe, (or at all) and this would have a material adverse effect on the Group's ability to achieve its investment performance and increase in value for its Shareholders.

Risks relating to taxation

The Group has historically enjoyed low or nil tax rates in most of the countries in which it has operated, reflecting the low tax regimes in the jurisdictions in which they operate. The change in the Group's structure resulting from the recent restructuring and admission to the AIM division of the London Stock Exchange results in some risks arising with respect to potential foreign ownership (and hence related tax liabilities) being attributed to the Group. The quantum of tax levied on the Group's profits is subject to change in the event that applicable tax rates or laws alter in the future. There are inherent uncertainties regarding tax authority practice in some of the countries in which the Group operates which could affect the Group's future tax position.

Financial Instruments

As at 31 December 2014 the Group had a number of financial instruments. Disclosures for these items including the Group's management approach to financial risk can be found in note 29.

Insurance Coverage

The Group has various insurance policies in place suitable for a hotel developer and operator. These are arranged via an insurance broker and coverage includes a. Operational (public liability, travel and medical coverage and assistance), b. Buildings and Property insurance, c. Political violence and terrorism sabotage cover. This is reviewed at least annually and adapted as required.

Internal Controls and Risk Management

The Directors are responsible for the Group's system of internal financial control. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

In carrying out their responsibilities the Directors have put in place a framework of controls to ensure as far as possible that on-going financial performance is monitored in a timely manner, and if required corrective action is taken and that risk is identified as early as practically possible demonstrating the effectiveness of internal financial controls. The Board, subject to delegated authority, reviews capital investment, property sales and purchases, additional borrowing facilities, guarantees and insurance arrangements.

Forward Looking Statements

This Annual Report contains certain forward-looking statements that have been made by the Directors in good faith, based on the information available at the time of the approval of the Annual Report.

By their nature, such forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements.

BOARD OF DIRECTORS

Sheikh Mubarak A M Al-Sabah
Founder and Non-Executive Chairman

Sheikh Mubarak Al Abdullah Al-Mubarak Al-Sabah, is the founder and Vice Chairman of Action Group Holdings (AGH), an investment company with a particular emphasis on real estate development and acquisitions in the GCC, Europe and Australia.

He is a Graduate of The Royal Military Academy Sandhurst in the United Kingdom and holds an MPhil in International Relations from University of Cambridge and a BA (Hons.) in Political Science with Economics from the University of Buckingham, UK.

Sheikh Mubarak is also the founding Chairman of Qurain Petrochemical Industries Company K.S.C., a publicly listed company in Kuwait, with over 40,000 shareholders in Kuwait, net assets in excess of USD 1 billion and PBT of USD 81 million. He also serves as a board member of EQUATE, Kuwait's first and largest international joint venture in the petrochemical sector with a net profit in excess of 1 billion dollars. Sheikh Mubarak also serves on the board of Egypt Kuwait Holding, a MENA investment company, with a diversified portfolio of investments, with net assets of USD 2.3 billion. As founding non-executive Chairman of Action Hotels, Sheikh Mubarak oversees the setting and implementation of the group's strategy. Through his extensive relationships across the region and hotel industry is actively involved in the identification of new developments.

Alain Debare
Chief Executive Officer

Alain has spent his entire career in the hospitality industry, particularly in the hotel management sector, and has extensive experience of hotel operations as well as hotel development. He joined Action Hotels in February 2008 shortly after its inception and has been key to its growth. Alain focuses on identifying new opportunities, overseeing hotel projects from initiation to completion and ensures the Group's investment objectives are achieved. Driven by his sector knowledge and hands-on expertise, Alain is closely involved with the operators to increase profitability and performance of the operating hotels

Prior to joining the Group, Alain held various management positions with leading hotel management companies, including Mandarin Oriental and Hilton Hotels Corporation. He joined Hilton in 1996 and worked his way through hotel operations to reach general management. Alain has broad international management and operations experience having worked in the Philippines, France, Venezuela, Brazil, Spain and the GCC. He received a BA in Hotel Management from Institut Paul Bocuse - IGL Lyon in France and has also obtained a certification in hospitality investments and asset management from Cornell University.

Stefan Allesch-Taylor CBE
Non-Executive Deputy Chairman

Stefan has served as either Chairman or CEO of both public and private companies in the property, retail, medical, industrial, telecommunications, asset management and financial services sectors in the UK, US and Europe for 25 years.

He is the co-founder and a Supervisory Board Member of Global Evolution A/S, a fund manager specialising in emerging markets. Stefan is the co-founder and co-chairman of The Department of Coffee & Social Affairs, an independent coffee company in London. He is a Non-Executive Director of Clearbrook Capital Private Equity and of The International Stadia Group. Stefan is the Senior Advisor to Intishar Holdings, a Middle East based conglomerate. He is the Senior Partner of Phoenix Strategy International, a UAE based advisory company.

Stefan is also the Chairman and/or co-founder of several UK and international charities and social ventures providing the relief of poverty and improved education for over 1.35 million people in the UK and Sub-Sahara Africa.

John Johnston
Non-Executive Director

John is currently non-executive Chairman of Constellation Healthcare Technologies, non-executive director of Flowgroup plc and prior to this, was managing director of Institutional Sales at Nomura Code.

He was previously Director of Sales and Trading at Seymour Pierce from 2008 to 2011. In 2003, John founded Revera Asset Management, where he oversaw an investment trust, a unit trust and a hedge fund, which he ran until 2007. From 1992 to 1997, John was Head of Small Companies at Scottish Amicable, before spending a year at Ivory and Sime, again as Head of Small Companies from 1997 to 1998.

He joined Legg Mason Investors for three years as Director of Small Companies Technology and Venture Capital Trusts, from 2000 to 2003 having previously spent two years as Head of Small Companies with Murray Johnstone. John began his investment career at the Royal Bank of Scotland in 1981, working in the Trustee and Investment department, before moving to General Accident in 1985, holding the position of Head of Retail Funds before his move to Scottish Amicable.

Raymond Chigot
Non-Executive Director

Raymond is a veteran hotelier with over 40 years experience in hospitality after a successful career in hotel operations and development with Holiday Inn and Hilton Hotels.

He was instrumental in the early development of Holiday Inn in Europe and taking the Holiday Inn brand to the MENA region.

He then joined Hilton International as Senior Vice President, driving the company's growth in EMEA and was involved in the opening of 50 new Hilton Hotels in 31 countries during his tenure.

Rawaf I. Bourisli
Development Director

Rawaf is a qualified architect and expert in the field of mixed use and mid class development with over 10 years of professional experience in design, project management and real estate development throughout the Middle East. In 2007 he was appointed General Manager of Action Real Estate Company (AREC), a leading real estate company based in Kuwait focused on development, advisory project management and overseeing the execution of projects, design and construction. Prior to this Rawaf was Chairman of the Integrated International Group Kuwait, a service provider of logistics, heavy lifting, engineering and equipment to the MENA region. Earlier in his career Rawaf was the PMC Manager of Kuwait Dynamics Ltd, a project management and construction company registered with the Kuwaiti Ministry of Planning.

Rawaf has a BSc in Architecture from Oklahoma State University where he was awarded the Iron Design Certificate. He is a serving member of the Kuwait Society of Engineers and is a regular speaker on budget & mid-market hotel developments in the Middle East.

The directors present their annual report and the Group's audited financial statements for the year ended 31 December 2014.

Financial Results and Dividends

The results of the Group for the year are shown on page 44, in the consolidated income statement.

The Board is proposing a dividend of GBP 1.45 pence Sterling per share, taking the full year dividend to GBP 2.17 pence Sterling per share (2013: GBP 0.96 pence Sterling per share). Subject to shareholder approval, this will be paid on 1 June 2015 to all shareholders on the register by the close of business on 1 June 2015.

Review of the Business

A review of the business for the year ended 31 December 2014 as well as future developments can be seen by reviewing the Chairman's statement, the Chief Executive Officer's review, the Strategic Report and the Financial Review on pages 8 to 30.

Directors and Director's Interests

The directors who held office during the year and to the date of this report were as follows:

Sheikh Mubarak Al Sabah
Non Executive Chairman

Alain Debare
Chief Executive Officer

Alaister Murray
Finance Director
(until 30 November 2014)

Rawaf Bourisli
Executive Director
(from September 2014)

Stefan Allesch Taylor
Deputy Chairman and Senior Independent Non-executive

John Johnson
Independent Non-executive

Raymond Chigot
Non-executive

The directors' remuneration and their interests in the share capital of the Company are set out in the Remuneration Report on page 41.

Substantial Shareholders

Fund Manager	31 March 2015
Action Group Holding Company (K.S.C.C)	64.74
Blakeney Management	11.65
Legal & General Investment Management	3.23

Political and Charitable Donations

There were no charitable or political donations made during the year ended 31 December 2014.

Corporate, Social and Environmental Responsibility
The Board considers the significance of social, environmental and ethical matters affecting the business of Action Hotels.

The Board has adopted an approach to Corporate Social Responsibility that seeks to protect the interests of the Group's stakeholders through individual policies and through ethical and transparent actions.

The Board has adopted an Anti-corruption Policy and a Whistle Blowing Policy.

Shareholders
The Group values its dialogue with both institutional and private investors. Effective two-way communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy.

We have a dedicated Director of Corporate Affairs, Katie Shelton based in London, to manage all such communications and report to the Board where appropriate. Private investors are encouraged to participate in the Annual General Meeting at which the Board presents a review of the results. The Remuneration Committee will be available at the Annual General Meeting to answer any shareholder questions.

The Annual General Meeting will be held on 28 May 2015.

Environment
The Group's environmental policies seek to comply with the local regulatory requirements in the various regions where they operate.

Employees and Diversity
The Board encourages a transparent approach to dealing with its employees and seeks to remunerate its employees fairly, being flexible where practicable. The Group gives full and fair consideration to applications for employment received regardless of age, gender, colour, ethnicity, disability, nationality, religious beliefs, transgender status or sexual orientation. The Group takes account of employees' interests when making decisions and welcomes suggestions from employees aimed at improving the performance of the business.

The Group currently operates throughout the Middle East and Australia. It complies with the various employment rules applicable in the various countries and employs as many nationals as possible.

Suppliers and Contractors
The Group recognises that the goodwill of its contractors, consultants and suppliers is important to its business success and seeks to build and maintain this goodwill through fair dealings. The Group has a prompt payment policy and seeks to settle all within the terms agreed.

Health and Safety
The Board recognises it has a responsibility to provide strategic leadership and direction in the development of the Group's health and safety strategy in order to protect all of its stakeholders.

Going Concern
The Group has reported accumulated losses of USD 29.5 million (2013 restated: USD 28.9 million) as at 31 December 2014, and as of that date, the Group's current liabilities exceed its current assets by USD 8.8 million (2013 restated: current assets exceed current liabilities by USD 37.5 million). Total assets continue to exceed total liabilities by USD 185.9 million (2013: USD 170.5 million).

Notwithstanding this, the financial statements have been prepared on the going concern basis. The Directors have made this assessment after consideration of the Group's expenditure commitments, current financial projections and expected future cash flows, together with the available cash resources and undrawn committed borrowing facilities.

Further information on the Group's business activities, cash flows, liquidity and performance are set out in the Directors' report and Strategic report and its objectives, policies and processes for managing its capital and financial risks are detailed in note 29.

Website Publication

The directors are responsible for ensuring the annual report and the financial statements are made available on the Company's website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

Post Balance Sheet Events

There were no post balance sheet events which required disclosure in the financial statements.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office as auditor, and a resolution to reappoint them will be forthcoming at the Annual General Meeting.

This report was approved by order of the Board on 11 May 2015.

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Companies (Jersey) Law 1991 requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and the profit and loss for that year.

In preparing those financial statements the directors should:

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

The directors confirm they have complied with all the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

As far as the Directors are aware, there is no relevant audit information that has not been disclosed to the company's auditors. Each Director has taken all the steps that he ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This statement was approved by order of the Board on 11 May 2015.

Alain Debare
Chief Executive Officer

Remuneration Committee

The Remuneration Committee comprises of John Johnston (Chair), Stefan-Allesch Taylor and Raymond Chigot and meets at least twice a year.

The Remuneration Committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to their remuneration and terms of service, granting of share options and other equity incentives.

Remuneration Policy

The objectives of the remuneration policy are to ensure that the overall remuneration of the Executive Directors is aligned with the performance of the Group and preserves an appropriate balance of income and shareholder value.

The committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plans in operation from time to time.

In exercising this role, the Directors have regard to the recommendations put forward by the QCA Guidelines and, where appropriate, the Corporate Governance Code guidelines.

Non-Executive Directors

Remuneration of the Non-executive Directors, including the Chairman, is determined by the Executive Directors. Non-executive Directors are not entitled to annual bonuses or employee benefits. They are entitled to participate in share option arrangements relating to the Group's shares. Each of the Non-executive Directors have a letter of appointment stating their annual fee and that their appointment may be terminated with a minimum of three month's written notice.

Director Remuneration

The normal remuneration arrangements for Executive Directors consist of Directors' fees, basic salary and annual performance-related bonuses.

In addition, they receive accommodation allowance, permanent health insurance, pension contributions, life insurance, car allowance and school fees.

The information provided in the following pages of this report is unaudited unless stated.

Executive Directors' Remuneration (audited)

	Director's remuneration (in USD)		
Chairman and Executive Directors	Alain Debare	Alaister Murray	Rawaf Bourisli
Salary and fees	402,687	325,040	35,000
Other taxable benefits	–	–	–
Total remuneration for the year ended 31 December 2014	**402,687**	**325,040**	**35,000**

Non executive directors' remuneration (audited)

Non-Executive Directors	Sheikh Mubarak A.M. Al Sabah	Stefan Paul Allesch-Taylor	Raymond Chigot	John Johnston
Salary and fees	82,332	82,332	82,332	82,332
Other taxable benefits	–	–	–	–
Total remuneration for the year ended 31 December 2014	**82,332**	**82,332**	**82,332**	**82,332**

Director's interests

The Directors who held office as at 31 December 2014 had the following interest in shares of the Company.

Name of director	Number of ordinary shares
Rawaf Bourisli	2,620,046
Alain Debare	253,936
Stefan Allesch-Taylor	144,928
John Johnston	47,638

The interest held for Sheikh Mubarak Al Sabah is held via Action Group Holdings KSCC, a company which holds investments for the Al Sabah family.

Director's share options

Alain Debare	
Number of shares under option	4,429,116
Exercise price	GBP £0.64
Date of grant	23 December 2013

Exercise conditions

- One third of the option shares shall vest on the first anniversary of the date when the option is granted.
- A further one third of the shares shall vest of the second anniversary and the remaining one third shall vest on the third anniversary. The options only become exercisable if both the following are met:
    - The Option holder remains as an employee of the Company for a period of six months after the end of the accounting period in which relevant vesting takes place;
    - The share options are exercised within three years of the relevant vesting dates.

Further details regarding share options are included in note 27 to the financial statements.

John Johnston
Chair of the remuneration committee

11 May 2015

Independent Auditor's Report
for the year ended 31 December 2014

Report on the financial statements
We have audited the accompanying consolidated financial statements of Action Hotels plc ("the Company") and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as of 31 December 2014 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements
The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of Jersey law. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Report on other legal and regulatory requirements
We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the 2014 Highlights, Timeline, Geographical Presence, Chairman's Statement, Strategic Report, Chief Executive Officer's Review, Finance Review, Principle Risks and Uncertainties, Board of Directors, Directors' Report, Statement of Directors' Responsibilities and Remuneration Report.

In our opinion the information given in the directors' report is consistent with the financial statements.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Viren Lodhia
For and on behalf of PricewaterhouseCoopers
Dubai, United Arab Emirates
11 May 2015

Consolidated Income Statement

for the year ended 31 December 2014

	Notes	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000 Restated
Revenue	4	**37,572**	29,763
Cost of sales		**(10,040)**	(7,447)
Gross profit		**27,532**	22,316
General and administrative expenses		**(21,453)**	(21,984)
Operating profit		**6,079**	332
Adjusted EBITDA	5	**11,262**	8,421
Depreciation and amortisation	13, 15	**(4,466)**	(3,745)
Restructuring and listing costs	8	**(187)**	(4,238)
Pre-opening expenses		**(530)**	(84)
Losses on disposal of property, plant and equipment		**–**	(22)
Operating profit	5	**6,079**	332
Finance income	9	**585**	361
Finance costs	10	**(4,438)**	(8,442)
Profit/(loss) before tax		**2,226**	(7,749)
Tax charge	11	**(332)**	(91)
Profit/(loss) for the year attributable to owners of the company		**1,894**	(7,840)
Profit/(loss) per share attributable to owners of the company:			
Basic (cents)	12	**1.3**	(7.7)
Diluted (cents)	12	**1.3**	–

All operations were continuing throughout the years. The accompanying notes on pages 49 to 90 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2014

	Notes	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000 Restated
Profit/(loss) for the year		**1,894**	(7,840)
Items that will not be reclassified subsequently to profit and loss:			
Gains on property revaluations	15	**21,771**	12,260
Tax charge relating to property revaluations	11	**(54)**	(712)
		21,717	11,548
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations	26	**(5,614)**	286
Other comprehensive income for the year net of tax		**16,103**	11,834
Total comprehensive income for the year attributable to owners of the company		**17,997**	3,994

Total comprehensive income attributable to equity shareholders arises from continuing operations.

The accompanying notes on pages 49 to 90 are an integral part of these financial statements.

Consolidated Statement of Financial Position

for the year ended 31 December 2014

	Notes	At 31 December 2014 USD'000	At 31 December 2013 USD'000 Restated
Non-current assets			
Intangible assets	13	**12,170**	13,198
Investment properties	14	**13,506**	–
Property, plant and equipment	15	**272,739**	227,481
		298,415	240,679
Current assets			
Cash and bank balances	16	**6,734**	43,626
Trade and other receivables	17	**4,972**	6,516
Receivables due from related parties	18	**3,992**	13,810
Inventories		**132**	111
		15,830	64,063
Total assets		**314,245**	304,742
Current liabilities			
Trade and other payables	19	**8,340**	16,111
Payables due to related parties	18	**625**	161
Bank borrowings	20	**15,646**	10,284
Partners' current account	21	–	–
		24,611	26,556
Net current (liabilities)/assets		**(8,781)**	37,507
Non-current liabilities			
Loans due to related parties	22	–	57
Bank borrowings	20	**94,255**	98,032
Provision for end of service benefits	23	**620**	490
Deferred tax liabilities	24	**8,770**	9,098
		103,645	107,677
Total liabilities		**128,256**	134,233
Net assets		**185,989**	170,509
Equity			
Share capital	25	**24,102**	24,102
Share premium	25	**124,479**	124,479
Revaluation reserve		**71,389**	49,672
Merger and other reserves	26	**(4,492)**	1,122
Retained loss		**(29,489)**	(28,866)
Total equity attributable to owners of the company		**185,989**	170,509

The accompanying notes on pages 49 to 90 are an integral part of these financial statements. The consolidated financial statements were approved by the Board of Directors and authorised for issue on 11 May 2015. They were signed on its behalf by:

Alain Debare, Chief Executive Officer

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

Equity attributable to the equity holders of the Company

	Share capital USD'000	Share premium USD'000	Revaluation reserve USD'000 Restated	Merger and other reserves (note 26) USD'000 Restated	Retained earnings USD'000 Restated	Total USD'000 Restated
At 1 January 2013 (as previously reported)	**16,325**	**88,143**	**42,634**	**(80,112)**	**(25,584)**	**41,406**
Impact of prior year restatement (note 36)	–	–	(4,510)	–	4,510	–
At 1 January 2013 (Restated)	**16,325**	**88,143**	**38,124**	**(80,112)**	**(21,074)**	**41,406**
Total comprehensive income/(loss) for the year	–	–	11,548	286	(7,840)	3,994
Merger reserve distributions	–	–	–	(806)	–	(806)
Reserves transfer	–	–	–	(48)	48	–
Shareholder capitalisation of loans	–	–	–	74,022	–	74,022
Shareholder contribution of land	–	–	–	7,135	–	7,135
Share issue less costs	7,777	36,336	–	49	–	44,162
Share-based payments	–	–	–	596	–	596
At 31 December 2013 (Restated)	**24,102**	**124,479**	**49,672**	**1,122**	**(28,866)**	**170,509**
Total comprehensive income/(loss) for the year	–	–	21,717	(5,614)	1,894	17,997
Dividends (note 28)	–	–	–	–	(2,517)	(2,517)
At 31 December 2014	**24,102**	**124,479**	**71,389**	**(4,492)**	**(29,489)**	**185,989**

The accompanying notes on pages 49 to 90 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2014

	Notes	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000 Restated
Cash flows from operating activities:			
Net profit/(loss) for the period		**1,894**	(7,840)
Adjustments for:			
Finance costs	10	**4,438**	8,442
Finance income	9	**(585)**	(361)
Tax charge	11	**332**	91
Depreciation of property, plant and equipment	15	**3,927**	3,339
Amortisation of intangible assets	13	**539**	406
Provision for end of service benefits	23	**210**	154
Losses on disposal of property, plant & equipment		**–**	22
Share based payment expense		**–**	596
Revaluation of investment property	14	**(1,490)**	–
Restructuring & listing costs	8	**187**	4,238
Operating cash flows before payments of employees' end of service benefits and movements in working capital:		**9,452**	9,087
Payment of employees end of service benefits	23	**(67)**	(36)
Decrease/(increase) in receivables		**1,477**	(335)
Increase in related party receivables		**9,550**	40
Decrease in inventory		**(26)**	(22)
(Decrease)/increase in payables		**(7,715)**	1,386
Increase in related party payables		**534**	81
Net cash generated from operating activities		**13,205**	10,201
Cash flow from investing activities			
Interest received		**15**	361
Drawdown of related party receivables		**–**	(2,091)
Repayment of related party receivables		**–**	376
Purchase of investment property		**(12,405)**	–
Transfers to restricted cash		**(1,185)**	(1,082)
Purchases of property, plant and equipment		**(33,804)**	(7,627)
Net cash used in investing activities		**(47,379)**	(10,063)
Cash flow from financing activities			
Repayment of borrowings – Bank loans		**(13,276)**	(2,213)
Drawdown of borrowings – Bank loans		**17,840**	12,648
Drawdown of borrowings – Related party		**–**	325
Repayment of partners' current account		**–**	(22)
Drawdown on partners' current account		**–**	292
Proceeds on issue of shares		**–**	44,423
Share issue costs paid		**–**	(4,600)
Finance costs paid		**(4,438)**	(5,502)
Tax paid		**(118)**	–
Dividends paid		**(2,517)**	(1,346)
Restructuring and listing costs paid		**(187)**	(3,665)
Net cash (used in)/generated from financing activities		**(2,696)**	40,340
Net (decrease)/increase in cash and cash equivalents		**(36,870)**	40,478
Cash and bank balances at the beginning of the period	16	**42,028**	1,385
Effect of foreign exchange changes		**(183)**	165
Unrestricted cash and cash equivalents at end of the period	16	**4,975**	42,028
Restricted cash balance		**1,759**	1,598
Total cash and cash equivalents	16	**6,734**	43,626

The accompanying notes on pages 49 to 90 are an integral part of these financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2014

1. General information
Action Hotels plc ("the Company") is incorporated in Jersey under the Companies (Jersey) Law 1991. The address of the registered office is 1st Floor, 17 Bond Street, St Helier, Jersey, JE2 3NP, Channel Islands. The Company is a public limited company and has its primary listing on the AIM division of the London Stock Exchange. The principal activities of the Company and its subsidiaries ("the Group") are owning, developing and operating hotels in the Middle East. The Group's principal administrative subsidiary, Action Hotels Limited, is domiciled in Dubai International Financial Centre, which is its principal place of business.

2. Significant accounting policies
The principle accounting policies applied in the preparation of these consolidated financial statements are set below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRS Interpretation Committee interpretations as adopted by the European Union. The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain classes of property, plant and equipment and investment properties.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

In accordance with Article 105 (11) of the Companies (Jersey) Law 1991, the parent company is not required to present separate financial statements as consolidated statements have been presented.

Going Concern
The Group has reported accumulated losses of USD 29,489,000 (2013 restated: USD 28,866,000) as at 31 December 2014, and as of that date, the Group's current liabilities exceed its current assets by USD 8,781,000 (2013 restated: current asset exceed current liabilities by USD 37,507,000). Total assets continue to exceed total liabilities by USD 185,989,000 (2013 restated: USD 170,509,000).

Notwithstanding this, the financial statements have been prepared on the going concern basis. The Directors have made this assessment after consideration of the Group's expenditure commitments, current financial projections and expected future cash flows, together with the available cash resources and undrawn committed borrowing facilities.

Further information on the Group's business activities, cash flows, liquidity and performance are set out in the Directors' report and Strategic report and its objectives, policies and processes for managing its capital and financial risks are detailed in note 29.

2.2 Basis of consolidation
Acquisition of businesses under common control
Action Hotels plc was incorporated in Jersey on 7 May 2013 and took control of the Action Hotels business on 9 December 2013 through the following common control transactions with its shareholder ("the Transaction"). The Company issued 100 million shares to its shareholder in return for 100% of the beneficial interest in and voting control over the issued share capital of Action Hotels Limited, a company incorporated in Dubai International Financial Centre. Action Hotels Limited in turn acquired 100% of the issued share capital of Action Hotels Company LLC, a company incorporated in Kuwait, through a share for share exchange.

Action Hotels plc was subsequently admitted to trading on the AIM division of the London Stock Exchange and issued a further 47,600,000 shares on 23 December 2013.

Notes to the consolidated financial statements
for the year ended 31 December 2014

2. Significant accounting policies *continued*

Pursuant to the Transaction, Action Hotels Company LLC, which had previously been the parent company of the Group became a subsidiary of Action Hotels plc and the existing shareholder of Action Hotels Company LLC became the shareholder in Action Hotels plc. Accordingly, the prior period financial statements have been prepared using merger accounting principles. The comparative information prior to the date of Transaction presented in these financial statements therefore represents the consolidated results of the Group under its previous parent company. The following accounting treatment has been applied to account for the Transaction:

– the consolidated assets and liabilities of Action Hotels Company LLC and its subsidiaries ("the Subsidiary Group") were recognised and measured at the pre-Transaction carrying amounts, without restatement to fair value;

– the retained earnings and other equity balances recognised in the consolidated statement of financial position reflect the consolidated retained earnings and other equity balances of the Subsidiary Group adjusted to reflect the share capital and share premium of the Company at the time of the Transaction; and

– the comparative balances as at 31 December 2012 and the results for 2012 and the period from 1 January 2013 to the date of the Transaction, are those of the Subsidiary Group.

The contribution of the business and assets of the ibis Salmiya hotel to Action Hotels Company LLC on 1 April 2013 has also been accounted for under merger accounting principles as it was previously under common control.

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Group (its subsidiaries). The Group controls an entity when the Group is exposed to, or has rights to, variable returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Uniform accounting policies have been adopted across the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation. The full list of subsidiaries included in the consolidated financial statements is included in note 34.

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred by the Group, the liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Notes to the consolidated financial statements
for the year ended 31 December 2014

2. Significant accounting policies *continued*

Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a charge in other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

2.3 Foreign currency translation

Functional and presentation currency

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

A presentational currency of US Dollars has been used on the basis that the functional currency in the majority of jurisdictions in which the Group operates and which represent its primary economic environment are either pegged to the US Dollar, or pegged to a basket of currencies, which include the US Dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains/(losses) that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income' and 'finance costs'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets measured at fair value, such as equities classified as available for sale, are included in other comprehensive income.

Group companies

The results and financial position of all Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each balance sheet are translated at the closing rate at the date of the consolidated balance sheet;

ii) income and expenses for each income statement are translated at average rates; and

iii) all resulting exchange differences are recognised in other comprehensive income.

2.4 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables.

Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available–for–sale. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise of cash and cash equivalents, trade and other receivables and receivables due from related parties (Notes 16, 17, 18). Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of trade receivables is described in Note 2.10.

Notes to the consolidated financial statements
for the year ended 31 December 2014

2. Significant accounting policies *continued*

2.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amounts reported in the balance sheet when there is a legally enforceable rights to offset the recognised amounts and there is intention to settle on a net basis or realise the assets and settle the liability simultaneously. The legally enforceable rights must not be contingent on future events and must be enforceable on the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counter party.

2.6 Intangible assets

Intangible assets are initially recognised as the cost of acquiring interests in trading properties held under operating leases. In the event that leasehold interests that attract significant lease premiums are contributed by the shareholder, these are capitalised at their fair value on the date of contribution, being an approximation to 'deemed cost'.

Intangible assets are subsequently recognised at cost less accumulated amortisation, with amortisation charged on a straight-line basis over the remaining lease period.

2.7 Investment properties

Investment properties comprise land held for undetermined use. Land is not depreciated. Investment properties are initially measured at cost, including related transaction costs, and thereafter is stated at fair value at the balance sheet date. Gains and losses arising from the changes in fair value of investment property are recognised in the consolidated income statement.

2.8 Property, plant and equipment

The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Pre-opening costs are expensed as incurred, except where these relate to purchase of other items of property, plant and equipment, which are capitalised.

Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance costs, is normally charged to the income statement in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property, plant and equipment.

Hotels in operation or under construction are revalued to fair value at the end of each reporting period. Gains or losses arising from changes in the fair value of each property are recognised in the statement of total comprehensive income and the revaluation reserve. Any deficit on revaluation, if temporary, is recognised in the statement of total comprehensive income and the revaluation reserve. If a deficit below original cost arises it is recognised in the income statement.

Undeveloped land sites are stated at cost less impairment losses, unless the land sites are held for undetermined use, in which case they are classified as investment properties.

An annual transfer from asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued amount and depreciation on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve is realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.

Notes to the consolidated financial statements
for the year ended 31 December 2014

2. Significant accounting policies *continued*

Depreciation is computed on a straight-line basis over the estimated useful lives of operational assets.

	Depreciation percentage
Land	Nil
Buildings	2%
Fixtures, fittings and equipment	10-15%
Motor vehicles	33%

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to depreciation or amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Each property and undeveloped land site is treated as a separate cash-generating unit.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase in other comprehensive income.

2.10 Trade receivables

Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of a provision for impairment account, and the amount of loss is recognised in the consolidated income statement within general and administrative expenses. When a trade receivable is uncollectable, it is written off against the provision for impairment account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement within general and administrative expenses.

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Notes to the consolidated financial statements
for the year ended 31 December 2014

2. Significant accounting policies *continued*

2.11 Cash and cash equivalents

Cash and short–term deposits in the balance sheet comprise cash at bank and in hand and short–term deposits with an original maturity of three months or less. Cash at bank and in hand is both restricted (note 2.12) and non-restricted. For the purpose of the consolidated cash flow statement, cash and cash equivalents consists of cash and bank balances as defined above, net of outstanding bank overdrafts and restricted cash. Bank overdrafts are shown within borrowings in current liabilities.

2.12 Restricted cash

Restricted cash on hand and at bank represents cash held in designated accounts for the replacement of fixtures, fittings and equipment of operating hotels, in line with the contractual terms set out in the respective hotels' management agreements.

2.13 Inventories

Inventories are valued at the lower of cost or net realisable value after providing allowances for any obsolete or slow-moving items. Cost is determined on a weighted average basis.

2.14 Accounts payable

Accounts payable include trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2.15 Borrowings and borrowing costs

Borrowings include bank loans, notes payable and amounts due to related parties. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.16 Provision for end of service benefits

Provision is made for the estimated liability, using actuarial techniques, for the full amount of end of service benefits due to employees in accordance with the local labour law for the period of service up to the balance sheet date. The provision for end of service benefits is disclosed as a non-current liability.

2.17 Partners' current account

The Partners' current account principally represents the net amount invested in the Group in the form of loans by the principal shareholder in excess of capital contributions prior to 30 June 2013. It was also used as a current account for expenses incurred by the Partners on behalf of the Group and vice versa. It was converted into equity on 30 June 2013.

2.18 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates, municipality fees and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Notes to the consolidated financial statements
for the year ended 31 December 2014

2. Significant accounting policies *continued*

Owned and leased hotels
Revenue is primarily derived from hotel operations, including the rental of rooms, food and beverage sales and other services from owned and leased hotels operated under the Group's brand names. Revenue is recognised when rooms are occupied, food and beverages are sold and services are performed.

Customer loyalty programmes
The Group's hotels participate in the Le Club Accor hotels and IHG Rewards customer loyalty programmes to provide customers with incentives to buy room nights. These customer loyalty programmes are owned and operated by Accor/IHG respectively and, therefore, the entity retains no obligations in respect of the award credits other than to pay the programme operator for the granted award credits. The customers are entitled to utilise the awards as soon as they are granted.

The Group purchases these award credits and issues these to its customers in order to enhance its customer relationships rather than to earn a margin from the sale of these award credits. The Group concluded that it is acting as principal in this transaction and, in substance, is earning revenue from supplying these awards to its customer.

The Group measures these revenues at fair value and recognises these gross from the costs of participating in the programme.

Interest income
Interest income is recognised on a time-apportionment basis using the effective interest method.

Other revenue and expenses
Other revenue and expenses are recognised on the accrual basis.

2.19 Adjusted EBITDA
Adjusted EBITDA has been defined as operating profit before depreciation, amortisation, restructuring and listing costs, gains and losses arising from the disposal of property, plant and equipment and pre-opening costs.

Pre-opening expenses include staff costs and related expenses, administration expenses and marketing expenses incurred as part of the pre-opening and soft opening phase of the hotel. The soft opening phase can last for a period of up to 6 months depending on the size of the hotel and agreed opening strategy. Following this, expenses are included within normal operating expenses.

2.20 Operating profit
Operating profit is stated before finance income, finance costs and tax charges.

2.21 Taxation
The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

Notes to the consolidated financial statements
for the year ended 31 December 2014

2. Significant accounting policies *continued*

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of asset and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable and sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the statement of income, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.22 Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

The fair value is determined at the grant date of the equity-settled share-based payments and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each statement of position date the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

2.23 Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognised for future operating losses.

2.24 Operating leases

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease, except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefit from the leased asset are consumed.

Notes to the consolidated financial statements
for the year ended 31 December 2014

2. Significant accounting policies *continued*

Where a lease includes terms such that the Group has the option to extend the lease, the lease term is determined as the shortest period up to where management are reasonably certain the options will be exercised.

2.25 Contingent liabilities

Contingent liabilities are not recognised but disclosed in the consolidated financial statements except when the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

2.26 Share capital

Ordinary shares are classified as equity.

2.27 Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit/(loss) for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit/(loss) for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

2.28 Dividend distribution

Dividend distributions to the company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.29 Restructuring and listing costs

Restructuring and listing costs are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that relate to the costs incurred in connection with the Group's restructuring as part of the process surrounding the public offering and its admission on the AIM division of the London Stock Exchange both before and after the admission date. They have been shown separately within adjusted EBITDA (note 2.19) due to the significance of their nature or amount.

2.30 Standards and interpretations issued but not effective

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2014:

i) IFRS 10, 'Consolidated financial statements' (effective 1 January 2013) (endorsed 1 January 2014);

ii) IFRS 11, 'Joint arrangements' (effective 1st January 2013) (endorsed 1 January 2014);

iii) IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013) (endorsed 1 January 2014);

iv) Amendments to IAS 32 on Financial instruments asset and liability offsetting (effective 1 January 2014);

v) Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures (effective 1 January 2014);

vi) Amendment to IAS 39 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting (effective 1 January 2014); and

vii) IFRIC 21, 'Levies' (effective 1 January 2014) (endorsed 17 June 2014).

The adoption of these standards has had no material impact on the Group's financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2014

2. Significant accounting policies *continued*

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards have been published but have not been early adopted by the Group or Company and could have a material impact on the Group and Company financial statements:

(i) IFRS 9, 'Financial instruments' (effective 1 January 2018); and

(ii) IFRS 15, 'Revenue from contracts with customers' (effective 1 January 2017).

At the time of preparing this report the Group continues to assess the possible impact of the adoption of these standards in future periods and updates will be provided in a future annual report.

A number of other new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

3. Critical judgements and accounting estimates

The Group makes judgements, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires Management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial information and the reported amounts of revenue and expenses during the period. Actual results could differ from the estimates.

Judgements

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Control over voting shares not owned and assets held under trust

The determination of the Company's ability to exercise control over Action Hotels Limited, whose voting shares are not owned by the Company, and the Australian operations which are held under trust structures, requires judgement as the Group's control is reliant on options to purchase the relevant shares and powers of attorney in relation to the shares and voting rights. The directors have concluded that control is exercised and have therefore consolidated the results of Action Hotels Limited and the Australian operations.

(ii) Recognition of appropriate lease accounting treatments

The determination of whether any of the Group's leases constitute a finance lease under IAS 17 requires judgement. The directors' have concluded that none of the Group's leases should be recognised as a finance lease. Accordingly, all leases are presented as operating leases.

(iii) Determination of foreign ownership in certain jurisdictions

In certain of the jurisdictions that the Group operates in, foreign ownership of its assets or business is either prohibited or could result in additional tax liabilities. Management is confident that the corporate structure put in place as part of the Company's admission to the AIM division of the London Stock Exchange mitigates the risks posed in this respect. Management has therefore concluded that no material tax exposure exists in these jurisdictions.

Should the Group's business in these jurisdictions become subject to tax under the current structure, Management estimates that USD 346,000 of income tax would potentially be assessed on the Group for the year ended 31 December 2014.

(iv) Contribution of leasehold interest by principal shareholder

During the prior year, the principal shareholder contributed in kind a leasehold interest in a property, the ibis Salmiya. Management are of the view that if acquired in the open market, such a leasehold interest would carry a substantial lease premium, as is common in the industry. Management has concluded that this leasehold interest therefore comprises an intangible asset contributed in kind by the shareholder, and has been capitalised as such.

Notes to the consolidated financial statements
for the year ended 31 December 2014

3. Critical judgements and accounting estimates *continued*

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period 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:

(i) Fair value of hotels in operation, hotels under construction and investment properties

The Group carries its hotels in operation, hotels under construction and investment properties at fair value. Changes are recognised in the statement of comprehensive income for hotels in operation and under construction and in the income statement for investment properties. The Group engaged independent valuation specialists to assist the Directors to determine the fair value as at the reporting date.

There is a lack of comparable transaction data because of the nature and location of the properties. The valuers used a valuation technique based on a discounted cash flow model. The determined fair value of the completed properties is highly sensitive to the estimated discount rate as well as the long-term projected future hotel occupancy and room rates. These in turn are dependent on key operating assumptions.

For hotels under construction, there is some judgement as to whether the fair value can be reliably measured by an independent valuer due to the sensitivity over the estimated costs to complete as well as an adjustment for a hypothetical 'developer's profit' based on the level of development risk remaining in the project. Where the fair value is not considered to be reliably measurable by an independent valuer, hotels under construction are measured at cost until the fair value becomes reliably measurable or construction is completed, whichever is earlier.

(ii) Impairment of undeveloped land sites

Undeveloped land sites are held at cost less impairment provisions. Impairment reviews have been performed based on an assessment of the present values of future cash flows from developing and operating hotels. The estimated future cash flows and discount rates are subject to inherent uncertainty and are in some cases reliant on the envisaged planning permission being granted.

(iii) Depreciation of property, plant and equipment

Hotel properties are depreciated over their estimated useful economic lives. Land is assumed to have an infinite life and buildings are estimated to have useful economic lives of 50 years, with no residual values. The allocation of revaluation changes to land or buildings affects the depreciation charge and the Group generally attributes the majority of valuation changes to the land element of the property.

(iv) Provision for deferred tax

Deferred tax arises on the timing differences between the carrying value of the Group's hotel properties and their tax bases. In some jurisdictions the timing differences related to land are not taxable. The Group generally attributes the majority of valuation changes to the land element of the property.

4. Revenue

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000
Rooms	**30,164**	23,992
Food and beverage	**6,195**	4,460
Others	**1,213**	1,311
	37,572	29,763

The Group's revenue arises from hotel operations, including the rental of rooms, food and beverage sales and other services from owned and leased hotels. The geographical split of revenue is disclosed in note 6.

Notes to the consolidated financial statements
for the year ended 31 December 2014

5. Operating profit and adjusted EBITDA

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000 Restated
Operating profit for the period is stated after charging/(crediting):		
Depreciation of property, plant and equipment (Note 15)	**3,927**	3,339
Amortisation of intangible assets (Note 13)	**539**	406
Restructuring and listing costs (Note 8)	**187**	4,238
Pre-opening expenses	**530**	84
Share-based payments (Note 27)	**–**	19
Operating lease rentals	**2,762**	2,980
Unrealised gain on investment properties (Note 14)	**(1,448)**	–
Employee costs (Note 7)	**6,142**	7,428

Restructuring and listing costs include an amount of USD nil (2013: USD 577,000) relating to share warrants.

The adjusted EBITDA for the year can be derived as follows:

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000 Restated
Operating profit	**6,079**	332
Depreciation of property, plant and equipment	**3,927**	3,339
Amortisation of intangible assets	**539**	406
Restructuring and listing costs	**187**	4,238
Pre-opening expenses	**530**	84
Losses on disposal of property, plant and equipment	**–**	22
Adjusted EBITDA	**11,262**	8,421

Pre-opening expenses include staff costs and related expenses, administration expenses and marketing expenses incurred as part of the pre-opening and soft opening phase of the hotel. The soft opening phase can last for a period of up to 6 months depending on the size of the hotel and agreed opening strategy. Following this, expenses are included within normal operating expenses.

6. Business and geographical segments

The Board of Directors of the Group is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board for the purposes of allocating resources and assessing performance of the Group.

The Group's reportable segments are the operational hotels in the Middle East and in Australia, hotels under construction and undeveloped land sites which are managed and reported to the Board as separate distinct business units.

The Group's operating segments are its individual hotels. These have been aggregated into two reportable segments, as each operating segment within these regions has similar economic characteristics.

Central management costs represent the head office and management costs incurred at the Group level, which have not been subsequently allocated to any particular operating segment.

Notes to the consolidated financial statements
for the year ended 31 December 2014

6. Business and geographical segments *continued*

Each of the geographical segments derives its revenue from the ownership and management of hotel operations.

Segmental revenue and results

The following is an analysis of the Group's revenue and results by reportable segments:

Year ended 31 December 2014	Middle East USD'000	Australia USD'000	Consolidated USD'000
Revenue	30,626	6,946	37,572
Adjusted EBITDA – hotel operations	11,217	2,408	13,625
Central management and other costs			(7,546)
Operating profit			6,079
Finance income			585
Finance costs			(4,438)
Profit before tax			2,226

Year ended 31 December 2013 (Restated)	Middle East USD'000	Australia USD'000	Consolidated USD'000
Revenue	22,642	7,121	29,763
Adjusted EBITDA – hotel operations	9,878	2,374	12,252
Central management and other costs			(11,920)
Operating profit			332
Finance income			361
Finance costs			(8,442)
Loss before tax			(7,749)

The revenue of each segment for each period arises wholly from external sales.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2 for each period. Adjusted EBITDA for hotel operations represent the profit earned by each segment without allocation of central administration costs including directors' salaries, pre-opening costs, investment revenue and finance costs, and tax.

Notes to the consolidated financial statements
for the year ended 31 December 2014

6. Business and geographical segments *continued*

Segmental Assets

	At 31 December 2014 USD'000	At 31 December 2013 USD'000 Restated
Middle East hotel operations	**226,628**	169,514
Australia hotel operations	**32,985**	34,666
Hotels under construction (note 15)	**46,422**	33,569
Undeveloped land sites (note 15)	**3,932**	21,505
Not allocated	**4,278**	45,488
	314,245	304,742

For the purposes of monitoring segment performance and allocating resources between segments, the Group's management monitor the tangible, intangible and financial assets attributable to each segment.

Assets classed as not allocated represent the current assets attributable to the central management function of the business and mainly relate to head office cash balances and certain balances with related parties.

Other segmental information

Additions and contributions to property, plant and equipment	At 31 December 2014 USD'000	At 31 December 2013 USD'000 Restated
Middle East hotel operations	**5,402**	249
Australia hotel operations	**–**	3
Hotels under construction (note 15)	**29,330**	16,508
Undeveloped land sites (note 15)	**–**	47
	34,732	16,807

Geographical information – Revenue

The country of domicile for the Group's head office is Dubai International Financial Centre; the table below shows the revenue from external customers split between those attributed to the country of domicile, Kuwait and all other foreign countries.

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000
Dubai International Financial Centre	**–**	–
Kuwait	**13,513**	12,892
Rest of the world	**24,059**	16,871
	37,572	29,763

Notes to the consolidated financial statements
for the year ended 31 December 2014

6. Business and geographical segments *continued*

Geographical information – Non-current assets

The country of domicile for the Group's head office is Dubai International Financial Centre; the table below shows the non-current asset split between those attributed to the country of domicile and all foreign countries.

	At 31 December 2014 USD'000	At 31 December 2013 USD'000 Restated
Dubai International Financial Centre	**13,085**	7,136
Kuwait	**70,567**	32,386
Rest of the world	**214,763**	201,157
	298,415	240,679

7. Employees and directors

The average number of employees, including directors:

	Year ended 31 December 2014 Number	Year ended 31 December 2013 Number
Head office	**13**	11
Hotels	**318**	239
	331	250

The aggregate remuneration of the above employees, including directors comprised:

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000
Wages and salaries	**4,283**	5,140
Other benefits	**1,859**	2,269
Share based payment charge (note 27)	**–**	19
	6,142	7,428

Other benefits includes the charge for provision for end of service benefit amounting to USD 210,000 (2013: USD 154,000), note 23.

8. Restructuring and listing costs

The Group classified costs in connection with its restructuring in the period up to and shortly following the public offering and its admission to trading on the AIM division of the London Stock Exchange separately. The costs expensed in the consolidated income statement totalled USD 187,000 (2013 restated: USD 4,238,000) including USD nil (2013: USD 577,000) of warrant issue costs. In 2013, share issue costs of USD 5,657,000 were deducted from the share premium account (note 25).

Notes to the consolidated financial statements
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9. Finance income

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000
Bank interest	**15**	7
Related party interest (note 18)	**223**	354
Net foreign exchange gains on financing activities	**347**	–
	585	361

10. Finance costs

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000 Restated
Interest payable on bank borrowings	**4,411**	4,408
Net foreign exchange losses on financing activities	–	3,132
Interest on Partners' current account	–	483
Loan financing costs	**27**	283
Other finance costs	–	136
	4,438	8,442

In addition to the finance costs recognised in the consolidated statement of income, the following finance costs have been capitalised within assets in the course of construction by the Group:

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000
Interest payable on bank borrowings	**1,412**	888

11. Tax charge

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000 Restated
Current tax charge	**(159)**	(100)
Deferred tax (charge)/credit (note 24)	**(173)**	9
	(332)	(91)

The Group's head office is domiciled in the Dubai International Financial Centre (DIFC). The Group's effective tax rate in the country of domicile is 0% (2013: 0%). The Group's tax liabilities arise in other jurisdictions in which it operates.

Notes to the consolidated financial statements
for the year ended 31 December 2014

11. Tax charge *continued*

In addition to the amounts charged to the statement of income, the following amounts relating to tax have been recognised in other comprehensive income:

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000 Restated
Deferred Tax		
Items that will not be reclassified subsequently to profit or loss:		
Gains on property revaluation (note 24)	**54**	712
Tax expense recognised in other comprehensive income	**54**	712

12. Earnings/(loss) per share

Basic earnings/(loss) per share

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

	Year ended 31 December 2014	Year ended 31 December 2013 Restated
Profit/(loss) for the period (USD'000)	**1,894**	(7,840)
Weighted average number of ordinary shares in Action Hotels plc	**147,637,195**	101,174,616
Basic profit/(loss) per share (USD)	**0.013**	(0.077)

Diluted earnings/(loss) per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares, share options and share warrants.

	Year ended 31 December 2014	Year ended 31 December 2013 Restated
Profit/(loss) for the period (USD'000)	**1,894**	(7,840)
Weighted average number of ordinary shares in Action Hotels plc	**147,637,195**	101,174,616
Dilution impact of share options and share warrants	**3,265,914**	–
Diluted number of ordinary shares for the purpose of diluted loss per share	**150,903,109**	–
Diluted profit/(loss) per share (USD)	**0.013**	–

For periods where the Group was loss-making, dilution has no effect on loss per share. Profit/(loss) for the period arose wholly from continuing operations.

Notes to the consolidated financial statements
for the year ended 31 December 2014

13. Intangible assets

	Short leasehold interest USD'000 Restated
Cost:	
At 1 January 2013 (Restated)	–
Addition	13,525
Foreign currency translation adjustment	81
At 31 December 2013 (Restated)	**13,606**
Foreign currency translation adjustment	(520)
At 31 December 2014	**13,086**
Accumulated amortisation and impairment:	
At 1 January 2013 (Restated)	–
Amortisation charge	406
Foreign currency translation adjustment	2
At 31 December 2013 (Restated)	**408**
Amortisation charge	539
Foreign currency translation adjustment	(31)
At 31 December 2014	**916**
Net book value:	
At 31 December 2014	**12,170**
At 31 December 2013	**13,198**

On 1 April 2013, the trade and assets of the ibis Salmiya hotel were transferred from a related party by means of a capital contribution. The results of the hotel operations have been included in each period using the principles of merger accounting as the business was under common control.

In parallel to this, an operating lease arrangement, including the related lease premium, was contributed in kind as a non-cash asset from the shareholder.

At the date of contribution, an independent valuer has determined the fair value (being the 'deemed cost') of the lease premium to be USD 13,525,000.

This contribution from the shareholder is recognised as an intangible asset, and subsequently measured at cost less amortisation over 25 years, representing the term of the lease, since the Group plans to exercise its option to extend the initial lease of 5 years by a further 20 years.

Notes to the consolidated financial statements
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14. Investment properties

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000
At 1 January	–	–
Addition	12,058	–
Revaluation	1,490	–
Foreign currency translation	(42)	–
At 31 December	**13,506**	–

Investment properties comprise land held for undetermined use. Land is not depreciated. Investment properties are carried at fair value as determined by an independent valuer.

The residual price technique has been used by the independent professionally qualified valuer, which is explained as follows:

Residual price technique represents determination of the estimated selling price of a project development of the plot of land; reduced by the estimated construction and other cost to completion that would be incurred by a market participant and an estimated profit margin that a market participant would require to hold and develop the plots to completion. This technique of valuation was applied to the plot of land within investment properties which is held for undetermined future use. The valuation method adopted for the land was based on inputs that are not based on observable market data (that is, unobservable inputs – level 3).

Notes to the consolidated financial statements
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15. Property, plant and equipment

	Operational Hotels							
	Land USD'000	Buildings USD'000	Fixtures, Fittings & Equipment USD'000	Hotels under construction[1] USD'000	Undeveloped land USD'000	Other FF&E USD'000	Vehicles USD'000	Total[1] USD'000
Cost or valuation:								
At 1 January 2013	**61,731**	**53,230**	**17,157**	**65,104**	**34,168**	**52**	**22**	**231,464**
Additions	–	6	136	9,373	47	70	38	9,670
Contribution of land	–	–	–	7,135	–	–	–	7,135
Disposals	–	–	(22)	–	(9,585)	–	(21)	(9,628)
Revaluation	3,809	–	–	8,451	–	–	–	12,260
Transfers	24,229	26,550	5,987	(56,766)	–	–	–	–
Foreign currency translation	(3,057)	(2,395)	(952)	272	(3,125)	–	–	(9,257)
At 31 December 2013[1]	**86,712**	**77,391**	**22,306**	**33,569**	**21,505**	**122**	**39**	**241,644**
Additions	–	211	3,620	29,330	–	1,542	29	34,732
Revaluation	2,145	12,599	–	7,027	–	–	–	21,771
Transfers	1,588	34,729	3,672	(23,004)	(16,985)	–	–	–
Foreign currency translation	(2,866)	(3,362)	(626)	(500)	(588)	–	–	(7,942)
At 31 December 2014	**87,579**	**121,568**	**28,972**	**46,422**	**3,932**	**1,664**	**68**	**290,205**
Accumulated depreciation:								
At 1 January 2013	–	3,738	7,918	–	–	40	22	11,718
Charge for the year	–	1,071	2,257	–	–	7	4	3,339
Disposals	–	–	–	–	–	–	(21)	(21)
Foreign currency translation	–	(264)	(609)	–	–	–	–	(873)
At 31 December 2013	**–**	**4,545**	**9,566**	**–**	**–**	**47**	**5**	**14,163**
Charge for the year	–	1,583	2,296	–	–	35	13	3,927
Transfers	–	–	–	–	–	–	–	–
Foreign currency translation	–	(220)	(404)	–	–	–	–	(624)
At 31 December 2014	**–**	**5,908**	**11,458**	**–**	**–**	**82**	**18**	**17,466**
Net book value:								
At 31 December 2014	**87,579**	**115,660**	**17,514**	**46,422**	**3,932**	**1,582**	**50**	**272,739**
At 31 December 2013[1]	86,712	72,846	12,740	33,569	21,505	75	34	227,481

[1] Restated

Hotels in operation and under construction are carried at fair value as determined by an independent valuer. The capitalisation method has been used by the independent professionally qualified valuers, which is explained as follows.

The capitalisation method represents a method of determining the value of the asset by calculating the net present value of expected future earnings. The valuation method adopted is based on inputs not based on observable data (that is, unobservable inputs – level 3).

At 31 December 2013, had the land and buildings of the Group been carried at historical cost less accumulated depreciation and impairment losses, their carrying amount would have been USD 188,219,000 (2013: USD 167,400,000). The revaluation surplus is disclosed in the Consolidated Statement of Changes in Equity. The revaluation surplus cannot be distributed due to legal restrictions.

Notes to the consolidated financial statements
for the year ended 31 December 2014

15. Property, plant and equipment *continued*

During the year the construction of the Ibis Seef has been completed and the carrying value of the assets of USD 39,989,000 has been transferred from assets under construction into property, plant and equipment of operational hotels.

Undeveloped land with a carrying value of USD 16,985,000 relating to Elizabeth Street Brisbane has been transferred to assets in the course of construction. Total assets in the course of construction as at 31 December 2014 for this hotel amounted to USD 24,302,000 (2013: USD nil). The remaining assets in the course of construction related to Premier Inn Sharjah USD 22,120,000 (2013: 7,135,000).

The land, buildings and fixtures and fittings of operational hotels and hotels under construction with a carrying amount of USD 267,175,000 (2013: USD 205,867,000) have been pledged to secure borrowings of the Group (note 20). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

16. Cash and cash equivalents

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Unrestricted		
Cash on hand and at bank	**4,975**	42,028
Restricted		
Cash on hand and at bank	**1,759**	1,598
	6,734	43,626

Restricted cash on hand and at bank represents cash held in designated accounts for the replacement of fixtures, fittings and equipment of operating hotels in line with the contractual terms set out in the respective hotel's management agreements.

17. Trade and other receivables

	At 31 December 2014 USD'000	At 31 December 2013 USD'000 Restated
Trade receivables	**2,586**	1,516
Less: provision for impairment of trade receivables	**(16)**	(16)
Trade receivables – net	**2,570**	1,500
Other receivables	**627**	2,420
Refundable deposits	**69**	40
Prepayments	**1,226**	816
Advance payments to suppliers	**480**	1,740
	4,972	6,516

The fair value of trade and other receivables approximate to their carrying values as at 31 December 2014 and 31 December 2013.

As of 31 December 2014, trade receivables of USD 1,224,000 (2013: USD 1,004,000) were fully performing.

Notes to the consolidated financial statements
for the year ended 31 December 2014

17. Trade and other receivables *continued*

As of 31 December 2014, trade receivables of USD 1,346,000 (2013: USD 496,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Up to 3 months	**1,000**	478
3 to 6 months	**346**	18
	1,346	496

There has been no movement in the provision for impairment of trade receivables (2013: none) and no trade debtors have been impaired during the year (2013: none).

The other classes within accounts receivable and other debit balances do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of debit balances mentioned above. The Group does not hold any collateral as security for accounts receivable and other debit balances.

18. Related party balances and transactions

The Group has entered into various transactions with related parties in the normal course of its business concerning financing and other related services. Prices and terms of payment are approved by the Group's management. All significant related party transactions and balances are listed below and are principally with entities under control of the Group's principal shareholder, Action Group Holding Co. KSCC (formerly described as the "Partner"):

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Due from related parties	**3,992**	13,810
Due to related parties	**(625)**	(161)
Loans due to related parties (note 22)	**–**	(57)
	3,367	13,592

Notes to the consolidated financial statements
for the year ended 31 December 2014

18. Related party balances and transactions *continued*

Due from related parties

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Action Real Estate Co. K.S.C.C.	–	7,976
IPO subscription receivable	–	3,232
Bronzia Company (Oman)	**870**	870
Action Group Holding Company K.S.C.C	**2,192**	713
Action Realty Australia Pty Ltd	**448**	455
74-80 Fitzgerald Road Australia Pty Ltd	**187**	186
Waterfront Project Australia Pty Ltd	**189**	188
Magna Properties Pty Co. W.L.L.	–	46
Jarabury Australia Pty Ltd	**41**	41
Mintabury Australia Pty Ltd	**40**	40
Sheikh Mubarak Abdullah Al Mubarak Al Sabah	–	16
Other	**25**	47
	3,992	13,810

Interest is charged on amounts due from related parties in Australia at a rate of 6%. The total interest charge of USD 223,000 (2013: 354,000) is included within note 9.

Subsequent to 31 December 2014, the Group collected and settled all the related party balances.

Due to related parties

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Lausanne Travel Co.	–	103
Action Real Estate Co. K.S.C.C.	**288**	–
Action Group Australia	**259**	56
Action Group Holding Company (Oman)	**78**	1
Other related parties	–	1
	625	161

Notes to the consolidated financial statements
for the year ended 31 December 2014

18. Related party balances and transactions *continued*

Expenditure incurred on services provided by related parties

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000
Action Group Holding Company K.S.C.C	**100**	500
Action Group Australia Company	**54**	241
Bronzia Company (Oman)	**–**	16
Lausanne for Travel and Tourism – W.L.L.	**203**	315
	357	1,072

Expenditure incurred by related parties on behalf of the Group and subsequently recharged:

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000
Action Group Holding Company (Oman)	**–**	1
Action Group Holdings (Kuwait)	**66**	29
Action Real Estate Co. K.S.C.C.	**87**	443
	153	473

Expenditure incurred by the Group on behalf of the related parties and subsequently recharged

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000
Action Business Centre Kuwait	–	16
Action Group Holdings (Kuwait)	–	36
Al Seef Hotels Co. W.L.L.	–	18
Magna Properties Pty Co. W.L.L.	–	7
	–	77

Related party interest

Related party interest income and expense are set out in notes 9 and 10 respectively.

Bronzia contract

USD 870,000 due from Bronzia Company (Oman) represents the outstanding balance of the net refund receivable from Bronzia Company (Oman) arising from a reduction by OMR 1,600,000 (USD 4,400,000) in the construction contract value. The construction contract initially valued at OMR 4,600,000 (USD: 12,100,000) was entered into with Bronzia Company (Oman) prior to 30 June 2013 for the construction of Holiday Inn Muscat. The construction was completed in December 2013.

Services provided by related parties for no consideration

Prior to the IPO on 23 December 2013, the Group received certain management services including human resources, finance support, senior management support and IT support from Action Group Holding Company K.S.C.C. and its other subsidiaries for no consideration.

Notes to the consolidated financial statements
for the year ended 31 December 2014

18. Related party balances and transactions *continued*

Transactions and agreements with related parties

The Group does not have ownership of the A shares of Action Hotels Limited, its principal subsidiary, which carry the voting rights and are held by Action Group Holding Company K.S.C.C, the principal shareholder. The Group therefore entered into the following agreements with Action Group Holding Company K.S.C.C. to safeguard its control over the subsidiary:

(a) a relationship agreement dated 17 December 2013 between the Company and Action Group Holding Company K.S.C.C. (the "Relationship Agreement") pursuant to which Action Group Holding Company K.S.C.C. has agreed that:

(i) the Group will be able to operate independently of Action Group Holding Company K.S.C.C. and its Associates (as defined in the Relationship Agreement). This will include a majority of the board being independent of Action Group Holding Company K.S.C.C. at all times. For clarity, for these purposes, the concept of independence can include the executive directors. The agreement further provides that any transactions or arrangements to be entered into between Action Group Holding Company K.S.C.C. (or its Associates) and the Group will require the approval of the Directors who are independent of Action Group Holding Company K.S.C.C.;

(ii) it will not (and will procure so far as it is able that its Associates will not) compete with the business of the Group (being budget/mid-market hotels worldwide);

(iii) the Group will have a 'right of first refusal' on any real estate assets held by it and which may be made available for hotels;

(iv) it will transfer any property, rights, assets or services held by it (or its Associates) and intended for use or required to be used by the Group to the Group;

(v) it will cooperate with the Company in the event that a restructuring is required to comply with local laws; and

(vi) the agreement will terminate if Action Group Holding Company K.S.C.C.'s (and its Associates) holding in the Company drops to below 30%.

(b) a call option agreement between the Company and Action Group Holding Company K.S.C.C. dated 9 December 2013 pursuant to the terms of which Action Group Holding Company K.S.C.C. has granted the Company an option to acquire the A ordinary shares in the capital of Action Hotels Limited for a nominal amount;

(c) a management agreement dated 16 December 2013 between the Company, Action Hotels Limited and Action Group Holding Company K.S.C.C. pursuant to the terms of which the Company exercises management control of Action Hotels Limited. The management agreement provides that:

(i) the Company has the sole right to manage Action Hotels Limited, and all operational decision-making power is vested exclusively with the Company;

(ii) the Company has the sole right to appoint and replace the directors of Action Hotels Limited;

(iii) the Company has the right to receive 100% of all distributions that are declared by Action Hotels Limited including on a liquidation; and

(iv) Action Group Holding Company K.S.C.C. shall not encumber (which includes creating any mortgage, charge, right to acquire or right of pre-emption) the A ordinary shares in Action Hotels Limited.

(d) the Power of Attorney granted by Action Group Holding Company K.S.C.C. to the Company to exercise the voting rights attached to the A ordinary shares in Action Hotels Limited.

Notes to the consolidated financial statements
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18. Related party balances and transactions *continued*

Remuneration of Key Management Personnel

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000
Salaries and consultancy fees	**694**	448
Other benefits	**34**	38
Share-based payments (note 27)	**–**	19
	728	505

Directors' remuneration disclosures are included in the Directors' Report.

19. Trade and other payables

	At 31 December 2014 USD'000	At 31 December 2013 USD'000 Restated
Trade payables	**1,597**	2,149
Subcontractors payable	**1,758**	3,502
Retentions payable	**1,053**	2,973
Accrued expenses	**3,506**	4,318
Other payables	**426**	3,169
	8,340	16,111

Trade payables balances are non-interest bearing.

The fair value of accounts payable and other credit balances approximate their carrying values as at each statement of financial position date.

20. Bank borrowings

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Bank loans	**109,901**	107,948
Overdraft	**–**	368
	109,901	108,316
Less: non-current bank loans	**(94,255)**	(98,032)
Current bank loans and overdraft	**15,646**	10,284

Notes to the consolidated financial statements
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20. Bank borrowings *continued*

The table below analyses the bank loans into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Due:		
6 months or less	**12,176**	7,665
6 – 12 months	**3,470**	2,619
1 – 2 years	**25,269**	6,851
2 – 5 years	**41,168**	50,534
More than 5 years	**27,818**	40,647
	109,901	108,316

The annual interest rate on loans is as following:

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Weighted average annual interest rate over Central Bank of Kuwait discount rate	**2.0% – 3.5%**	2.0% – 3.5%
Bahraini Dinar with an annual interest rate	**5.0%**	6.0%
Omani Riyal with an annual interest rate	**5.0%**	4.5%
Jordan Dinar with an annual interest rate	**6.0%**	5.8%
Australian Dollar with an annual interest rate	**5.5%**	5.5%

The above loans are secured against the hotel properties owned (see note 15). There is no material variance between the carrying value of loans and their fair value.

The short term bank borrowings in local currency is as follows:

		At 31 December In Local Currency '000		At 31 December In USD '000	
Entities	Local Currency	**2014**	2013	**2014**	2013
Jersey	GBP	**6,161**	–	**9,570**	–
Bahrain	BHD	**250**	138	**663**	368
Kuwait	KWD	**264**	261	**901**	927
Australia	AUD	**–**	–	**–**	–
Jordan	JOD	**681**	4,018	**961**	5,696
AHC Oman	OMR	**520**	516	**1,351**	1,344
Seeb Oman	OMR	**847**	748	**2,200**	1,949
				15,646	10,284

Notes to the consolidated financial statements
for the year ended 31 December 2014

20. Bank borrowings *continued*

The long term bank borrowings in local currency is as follows:

Entities	Local Currency	At 31 December In Local Currency '000 2014	2013	At 31 December In USD '000 2014	2013
Jersey	GBP	–	–	–	–
Bahrain	BHD	**9,513**	9,000	**25,227**	24,075
Kuwait	KWD	**3,564**	3,831	**12,168**	13,598
Australia	AUD	**20,060**	20,060	**16,362**	17,802
Jordan	JOD	**6,962**	8,389	**9,827**	11,892
AHC Oman	OMR	**2,982**	3,540	**7,745**	9,221
Seeb Oman	OMR	**8,829**	8,231	**22,926**	21,444
				94,255	98,032

21. Partners' current account

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Balance at beginning of the year	–	79,488
Disposal of land back to principal shareholder	–	(9,574)
Other movement in the year	–	4,905
Foreign currency translation adjustments	–	(797)
Conversion to equity	–	(74,022)
	–	–

The Partners' current account principally represents the net amount invested in the Group in the form of loans by the principal shareholder (note 35) in excess of capital contributions. It was also used as a current account for expenses incurred by the principal shareholder on behalf of the Group and vice versa. A proportion of this balance attracted interest at a fixed rate. On 30 June 2013 the Partners agreed that the balance outstanding of USD 74,022,000 was to be fully contributed as capital to the Group, removing any right to repayments and interest on this balance. Accordingly the balance was credited to the merger reserve.

22. Loans due to related parties

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Loan granted by Action Group Australia Company in Australia	–	57
	–	57

No interest is levied on any of the above loans. The loans are all secured against the Partner's guarantees.

Notes to the consolidated financial statements
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23. Provision for end of service benefits

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Balance at beginning of the year	**490**	371
Charge for the year (Note 7)	**210**	154
Paid during the year	**(67)**	(36)
Foreign currency translation adjustments	**(13)**	1
	620	490

End of service benefits are accrued in accordance with the terms of employment of the company's employees at the reporting date, having regard to the requirements of the local labour law. An accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are disclosed as a non-current liability.

24. Deferred tax

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during 2014 and 2013.

	Revaluation of hotel properties USD'000 Restated	Other timing differences USD'000	Total USD'000 Restated
At 1 January 2013	**(9,327)**	**19**	**(9,308)**
Credit to the income statement (Note 11)	–	9	9
Charge to other comprehensive income (Note 11)	(712)	–	(712)
Exchange differences	916	(3)	913
At 31 December 2013 (restated)	**(9,123)**	**25**	**(9,098)**
Charge to the income statement (Note 11)	–	(173)	(173)
Charge to other comprehensive income (Note 11)	(54)	–	(54)
Exchange differences	558	(3)	555
At 31 December 2014	**(8,619)**	**(151)**	**(8,770)**

In accordance with IAS12, the Group is required to recognise a deferred tax liability in respect of the difference between the carrying value of its assets and liabilities and their tax bases. Where hotel properties have been revalued upwards, there is typically no additional tax base attributable to the increase in value, such that a deferred liability arises. Deferred tax liabilities are expected to be recovered in a period of greater than 12 months.

No deferred tax assets have been recognised in 2014 or 2013 due to uncertainty over recoverability.

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25. Share capital and share premium account

Share capital	Number of shares	Share capital USD'000
At 1 January 2013	100,000,000	16,325
Issued	47,637,195	7,777
At 31 December 2013	147,637,195	24,102
Issued	–	–
At 31 December 2014	147,637,195	24,102

Share premium	Share premium USD'000
At 1 January 2013	88,143
Issued during year	41,993
Share issue costs	(5,657)
At 31 December 2013	124,479
Issued during year	–
At 31 December 2014	**124,479**

On incorporation the Company had 1,000 £1 ordinary shares, which on 8 November 2013 were split into 10,000 ordinary shares of nominal value of 10p. On 9 December the Company issued a further 99,990,000 shares and performed a share for share exchange with its shareholder in return for 100% of the beneficial interest in and voting control over the issued share capital of Action Hotels Limited.

On 23 December 2013 the Company issued 47,637,195 new ordinary shares at GBP 0.64 as part of its listing on the AIM division of the London Stock Exchange.

Notes to the consolidated financial statements
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26. Merger and other reserves

	Statutory reserve USD'000	Voluntary reserve USD'000	Retranslation reserve USD'000 Restated	Share-based payment reserve USD'000	Merger reserve USD'000 Restated	Total USD'000 Restated
At 1 January 2013	**2,960**	**2,802**	**301**	**–**	**(86,175)**	**(80,112)**
Total comprehensive income for the year	–	–	286	–	–	286
Merger reserve distributions	–	–	–	–	(806)	(806)
Reserves transfer	–	–	(174)	–	126	(48)
Shareholder capitalisation of loans	–	–	–	–	74,022	74,022
Shareholder contribution of land	–	–	–	–	7,135	7,135
Share-based payments	–	–	–	596	–	596
Share issue					49	49
At 31 December 2013 (Restated)	**2,960**	**2,802**	**413**	**596**	**(5,649)**	**1,122**
Total comprehensive loss for the year	–	–	(5,614)	–	–	(5,614)
At 31 December 2014	**2,960**	**2,802**	**(5,201)**	**596**	**(5,649)**	**(4,492)**

Statutory reserve
As required by applicable law and articles of association of certain subsidiaries, 10% of the net profit for each period in those subsidiaries is transferred to statutory reserve until the value of the reserve equals 50% of capital. No transfers to the statutory reserve have been made since 1 January 2011. The reserve is not available for distribution except in cases stipulated by applicable law and articles of association.

Voluntary reserve
Voluntary reserve represents additional contributions made to the statutory reserve. No contributions have been made since 31 December 2010.

Merger reserve
The merger reserve includes the following:

i) the conversion on 30 June 2013 of the entire Partners' current account balance of USD 74,022,000 into capital, thus removing any right to repayments and interest on this balance;

ii) the contribution made by the principal shareholder of the business and assets of the Salmiya hotel to the Group on 1 April 2013, which has been reflected in the financial statements as of 1 January 2012 using merger accounting principles;

iii) the contribution by the principal shareholder of the lease arrangement (including any related lease premium), which was contributed in kind as a non-cash asset;

iv) the contribution by the principal shareholder of the Premier Inn Sharjah development site on the date of the IPO; and

v) the adjustment to the Group's reserves to reflect the share capital and share premium issued by the Company on the share for share exchange on 9 December 2013.

Notes to the consolidated financial statements
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27. Share-based payments

Share options

On admission onto the AIM division of the London Stock Exchange, the Company introduced a share option scheme for the Directors of the Group. The Company granted a total of 7,381,860 options with an exercise price of GBP 0.64, being the placing price of the Group's shares on AIM. The options vest in tranches over a period of 3 years from the grant date and are exercisable for a period of 30 months starting six months after the vesting date. The options are forfeited if the directors leave the Group before the options vest or within 6 months after the vesting date. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

During the year, the Company has introduced a share scheme for key stakeholders. The Company granted a total of 750,000 share options with an exercise price of GBP 0.74. The options vest over 3 years and are exercisable within three years of the relevant vesting dates. One third of the option shares shall vest on the first anniversary of the date when the option is granted. A further one third of the shares shall vest of the second anniversary and the remaining one third shall vest on the third anniversary. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding during the year are as follows:

	Number of options	Weighted average exercise price (in GBP)
At 1 January 2013	–	–
Granted	7,381,860	0.64
At 31 December 2013	7,381,860	0.64
Forfeited	(2,952,744)	0.64
Granted	750,000	0.74
At 31 December 2014	5,179,116	0.65

No share options vested or were exercised during the year and no options are exercisable at 31 December 2014 or 2013. 4,429,116 (2013: 7,381,860) of options outstanding at the year end have an average expiry date of 5 years, 750,000 (2013: nil) of options have an average expiry date of 10 years.

	At 31 December 2014 Exercise price (in GBP)	At 31 December 2013 Exercise price (in GBP)
Share price	**0.55 – 0.74**	0.64
Option exercise price	**0.64 – 0.74**	0.64
Volatility	**26%**	30%

The risk free rate is derived from the yield on UK Government bonds.

The weighted average fair value of options granted during the period determined using the Black Scholes valuation model was GBP 0.000 per option (GBP 0.12). The significant inputs into the model were weighted average share price of GBP 0.74 (2013: GBP 0.64) at the grant date, exercise price of £0.64 – £0.74 (2013: GBP 0.64), volatility of 26% (2013: 20%), annual risk free rate of 0.75% (2013: 0.33% – 0.96%), dividend yield of 0% (2013: 3.5%) and an expected option life of 5 – 10 years (2013: 5 years).

The Group recognised total expense of USD nil (2013: USD 19,000) related to the share options in 2014.

Notes to the consolidated financial statements
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27. Share-based payments *continued*

Share warrants

On 17 December 2013 the Group issued warrants to subscribe for 3,690,930 ordinary shares of the company exercisable at £0.64 to Omada Investments Limited of which Stefan Allesch-Taylor (non-executive deputy chairman) was a consultant and former director. The warrants were transferred to Wall Pole in July 2014, in which no member of the Board has any involvement or interest. The warrants are exercisable immediately and expire in December 2016. The fair value of the options was determined to be USD 577,000 using the Binomial model with the same assumptions as used to value employee share options.

Movements in the number of warrants outstanding during the year are as follows:

	Number of options	Exercise price (in £)
Outstanding at 1 January 2013 and 2014	3,690,930	0.10
Granted during the period	–	–
Outstanding at 31 December 2013 and 2014	3,690,930	0.10
Exercisable at 31 December 2013 and 2014	3,690,930	0.10

No warrants were exercised during the year.

The Group recognised total expense of USD nil (2013: USD 577,000) related to the share warrants. The 2013 expense was included within restructuring and listing costs.

28. Dividends

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000
Dividend declared and paid of 0.96 pence sterling per share	**804**	829
Dividend declared and paid of 0.72 pence sterling per share	**1,713**	–
	2,517	829

The proposed final dividend is expected to be paid on 1 June 2015, subject to approval of the dividend at the Company's annual general meeting which is expected to occur on 28 May 2015. It is expected that the Company's ordinary shares will be marked ex-entitlement to such dividend on 21 May 2015 and the dividend will be payable to all shareholders on the Company's share register at the close of business on 22 May 2015.

29. Financial risk management

The Group's financial instruments comprise cash and bank balances, bank borrowings and items such as trade and other payables and trade and other receivables which arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

The Group's operations expose it to a variety of financial risks including credit risk, liquidity risk and market risk (including interest rate risk and foreign currency exchange rate risk). Given the size of the Group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the Group's finance department.

The Group currently does not use derivative financial instruments to manage its exposure to these risks.

Notes to the consolidated financial statements
for the year ended 31 December 2014

29. Financial risk management *continued*

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of cash at banks, trade and other receivables and receivables from related parties.

The Group's cash at banks is placed with financial institutions which hold medium grade credit ratings or higher (BBB+ or higher). The Group also banks with a number of institutions to diversify the risk of any potential credit issues.

Receivables are presented net of allowance for doubtful accounts. Credit risk with respect to receivables is limited due to the large number of customers. As of 31 December 2014, trade receivables of USD 1,346,000 (2013: USD 496,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash at banks, trade and other receivables and receivables from related parties.

Liquidity risk

The Group actively maintains a mixture of long-term and short-term debt finance that is designed to ensure it has sufficient available funds for operations and planned expansions. The Group monitors its levels of working capital and debt to ensure that it can meet its debt repayments as they fall due and does not breach bank loan covenants.

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realisable. The Group seeks to avoid a concentration of debt maturities in any one period to spread its refinancing risk.

Of the Group's financial liabilities, only bank loans suffer any interest, at a mix of fixed and variable rates.

The following table shows the contractual maturities of the Group's financial liabilities (none of which are derivative financial liabilities):

At 31 December 2014	Less than 12 months USD'000	1 to 5 years USD'000	Over 5 years USD'000	Total USD'000
Trade and other payables (note 19)	8,340	–	–	8,340
Due to related parties (note 18)	625	–	–	625
Bank borrowings (note 20)	15,646	66,437	27,818	109,901
	24,611	**66,437**	**27,818**	**118,866**

At 31 December 2013	Less than 12 months USD'000	1 to 5 years USD'000	Over 5 years USD'000	Total USD'000
Trade and other payables (note 19)	16,111	–	–	16,111
Due to related parties (note 18)	161	–	–	161
Bank borrowings (note 20)	10,284	57,385	40,647	108,316
Loans due to related parties (note 22)	–	–	57	57
	26,556	**57,385**	**40,704**	**124,645**

Notes to the consolidated financial statements
for the year ended 31 December 2014

29. Financial risk management *continued*

Market risk and sensitivity analysis

Interest rate risk

Financial instruments are subject to the risk of changes in value due to changes in the level of interest rates. The effective interest rates and the periods in which interest bearing financial assets and liabilities are repriced or mature is indicated in note 20.

The Group has both interest bearing assets and interest bearing liabilities. Interest bearing assets comprise only some cash and cash equivalents which earn interest at a variable rate. The interest arising on these assets is not considered material to the Group.

Interest bearing liabilities comprise bank loans (note 20). The interest levied on the notes payable is a mix of fixed and variable rates.

The Group's policy for managing interest rate risk includes consideration at Board meetings of the balance between fixed and variable rate interest bearing liabilities and considers changes in market rates, the long term strategy of the Group and the availability of necessary financing.

The Group has bank borrowings at both fixed and variable rates, as shown below. The variable rate borrowings of the Group are based on LIBOR, BIBOR, CBK base rate and BBSY. The Group has not entered into any derivative transactions during the period under review. The table below shows the level of bank borrowings suffering fixed and variable rates:

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Bank borrowing at fixed rate	**10,788**	41,574
Bank borrowing at variable rate	**99,113**	66,742
	109,901	108,316

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, an increase/decrease of 0.5% to all variable rate bank loans, with all other variables held constant, of the Group's profit, capitalised interest and total interest due:

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Effect on consolidated income statement	**367**	432
Effect on capitalised interest	**129**	150
Effect on total interest due	**496**	582

An increase in the interest rate results in a decrease in the net profit/increase in net loss for each respective period and vice versa for a decrease in the rate.

Details of the terms of the Group's borrowings are disclosed in note 20.

The Group has fixed rate bank borrowings and notes payable which are carried at amortised cost. Changes in the market interest rates in respect of these liabilities do not affect profit or equity and therefore are not sensitised.

The Directors have reviewed the fair value of the fixed rate bank borrowings and have concluded that there is no material variance between the carrying value of loans and their fair value. The fair values of Group's bank borrowings are within Level 2 of the fair value hierarchy (note 30).

Notes to the consolidated financial statements
for the year ended 31 December 2014

29. Financial risk management *continued*

Foreign currency exchange rate risk

The Group is exposed to foreign currency exchange rate risk on transactions that are denominated in a currency other than the US Dollar, the presentational currency for the Group.

The Group's operations and headquarters are in the Dubai International Financial Centre and the Group records transactions in US Dollar, its functional currency, a currency which is pegged to a basket of international currencies weighted towards the US Dollar. The Group operates in a number of other countries in the Middle East, which similarly have functional currencies which are pegged either to a basket of currencies, weighted towards the US Dollar, or to the US Dollar itself. The Directors do not believe that the foreign currency exchange rate risk exposure of the Group in these jurisdictions is material.

The Group's operations in Australia give rise to transactions denominated in Australian Dollars, which results in exposure to a material foreign currency exchange rate risk.

During the period the Group did not enter into any arrangements to hedge this risk, as the directors did not consider the exposure to be significant given the short term nature of the balances. The Group will review this policy as appropriate in the future.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate between the Australian Dollar and the US Dollar, showing the impact of a decrease in the value of the Australian Dollar of 15%, with all other variables held constant, of the Group's loss and other comprehensive income:

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Effect on consolidated income statement – loss	**2,777**	2,859
Effect on other comprehensive income – decrease in other comprehensive income	**1,725**	1,629
Decrease in net assets	**4,502**	4,488

30. Fair value measurements of non-current assets

Fair value of hotels in operation or under construction

Hotels in operation or under construction are revalued to fair value at the end of each reporting period. Gains or losses arising from changes in the fair value of each property are recognised as a separate line in the statement of total comprehensive income and the revaluation reserve. Any deficit on revaluation, if temporary, is recognised in the statement of total comprehensive income and the revaluation reserve. If a deficit below original cost arises it is recognised in the income statement as an impairment.

The fair value measurements at the end of each reporting period, along with a reconciliation of the movements in respect to these balances, are shown in note 15.

The Group revalues operational hotels and hotels under construction on the basis of forecast future operating profits discounted to give a net present value. The forecasts are based on the Directors' best estimate of future trading drawn from their historic experience of the Group and the hotel industry as a whole. The discount rates used and the valuations themselves have been prepared by independent valuers at CBRE and Jones Lang LaSalle in each reporting period.

Fair value of investment property

Investment property relates to land held for undetermined use and is revalued to fair value at the end of each reporting period. Gains or losses arising from changes in the fair value of investment property is recognised in the income statement.

The fair value measurements at the end of each reporting period, along with a reconciliation of the movements in respect to these balances, are shown in note 14.

Notes to the consolidated financial statements
for the year ended 31 December 2014

30. Fair value measurements of non-current assets *continued*

The residual price technique has been used by the independent professionally qualified valuer, CBRE. This technique represents determination of the estimated selling price of a project development of the plot of land; reduced by the estimated construction and other cost to completion that would be incurred by a market participant and an estimated profit margin that a market participant would require to hold and develop the plots to completion.

Fair value hierarchy

The Directors' believe that these valuations, on the basis of current use, represent the highest and best use of the respective assets.

This technique has remained unchanged and the Directors of the Group review the valuation process undertaken each year and consider whether it remain appropriate.

The Group uses the following hierarchy for determining the fair value of assets and liabilities held at fair value by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data.

The fair value measurements of property, plant and equipment and investment properties are classified as Level 3 in the fair value hierarchy in their entirety, due to the fact that significant unobservable inputs are used in arriving at an appropriate fair value.

The fair value measurement is sensitive to changes in unobservable inputs. The discount and yield rates used by the independent valuers to establish a net present value for each separately valued property are as follows and if changed, could result in a materially different fair value.

	At 31 December 2014
Discount rate: owned asset	**12% – 14%**
Exit yield	**9% – 9.5%**

The independent valuers utilise available market data and their experience in each respective market and jurisdiction to arrive at an appropriate discount rate. An increase in the discount rate of 1% would result in an estimated decrease in gross and net assets of USD 20,000,000 or 7.5% at 31 December 2014 (2013: USD 17,500,000).

The future forecast results represent an unobservable input for each property. Each separate property valuation is directly dependent on the forecast results and hence a decrease in expected future results would result in a similar proportional reduction in the fair value measurement related to the property.

31. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and maintain an optimal capital structure to reduce the cost of capital.

The Board of Directors monitors the level of capital as compared to the Group's long term debt commitments and adjusts the ratio of debt to capital as is determined to be necessary, by issuing new shares, reducing or increasing debt, paying dividends and returning capital to shareholders.

The Group is not subject to any externally imposed capital requirements (2013: none).

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and bank balances. Total capital is calculated as total equity, as shown in the consolidated statement of financial position plus net debt.

Notes to the consolidated financial statements
for the year ended 31 December 2014

31. Capital risk management *continued*

For the purposes of capital risk management, the total capital resources consist of the following components:

	At 31 December 2014 USD'000	At 31 December 2013 USD'000 Restated
Bank loans (note 20)	**109,901**	108,316
Loans due to related parties (note 22)	**–**	57
Less: Cash and bank balances	**(6,734)**	(43,626)
Net debt	**103,167**	64,747
Total equity	**185,989**	170,509
Total capital resources	**289,156**	235,256
Net debt to equity ratio	**55%**	38%

The increase in gearing is primarily attributable to the continued utilisation of cash into the construction of new hotel properties.

32. Commitments and contingent liabilities

Stamp duty, capital gains tax and income tax

As part of the reorganisation in 2013, the beneficial ownership and control of the Australian entities was transferred to the Group. Management have sought tax advice which has concluded that the establishment of the new trust structure and associated change in classes of beneficiaries for this transfer should not of itself trigger any stamp duty on the properties held in Australia.

Stamp duty

If any of the restructuring steps did result in stamp duty, such duty would generally be calculated by reference to the unencumbered market value of the underlying dutiable property of the Discretionary Trusts at rates of up to 5.5% in Victoria and 5.75% in Queensland. Hence the Victorian duty liability on the Glen Waverley asset would be up to USD 1,900,000. The Queensland duty liability on the Brisbane asset would be up to USD 900,000 based on the current unencumbered market value for the Brisbane asset.

The listing of the Group should also not result in landholder duty in Victoria provided the Group has not and is not declared a listed company by the Victorian Commissioner of State Taxation. If stamp duty were to become payable, it would be approximately USD 200,000. Management consider that there are likely to be reasonable arguments that a relevant duty benefit would not arise as a result of the proposed transactions.

Capital gains tax

If any of the restructuring steps did result in a capital gains tax liability, such tax would be calculated by reference to the unencumbered market value of the properties less their tax basis at rates of up to 30%. The resulting tax based on the valuation of the properties at 31 December 2014 would be USD 5,500,000 (2013: USD 5,000,000) and is already effectively included within the deferred tax liability recorded on the statement of financial position.

Income tax

In certain of the jurisdictions that the Group operates in, foreign ownership of its assets or business is either prohibited or could lead to additional tax liabilities. Management is confident that the corporate structure put in place as part of the Company's admission to the AIM division of the London Stock Exchange mitigates the risks posed in this respect. Management has therefore concluded that no material tax exposure exists in these jurisdictions.

Should the Group's business in these jurisdictions become subject to tax under the current structure, Management estimate that USD 346,000 of income tax would potentially be assessed on the Group for the year ended 31 December 2014.

Notes to the consolidated financial statements
for the year ended 31 December 2014

32. Commitments and contingent liabilities *continued*

Commitments on properties under construction

At 31 December 2014, the Group had entered into contractual commitments on construction costs of hotels under construction amounting to USD 45,000,000 (2013: USD 2,000,000).

33. Operating lease arrangements

	Year ended 31 December 2014 USD'000	Year ended 31 December 2013 USD'000
Lease payments under operating leases recognised as an expense in the year	**2,762**	2,980

At the balance sheet date the Group has outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December 2014 USD'000	At 31 December 2013 USD'000
Within one year	**2,785**	2,878
Between two and five years inclusive	**7,859**	11,051
After 5 years	**–**	–
	10,644	13,929

The most significant operating lease payments represent rentals payable by the Group to a related party for a ibis Salmiya hotel at an annual rent of KWD 750,000 (USD 2,560,601 equivalent at 31 December 2014) under a 5 year lease which expires on 31 March 2018 but can be extended at the Group's option until 31 March 2038. Under the terms of the lease the rent will be raised by 5% at each fifth anniversary.

During the year ended 31 December 2014, the Group has entered into a new 3 year office lease for head office in Dubai.

34. List of principal subsidiaries

The following subsidiaries have been included in the consolidated financial information of the Group:

Name	Country of incorporation	Percentage holding as at 31 December 2014
Action Hotels Limited	Dubai International Financial Centre	100%, note 3
Action Hotels Company L.L.C.	Kuwait	100%
Seeb Hotels Company L.L.C.	Sultanate of Oman	99%
Action Hotels Company L.L.C.	Sultanate of Oman	99%
Action Tourism for Hotel Management Co. W.L.L.	Kingdom of Bahrain	99%
Action Hotels Co. P.S.C.	Jordan	100%
The Glen Waverley Hotel – Discretionary Trust and Controlled entity	Australia	100%
Elizabeth St Brisbane – Discretionary Trust and Controlled entity	Australia	100%

The other 1% investment in Seeb Hotels Company L.L.C. (Sultanate of Oman), Action Hotels Company L.L.C. (Sultanate of Oman) and Action Tourism for Hotel Management Co. W.L.L. (Kingdom of Bahrain) are registered in the name of a related party and there is a waiver letter that the beneficial ownership of this investment is in favour of the Group.

Notes to the consolidated financial statements
for the year ended 31 December 2014

35. Ultimate controlling party
Action Group Holding Company K.S.C.C., which is under the control of Dr. Suad Al Sabah was the principal shareholder at 31 December 2014 and held 64.7% of the Action Hotel plc's shares. In accordance with the relationship agreement with Action Group Holding Company K.S.C.C, Action Hotels plc is able to operate independently of Action Group Holding Company K.S.C.C. and its associates and hence there is no controlling party.

36. Prior period restatement
In the condensed interim information as at 30 June 2014, the consolidated income statement and balance sheet for the year ended 31 December 2013 were restated. Further adjustments have been made to the opening position as at 1 January 2014 within these financial statements. The amounts stated 'as previously reported' are as included within the annual report and consolidated financial statements as at 31 December 2013 and not the condensed interim information.

The adjustments below have been accounted for by way of a prior period restatement, in order to present a fairer view of the results for the prior year ended 31 December 2013 and the current year ended 31 December 2014. The impact of these restatements for the relevant periods is shown below. The adjustments are of a non-cash nature and have no impact on the Group's cash and net debt position.

a. Restatement of tax
In certain jurisdictions that the Group operates in, foreign ownership of its assets or business is either prohibited or could lead to certain tax liabilities. Management are confident that the corporate structure put in place as part of the Company's admission to the AIM division of the London Stock Exchange mitigates the risks posed in this respect. Management has therefore concluded the condition at the previous balance sheet date is such that no material tax exposure exists. Applicable amounts have been adjusted accordingly, reducing the tax charge in the income statement by USD 1,978,000, reducing the tax charge relating to property revaluations by USD 1,605,000 in the consolidated statement of comprehensive income and reducing the deferred tax liability by USD 3,583,000.

This is a significant judgement as referred to within notes 3 and 32 of the consolidated financial statements.

b. Restructuring and listing costs
Given the proximity of the Company's listing to the previous balance sheet date, 31 December 2013, management subsequently identified expenses amounting to USD 746,000 relating to the prior year restructuring and listing process that should have been recognised in the prior year.

c. Revaluation of hotels in the course of construction
In the year ended 31 December 2012, a revaluation uplift was recognised in the revaluation reserve relating to the ibis Seef property. Since this revaluation reverses a previous impairment charge of USD 4,510,000, this amount of the revaluation has been restated to be reflected in retained loss and not the revaluation reserve.

d. Short term leasehold interest
On 1 April 2013, an operating lease agreement was entered into with a related party. The lease arrangement (including the related lease premium) was gifted as a non-cash asset from the shareholder. This was accounted for using merger accounting principles, by recording the asset in the opening balance sheet as at 1 January 2012. An adjustment has been made to recognise the asset with effect from the contribution date, 1 April 2013 within Note 13 to these financial statements. There is no impact on the closing position as at 31 December 2013.

e. Other adjustments
A number of items arose from the completion of the Company's subsidiary entity audits, which were finalised after the annual report and consolidated financial statements for the year ended 31 December 2013 were published. These adjustments have the following impact:

- net increase in profit amounting to USD 43,000, and are reflected within administrative and distribution expenses and finance costs within the restated consolidated income statement;
- reserves transfer between retained earnings and revaluation and retranslation reserve totalling USD 176,000; and
- adjustment to merger reserve amounting to USD 535,000 to eliminate related party balances between owner and hotel books.

Notes to the consolidated financial statements
for the year ended 31 December 2014

36. Prior period restatement *continued*

A third balance sheet has not been presented due to the impact on the financial statements being restricted to those areas noted above, with adequate disclosure being included where applicable.

The consolidated statement of changes in equity discloses the impact on the previously reported profit and net assets.

Consolidated statement of financial position (Restated)

At 1 January 2014 and 31 December 2013	As previously reported USD'000	Adjustment USD'000	As restated USD'000
Intangible assets	13,198	–	13,198
Property, plant and equipment	227,498	(17)	227,481
Cash and bank balances	43,626	–	43,626
Trade and other receivables	6,558	(42)	6,516
Receivables due from related parties	13,810	–	13,810
Inventories	110	1	111
Total assets	**304,800**	**(58)**	**304,742**
Trade and other payables	16,001	110	16,111
Payables due to related parties	161	–	161
Short term bank borrowings	10,284	–	10,284
Loan due to related party	57	–	57
Long term bank borrowings	98,032	–	98,032
Provision for end of service benefits	490	–	490
Deferred tax liability	12,681	(3,583)	9,098
Total liabilities	**137,706**	**(3,473)**	**134,233**
Equity			
Share capital	24,102	–	24,102
Share premium	124,479	–	124,479
Revaluation reserve	52,582	(2,910)	49,672
Merger and other reserves	758	364	1,122
Retained earnings	(34,827)	5,961	(28,866)
Total equity attributable to owners of the company	**167,094**	**3,415**	**170,509**

Notes to the consolidated financial statements
for the year ended 31 December 2014

36. Prior period restatement *continued*

Retained loss analysis (restated)	USD'000
Opening balance at 1 January 2013 as previously reported	(25,584)
Revaluation transfer (note c)	4,510
Opening balance at 1 January 2013 (restated)	(21,074)
Total comprehensive loss as previously reported	(9,115)
Reserves transfer as previously reported	(128)
Restructuring and listing costs (note b)	(746)
Subsidiary statutory audit – net (note e)	43
Deferred tax adjustments (note a)	1,978
Reserves transfer (note e)	176
At 31 December 2013 (restated)	**(28,866)**

Consolidated statement of comprehensive income for the year ended 31 December 2013 (Restated)

	As previously reported USD'000	Adjustment USD'000	As restated USD'000
Revenue	29,763	–	29,763
Cost of sales	(7,447)	–	(7,447)
Administrative and distribution expenses	(17,866)	142	(17,724)
Losses on disposal of property, plant and equipment	(22)	–	(22)
Restructuring and listing costs	(3,492)	(746)	(4,238)
Operating profit	936	(604)	332
Finance income	361	–	361
Finance Costs	(8,343)	(99)	(8,442)
Tax charge	(2,069)	1,978	(91)
Loss for the period attributable to the owners of the company	**(9,115)**	**1,275**	**(7,840)**

ACTION HOTELS PLC

(the "Company")

a company incorporated in Jersey, Channel Islands with Registered Number 112945

Notice is hereby given to all members that the second annual general meeting of the Company will be held on 28th day of May 2015 at 11.00 am at the offices of Investec Bank plc, 2 Gresham Street, London EC2V 7QP in order to consider and if thought fit, pass, with or without amendments, the following resolutions, of which resolutions 1 to 4 (inclusive) will be proposed as ordinary resolutions and resolution 5 will be proposed as a special resolution:-

ORDINARY RESOLUTIONS

1. Accounts

To receive and consider the annual report and accounts of the Company (including the reports of the directors and auditors) for the financial period ended 31 December 2014.

2. Election of directors

To elect as directors the following who will retire by rotation and, being eligible, offer themselves for re-election:-

(a) Rawaf Bourisli

(b) John Joseph Johnston; and

(c) Stefan Paul Allesch-Taylor CBE

3. Re-appointment of auditors

To re-appoint PricewaterhouseCoopers LLP as auditors of the Company to hold office until the next meeting at which accounts are laid before the Company and to authorise the directors to agree the remuneration of the auditors of the Company.

4. Final Dividend

To declare a final dividend in respect of the year ended 31 December 2014 of GBP 1.45 pence sterling per share which is expected to be paid on 1 June 2015.

SPECIAL RESOLUTION

5. Dis-application of pre-emption rights

THAT the directors be and are hereby empowered to allot equity securities wholly for cash pursuant to the authority conferred by Articles 5.1 and 5.5 of the articles of association of the Company (the "**Articles**") as if Article 5.5 of the Articles did not apply to any such allotment, provided that this power shall be limited to the allotment of Equity Securities (as defined in Article 1.1 of the Articles):

(a) in connection with an offer of such securities by way of rights to holders of shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange or otherwise; and

(b) otherwise than and in addition to pursuant to sub-paragraph (a) of this resolution up to a maximum aggregate nominal amount equal to £1,476,371.95 (being approximately 10 per cent. of the issued share capital of the Company as at 11th May 2015),

and provided that this authority shall expire on the 15 month anniversary of the date of this special resolution or on the conclusion of the Company's next annual general meeting, if earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require Equity Securities to be allotted after such expiry and the directors may allot Equity Securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired.

By Order of the Board

Helm Trust Company Limited
Company Secretary
11th May 2015

Registered Office address: 17 Bond Street, St Helier, Jersey, Channel Islands, JE2 3NP

Notes:

(1) In order to be entitled to attend and/ or vote at the AGM, a Shareholder must be entered on the register of members of the Company as being a holder of the Company's shares at 5.00 p.m. (UK time) on 26th May 2015.

(2) Shareholders entitled to attend and vote may appoint a proxy or proxies to attend and vote on their behalf. A proxy need not be a member of the Company.

(3) A Form of Proxy is enclosed for the AGM. All Shareholders who do not intend attending the AGM are asked to complete and return a Form of Proxy. To be valid, the Form of Proxy (and the power of attorney or other authority, if any, under which it is signed or a duly certified copy of such authority) must be deposited at the Company's Registrars, Computershare Investor Services Plc, c/o The Pavilions, Bridgwater Road, Bristol BS99 6ZY, United Kingdom. The Form of Proxy will not be valid unless it is deposited with the Company's Registrars no later than 48 hours before the time for the holding of the AGM or any postponement or adjournment thereof. Completion and return of a Form of Proxy does not prevent a member from attending and voting in person at the meeting.

(5) In the case of an individual, the Form of Proxy must be signed by the appointor or by his or her attorney duly authorised in writing.

(6) In the case of a corporation, the Form of Proxy must either be executed under its seal or under the hand of a duly authorised officer or attorney.

(7) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy, the revocation of a proxy appointment or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 3RA50) by the latest time(s) for receipt of proxy appointments specified in this notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to a proxy appointed through CREST should be communicated to the appointee by other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Article 34 of the Companies (Uncertificated Securities) (Jersey) Order 1999.

(8) In the case of joint holders, such persons shall elect one of their number to represent them and to vote whether in person or by proxy. In default of such election the person whose name stands first in the register of members shall alone be entitled to vote.

(9) A deletion of any printed matter and the completion of any blank space need not be signed or initialled. Any alteration or correction must be signed and not merely initialled.

(10) The Chairman may reject/accept any Form of Proxy which is completed and/or received other than in compliance with these notes.

(11) A proxy for a Shareholder will exercise his discretion as to how he votes or whether he abstains from voting:

(i) on the resolutions set out in the notice of annual general meeting if no instruction or contradictory instruction is given in the Form of Proxy in respect of the resolutions; and

(ii) on any business or resolution considered at the meeting (or at any postponement or adjournment thereof) other than the resolutions set out in the notice of annual general meeting.

(12) The following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company and at the offices of Investec Bank plc, 2 Gresham Street, London EC2V 7QP from the date of this notice until the date of the meeting, and at the meeting from 15 minutes prior to its commencement until it ends:

(i) copies of the service contracts of each of the directors of the Company;

(ii) the register of directors' interests in the share capital of the Company; and

(iii) copies of articles of incorporation of the Company.

Explanatory Notes to the Notice of Annual General Meeting
The notes below give further information in relation to the resolutions set out in the notice of the annual general meeting of the Company to be held on 28th May 2015.

Ordinary Resolution 1 – annual report and accounts
The directors must present the accounts of the Company and the reports of the directors and the auditors for the year ended 31 December 2014 to shareholders at the annual general meeting and resolution 1 will be proposed for this purpose. The annual report and accounts published and made available to shareholders by post and by emailing the Company (katie@actionhotels.com).

Ordinary Resolutions 2(a) to (c) – re-election of directors
Resolutions 2(a) to (c) deal with the re-election of directors. The Articles require a director who has been appointed since the last annual general meeting to submit themselves for re-election and accordingly Rawaf I. Bourisli submits to such re-election. In addition, two further directors are required by the Articles to submit themselves for re-election by rotation and John Joseph Johnston and Stefan Allesch-Taylor CBE have so submitted themselves.

Biographies of each of the directors seeking re-election at this year's annual general meeting can be found on page 34, 35 and 36 of the 2014 Report and Accounts.

Ordinary Resolution 3 – re-appointment of auditors and auditors' remuneration
The Company is required at each general meeting at which accounts are presented to appoint auditors to hold office until the next such meeting. Accordingly, resolution 3 proposes the re-appointment of PricewaterhouseCoopers LLP as the Company's auditors.

Resolution 3 also authorises the directors to agree the auditors' remuneration.

Ordinary Resolution 4 – final dividend
A final dividend of GBP 1.45 pence per ordinary share for the year ended 31 December 2014 is recommended for payment by the directors. If approved, the final dividend is expected to be paid on 1 June 2015. It is expected that the Company's ordinary shares will be marked ex-entitlement to such dividend on 21 May 2015 and the dividend will be payable to all shareholders on the Company's share register at the close of business on 22 May 2015.

Special Resolution 5 – disapplication of pre-emption rights
Under Article 5.1 of the Articles, the unallotted and unissued shares of the Company shall be at the disposal of the Board, which may allot, grant options over or otherwise dispose of the shares to such persons on such terms and conditions and at such times as the Board shall determine. Under Article 5.4 of the Articles, the Company members have pre-emption rights when the Company is proposing to allot equity securities wholly for cash and the pre-emption rights may be disapplied by way of an extraordinary resolution under Article 5.4 of the Articles. The pre-emption rights contained in Article 5.4 of the Articles do not apply to the allotment of shares or the grant of options over shares to be held under an employees' share scheme.

The pre-emption rights contained in the Articles were previously disapplied by Article 5.5 from the date of admission of the Company to AIM to the conclusion of the first annual general meeting of the Company in respect of allotments of shares which represent up to 10 per cent of the issued share capital of the Company.

It is proposed to renew the Board authority under Article 5.1 of the Articles to allot the unallotted and unissued shares in the capital of the Company as if the pre-emption rights contained in Article 5.3 of the Articles did not apply to further allotment of shares in the Company wholly for cash, provided (i) that such power is limited to the allotment of equity securities up to a maximum aggregate nominal amount equal to £1,476,371.95 (being 14,763,719 Ordinary Shares) which equals approximately 10 per cent of the issued share capital of the Company as at the date of this document; and (ii) that such authority is to expire 15 months after the passing of the proposed resolution or if earlier, on the conclusion of the next annual general meeting of the Company.

The Board does not intend to issue more than 7.5% of the issued share capital of the Company on a non pre-emptive basis in any rolling three year period. The limitation in the proposed Resolution and the confirmation by the Board is made in compliance with the guidelines recommended by the Association of British Insurers and National Association of Pension Funds.

In addition, the authority given by Resolution 5 will also empower the directors to modify the situation with regard to offers by way of rights issue such that they may effect such exclusions or other arrangements as they may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws of any territory or requirements of any regulatory body or stock exchange or otherwise.

CORPORATE DIRECTORY

Directors, Secretary and Advisors

Directors

- H.E. Sheikh Mubarak Abdullah Al-Mubarak Al-Sabah (Non-Executive Chairman)
- Stefan Paul Allesch-Taylor CBE (Non-Executive Deputy Chairman)
- Alain Bruno Debare (Chief Executive Officer)
- Rawaf I Bourisli (Development Director)
- Raymond Pierre Chigot (Non-Executive Director)
- John Joseph Johnston (Non-Executive Director)

Business Address and Principal Place of Business
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United Arab Emirates

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Jersey
JE2 3NP
Channel Islands

Nominated Advisor and Broker
Investec plc
2 Gresham Street
London
EC2V 7QP

Independent Auditor
PricewaterhouseCoopers
Emaar Square, Building 4, Level 8
PO Box 11987
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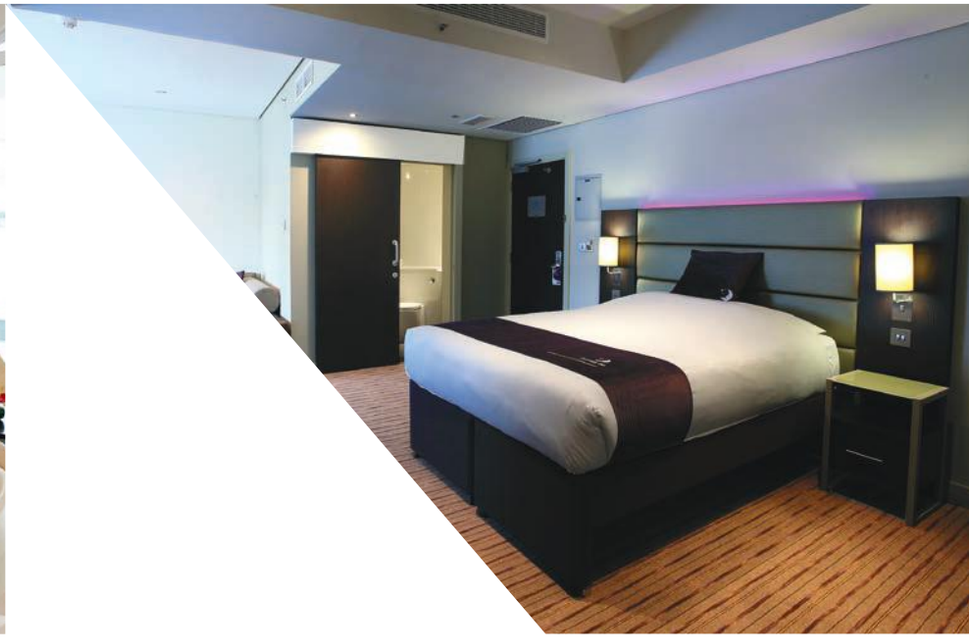

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