# SECURITIES NOTE
## DATED 10 APRIL 2015

This document is a Securities Note issued in accordance with the provisions of Chapter 4 of the Listing Rules published by the Listing Authority and in accordance with the provisions of Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, as amended by Commission Delegated Regulation (EU) No. 486/2012 of 30 March 2012, Commission Delegated Regulation (EU) No. 862/2012 of 4 June 2012, Commission Delegated Regulation (EU) No. 759/2013 of 30 April 2013 and Commission Delegated Regulation (EU) No. 382/2014 of 7 March 2014. This Securities Note is issued pursuant to the requirements of Listing Rule 4.14 of the Listing Rules and contains information about the Bonds being issued by International Hotel Investments p.l.c. Application has been made for the admission to listing and trading of the Bonds on the Official List of the Malta Stock Exchange. This Securities Note should be read in conjunction with the most updated Registration Document issued from time to time containing information about the Issuer.

**In respect of an Issue of up to €45,000,000 5.75% Unsecured Bonds 2025**
of a nominal value of €100 per Bond issued at par by

**INTERNATIONAL HOTEL INVESTMENTS P.L.C.**
A PUBLIC LIMITED LIABILITY COMPANY REGISTERED IN MALTA
WITH COMPANY REGISTRATION NUMBER C 26136

**ISIN: MT0000111295**

**THE LISTING AUTHORITY HAS AUTHORISED THE ADMISSIBILITY OF THESE SECURITIES AS A LISTED FINANCIAL INSTRUMENT. THIS MEANS THAT THE SAID INSTRUMENTS ARE IN COMPLIANCE WITH THE REQUIREMENTS AND CONDITIONS SET OUT IN THE LISTING RULES. IN PROVIDING THIS AUTHORISATION, THE LISTING AUTHORITY DOES NOT GIVE ANY CERTIFICATION REGARDING THE POTENTIAL RISKS IN INVESTING IN THE SAID INSTRUMENT AND SUCH AUTHORISATION SHOULD NOT BE DEEMED OR BE CONSTRUED AS A REPRESENTATION OR WARRANTY AS TO THE SAFETY OF INVESTING IN SUCH INSTRUMENT.**

**THE LISTING AUTHORITY ACCEPTS NO RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS, MAKES NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THE PROSPECTUS INCLUDING ANY LOSSES INCURRED BY INVESTING IN THESE SECURITIES.**

**A PROSPECTIVE INVESTOR SHOULD ALWAYS SEEK INDEPENDENT FINANCIAL ADVICE BEFORE DECIDING TO INVEST IN ANY LISTED FINANCIAL INSTRUMENTS. A PROSPECTIVE INVESTOR SHOULD BE AWARE OF THE POTENTIAL RISKS IN INVESTING IN THE SECURITIES OF AN ISSUER AND SHOULD MAKE THE DECISION TO INVEST ONLY AFTER CAREFUL CONSIDERATION AND CONSULTATION WITH HIS OR HER OWN INDEPENDENT FINANCIAL ADVISOR.**

APPROVED BY THE DIRECTORS

Joseph Fenech on behalf of: Alfred Pisani, Frank Xerri de Caro, Abdulnaser M.B. Ahmida, Douraid Zaghouani,
Hamad Mubarak Mohd Buamin, Abuagila Almahdi, Khaled Algonsel, Joseph Pisani, Michael Beckett, Joseph J. Vella.

| Joint Manager and Registrar | Joint Manager | Sponsor | Legal Counsel |
|---|---|---|---|
| BOV Bank of Valletta | HSBC | CHARTS WEALTH MANAGEMENT • CORPORATE BROKING | CAMILLERI PREZIOSI ADVOCATES |

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# IMPORTANT INFORMATION

THIS SECURITIES NOTE CONTAINS INFORMATION ON AN ISSUE BY INTERNATIONAL HOTEL INVESTMENTS PLC (THE "**ISSUER**") OF A MAXIMUM OF €45,000,000 UNSECURED BONDS 2025 OF A NOMINAL VALUE OF €100, ISSUED AT PAR AND BEARING INTEREST AT THE RATE OF 5.75% PER ANNUM, PAYABLE ANNUALLY ON 13 MAY OF EACH YEAR. THE NOMINAL VALUE OF THE BONDS WILL BE REPAYABLE IN FULL AT MATURITY ON 13 MAY 2025. THE ISSUER SHALL REDEEM THE BONDS ON THE REDEMPTION DATE.

IN ACCORDANCE WITH THE ALLOCATION POLICY TO BE DETERMINED AND PUBLISHED BY THE ISSUER BONDS SHALL ALSO BE ALLOCATED TO HOLDERS OF 6.25% BONDS 2015-2019 ISSUED BY THE ISSUER PURSUANT TO A PROSPECTUS DATED 12 JUNE 2009 (THE "**EXCHANGEABLE BONDS**") WHO, IN CONSIDERATION FOR THE BONDS APPLIED FOR PURSUANT TO THIS PROSPECTUS ELECT TO SURRENDER EXCHANGEABLE BONDS IN FAVOUR OF THE ISSUER.

THIS SECURITIES NOTE CONTAINS INFORMATION ABOUT THE ISSUER AND THE BONDS IN ACCORDANCE WITH THE REQUIREMENTS OF THE LISTING RULES, THE ACT AND THE REGULATION, AND SHOULD BE READ IN CONJUNCTION WITH THE REGISTRATION DOCUMENT ISSUED BY THE ISSUER.

NO BROKER, DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORISED BY THE ISSUER OR ITS DIRECTORS TO ISSUE ANY ADVERTISEMENT OR TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE SALE OF BONDS OF THE ISSUER OTHER THAN THOSE CONTAINED IN THE PROSPECTUS AND IN THE DOCUMENTS REFERRED TO HEREIN, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE ISSUER OR ITS DIRECTORS OR ADVISORS.

**THE LISTING AUTHORITY ACCEPTS NO RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS, MAKES NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS PROSPECTUS.**

THE PROSPECTUS DOES NOT CONSTITUTE, AND MAY NOT BE USED FOR PURPOSES OF, AN OFFER OR INVITATION TO SUBSCRIBE FOR BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH SUCH OFFER OR INVITATION IS NOT AUTHORISED OR IN WHICH THE PERSON MAKING SUCH OFFER OR INVITATION IS NOT QUALIFIED TO DO SO; OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR INVITATION.

IT IS THE RESPONSIBILITY OF ANY PERSONS IN POSSESSION OF THIS DOCUMENT AND ANY PERSONS WISHING TO APPLY FOR ANY BONDS ISSUED BY THE ISSUER TO INFORM THEMSELVES OF, AND TO OBSERVE AND COMPLY WITH, ALL APPLICABLE LAWS AND REGULATIONS OF ANY RELEVANT JURISDICTION. PROSPECTIVE APPLICANTS FOR ANY SECURITIES THAT MAY BE ISSUED BY THE ISSUER SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS OF APPLYING FOR ANY SUCH BONDS AND ANY APPLICABLE EXCHANGE CONTROL REQUIREMENTS AND TAXES IN THE COUNTRY OF THEIR NATIONALITY, RESIDENCE OR DOMICILE.

SAVE FOR THE ISSUE IN THE REPUBLIC OF MALTA, NO ACTION HAS BEEN OR WILL BE TAKEN BY THE ISSUER THAT WOULD PERMIT A PUBLIC OFFERING OF THE BONDS OR THE DISTRIBUTION OF THE PROSPECTUS (OR ANY PART THEREOF) OR ANY OFFERING MATERIAL IN ANY COUNTRY OR JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (OTHER THAN MALTA) WHICH HAS IMPLEMENTED DIRECTIVE 2003/71/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 4 NOVEMBER 2003 ON THE PROSPECTUS TO BE PUBLISHED WHEN SECURITIES ARE OFFERED TO THE PUBLIC OR ADMITTED TO TRADING OR WHICH, PENDING SUCH IMPLEMENTATION, APPLIES ARTICLE 3.2 OF SAID DIRECTIVE, THE BONDS CAN ONLY BE OFFERED TO "QUALIFIED INVESTORS" (AS DEFINED IN SAID DIRECTIVE) AS WELL AS IN ANY OTHER CIRCUMSTANCES WHICH DO NOT REQUIRE THE PUBLICATION BY THE ISSUER OF A PROSPECTUS PURSUANT TO ARTICLE 3 OF SAID DIRECTIVE.

THE BONDS HAVE NOT BEEN NOR WILL THEY BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT, 1933 AS AMENDED, OR UNDER ANY FEDERAL OR STATE SECURITIES LAW AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, IN THE UNITED STATES OF AMERICA, ITS TERRITORIES OR POSSESSIONS, OR ANY AREA SUBJECT TO ITS JURISDICTION (THE "U.S.") OR TO OR FOR THE BENEFIT OF, DIRECTLY OR INDIRECTLY, ANY U.S. PERSON (AS DEFINED IN REGULATION "S" OF THE SAID ACT). FURTHERMORE THE ISSUER WILL NOT BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT, 1940 AS AMENDED AND INVESTORS WILL NOT BE ENTITLED TO THE BENEFITS SET OUT THEREIN.

A COPY OF THIS DOCUMENT HAS BEEN SUBMITTED TO THE LISTING AUTHORITY IN SATISFACTION OF THE LISTING RULES, THE MALTA STOCK EXCHANGE IN SATISFACTION OF THE MALTA STOCK EXCHANGE BYE-LAWS AND HAS BEEN DULY FILED WITH THE REGISTRAR OF COMPANIES IN ACCORDANCE WITH THE ACT.

STATEMENTS MADE IN THE PROSPECTUS ARE, EXCEPT WHERE OTHERWISE STATED, BASED ON THE LAW AND PRACTICE CURRENTLY IN FORCE IN MALTA AND ARE SUBJECT TO CHANGES THEREIN.

THE CONTENTS OF THE ISSUER'S WEBSITE OR ANY WEBSITE DIRECTLY OR INDIRECTLY LINKED TO THE ISSUER'S WEBSITE DO NOT FORM PART OF THE PROSPECTUS. ACCORDINGLY NO RELIANCE OUGHT TO BE MADE BY ANY INVESTOR ON ANY INFORMATION OR OTHER DATA CONTAINED IN SUCH WEBSITES AS THE BASIS FOR A DECISION TO INVEST IN THE BONDS.

ALL THE ADVISORS TO THE ISSUER NAMED IN THE PROSPECTUS UNDER THE HEADING "ADVISORS" UNDER SECTION 3 OF THE REGISTRATION DOCUMENT HAVE ACTED AND ARE ACTING EXCLUSIVELY FOR THE ISSUER IN RELATION TO THIS ISSUE AND HAVE NO CONTRACTUAL, FIDUCIARY OR OTHER OBLIGATION TOWARDS ANY OTHER PERSON AND WILL ACCORDINGLY NOT BE RESPONSIBLE TO ANY INVESTOR OR ANY OTHER PERSON WHOMSOEVER IN RELATION TO THE TRANSACTIONS PROPOSED IN THE PROSPECTUS.

THE VALUE OF INVESTMENTS CAN GO UP OR DOWN AND PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE. THE NOMINAL VALUE OF THE BONDS WILL BE REPAYABLE IN FULL UPON MATURITY. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER ALL THE INFORMATION CONTAINED IN THE PROSPECTUS AS A WHOLE AND SHOULD CONSULT THEIR OWN INDEPENDENT FINANCIAL AND OTHER PROFESSIONAL ADVISORS BEFORE DECIDING TO MAKE AN INVESTMENT IN THE BONDS.

# 1. DEFINITIONS

Words and expressions and capitalised terms used in this Securities Note shall, except where the context otherwise requires and except where otherwise defined herein, bear the same meaning as the meaning given to such words, expressed and capitalised terms as indicated in the Registration Document forming part of the Prospectus. Additionally, the following words and expressions as used in this Securities Note shall bear the following meanings whenever such words and expressions are used in their capitalised form, except where the context otherwise requires:

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| **Act** | the Companies Act (Cap 386 of the Laws of Malta); |
| **Applicant/s** | a person or persons whose name or names (in the case of joint applicants) appear in the registration details of an Application Form; |
| **Application/s** | the application to subscribe for Bonds made by an Applicant/s by completing an Application Form and delivering same to any of the Authorised Financial Intermediaries; |
| **Application Form/s** | the two forms of application of subscription for Bonds, specimens of which are contained in Annex II of this Securities Note; |
| **Authorised Financial Intermediaries** | the licensed stockbrokers and financial intermediaries listed in Annex I of this Securities Note; |
| **Bond(s)** | a maximum of €45,000,000 unsecured bonds of a face value of €100 per bond bearing interest at the rate of 5.75% per annum and redeemable on the Redemption Date at their nominal value; |
| **Bondholder** | a holder of Bonds; |
| **Bond Issue** | the issue of the Bonds; |
| **Bond Issue Price** | the price of €100 per Bond; |
| **Business Day** | any day between Monday and Friday (both days included) on which commercial banks in Malta settle payments and are open for normal banking business; |
| **Company, IHI** or **Issuer** | International Hotel Investments p.l.c., a public limited liability company registered under the laws of Malta with Company registration number C 26136 and having its registered office at 22, Europa Centre, Floriana FRN 1400, Malta; |
| **CSD** | the Central Securities Depository of the Malta Stock Exchange, having its address at Garrison Chapel, Castille Place, Valletta VLT 1063, Malta; |
| **Cut-Off Date** | close of business of 10 April 2015; |
| **Euro** or **€** | the lawful currency of the Republic of Malta; |
| **Exchange, Malta Stock Exchange** or **MSE** | Malta Stock Exchange p.l.c., as originally constituted in terms of the Financial Markets Act (Cap. 345 of the Laws of Malta), having its registered office at Garrison Chapel, Castille Place, Valletta VLT 1063, Malta, and bearing company registration number C 42525; |
| **Exchangeable Bond Transfer** | the subscription for Bonds by an Existing Bondholder settled, after submitting the appropriate pre-printed Application Form 'A' (received by mail directly from the Issuer), by the transfer to the Issuer of all or part of the Exchangeable Bonds held by such Existing Bondholder as at the Cut-Off Date; |
| **Exchangeable Bonds** | the 6.25% bonds 2015-2019 redeemable on any day falling between and including 11 July 2015 and 9 July 2019, amounting as at the date of the Prospectus to €35,000,000, issued by the Issuer pursuant to a prospectus dated 12 June 2009; |

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| **Existing Bondholder** | a holder of Exchangeable Bonds as at the Cut-Off Date; |
| **Interest Payment Date** | 13 May of each year between and including each of the years 2016 and the year 2025, provided that if any such day is not a Business Day such Interest Payment Date will be carried over to the next following day that is a Business Day; |
| **Issue Date** | expected on 22 May 2015; |
| **Listing Authority** | the MFSA, appointed as Listing Authority for the purposes of the Financial Markets Act (Cap. 345 of the Laws of Malta) by virtue of Legal Notice 1 of 2003; |
| **Listing Rules** | the listing rules of the Listing Authority; |
| **Official List** | the list prepared and published by the MSE as its official list in accordance with the MSE Bye-Laws; |
| **Preplacement Offer** | shall have the meaning set out in section 7.5 of this Securities Note; |
| **Prospectus** | collectively the Registration Document, Summary Note and this Securities Note (each as defined in this Securities Note); |
| **Redemption Date** | 13 May 2025; |
| **Redemption Value** | the nominal value of each Bond (€100 per Bond); |
| **Registration Document** | the registration document issued by the Issuer dated 10 April 2015, forming part of the Prospectus; |
| **Regulation** | Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in a prospectus and dissemination of advertisements, as amended by: Commission Delegated Regulation (EU) No. 486/2012 of 30 March 2012 amending Regulation (EC) No. 809/2004 as regards the format and the content of the prospectus, the base prospectus, the summary and the final terms and as regards the disclosure requirements; Commission Delegated Regulation (EU) No. 862/2012 of 4 June 2012 amending Regulation (EC) No. 809/2004 as regards information on the consent to use of the prospectus, information on underlying indexes and the requirement for a report prepared by independent accountants or auditors; Commission Delegated Regulation (EU) No. 759/2013 of 30 April 2013 amending Regulation (EC) No. 809/2004 as regards the disclosure requirements for convertible and exchangeable debt securities; and Commission Delegated Regulation (EU) No. 382/2014 of 7 March 2014 amending Regulation (EC) No. 809/2004 as regards to regulatory technical standards for publication of supplements to the prospectus; |
| **Securities Note** | this document in its entirety; |
| **Sponsor** | Charts Investment Management Service Limited, an authorised financial intermediary licensed by the MFSA and a Member of the MSE; |
| **Summary Note** | the summary note issued by the Issuer dated 10 April 2015, forming part of the Prospectus; |
| **Terms and Conditions** | the terms and conditions of the Bond Issue, including the terms contained in this Securities Note. |

# 2 RISK FACTORS

## 2.1 General

**THE VALUE OF INVESTMENTS CAN GO UP OR DOWN AND PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE. THE NOMINAL VALUE OF THE BONDS WILL BE REPAYABLE IN FULL UPON MATURITY ON THE REDEMPTION DATE UNLESS THE BONDS ARE PREVIOUSLY RE-PURCHASED AND CANCELLED.**

**AN INVESTMENT IN THE BONDS INVOLVES CERTAIN RISKS INCLUDING THOSE DESCRIBED BELOW. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER, WITH THEIR OWN INDEPENDENT FINANCIAL AND OTHER PROFESSIONAL ADVISORS, THE FOLLOWING RISK FACTORS AND OTHER INVESTMENT CONSIDERATIONS AS WELL AS ALL THE OTHER INFORMATION CONTAINED IN THE PROSPECTUS BEFORE DECIDING TO MAKE AN INVESTMENT IN THE BONDS. THE SEQUENCE IN WHICH THE RISKS BELOW ARE LISTED IS NOT INTENDED TO BE INDICATIVE OF ANY ORDER OF PRIORITY OR OF THE EXTENT OF THEIR CONSEQUENCES.**

**NEITHER THIS SECURITIES NOTE, NOR ANY OTHER PARTS OF THE PROSPECTUS OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE BONDS: (I) IS INTENDED TO PROVIDE THE BASIS OF ANY CREDIT OR OTHER EVALUATION OR (II) SHOULD BE CONSIDERED AS A RECOMMENDATION BY THE ISSUER OR THE SPONSOR OR AUTHORISED FINANCIAL INTERMEDIARIES THAT ANY RECIPIENT OF THIS SECURITIES NOTE OR ANY OTHER PART OF THE PROSPECTUS OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE PROSPECTUS OR ANY BONDS, SHOULD PURCHASE ANY BONDS.**

**ACCORDINGLY PROSPECTIVE INVESTORS SHOULD MAKE THEIR OWN INDEPENDENT EVALUATION OF ALL RISK FACTORS, AND SHOULD CONSIDER ALL OTHER SECTIONS IN THIS DOCUMENT.**

## 2.2 Forward-looking Statements

This Securities Note contains "forward-looking statements" which include, among others, statements concerning matters that are not historical facts and which may involve projections of future circumstances. These forward-looking statements are subject to a number of risks, uncertainties and assumptions and important factors that could cause actual risks to differ materially from the expectations of the Issuer's Directors. No assurance is given that the future results or expectations will be achieved.

## 2.3 Risks relating to the Bonds

- The existence of an orderly and liquid market for the Bonds depends on a number of factors, including but not limited to the presence of willing buyers and sellers of the Issuer's Bonds at any given time and the general economic conditions in the market in which the Bonds are traded. Such factors are dependent upon the individual decisions of investors and the general economic conditions of the market, over which the Issuer has no control. Accordingly, there can be no assurance that an active secondary market for the Bonds will develop, or, if it develops, that it will continue. Furthermore, there can be no assurance that an investor will be able to sell or otherwise trade in the Bonds at or above the Bond Issue Price or at all.

- Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

- A Bondholder will bear the risk of any fluctuations in exchange rates between the currency of denomination of the Bonds (€) and the Bondholder's currency of reference, if different.

- No prediction can be made about the effect which any future public offerings of the Issuer's securities, or any takeover or merger activity involving the Issuer, will have on the market price of the Bonds prevailing from time to time.

- The Bonds constitute the general, direct, unconditional and unsecured obligations of the Issuer and shall at all times rank *pari passu*, without any priority or preference among themselves and with other unsecured debt, if any. Furthermore, subject to the negative pledge clause (section 5.7 of this Securities Note), third party security interests may be registered which will rank in priority to the Bonds against the assets of the Issuer for so long as such security interests remain in effect.

- **In the event that the Issuer wishes to amend any of the Terms and Conditions of Issue of the Bond it shall call a meeting of Bondholders in accordance with the provisions of section 5.13 of this Securities Note. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.**

- **The Terms and Conditions of this Bond Issue are based on Maltese law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change in Maltese law or administrative practice after the date of this Prospectus.**

# 3 PERSONS RESPONSIBLE

This document includes information given in compliance with the Listing Rules for the purpose of providing prospective investors with information with regard to the Issuer. All of the directors of the Issuer, whose names appear under the sub-heading “Directors” under the heading “Identity of Directors, Senior Management, Advisors and Auditors” in section 3 of the Registration Document, accept responsibility for the information contained in this Securities Note.

To the best of the knowledge and belief of the directors of the Issuer, who have taken all reasonable care to ensure that such is the case, the information contained in this Securities Note is in accordance with the facts and does not omit anything likely to affect the import of such information. The directors of the Issuer accept responsibility accordingly.

### 3.1 Consent for Use of Prospectus

**Consent required in connection with the use of the Prospectus by the Authorised Financial Intermediaries:**

For the purposes of any subscription for Bonds through any of the Authorised Financial Intermediaries in terms of this Securities Note and any subsequent resale, placement or other offering of Bonds by such Authorised Financial Intermediaries in circumstances where there is no exemption from the requirement to publish a prospectus under the Prospectus Directive, the Issuer consents to the use of this Prospectus (and accepts responsibility for the information contained therein) with respect to any such subsequent resale or placement or other offering of Bonds, provided this is limited only:

(i) in respect of Bonds subscribed for through Authorised Financial Intermediaries listed in Annex I of this Securities Note during the Preplacement Offer and the Issue Period;

(ii) to any resale or placement of Bonds subscribed for as aforesaid, taking place in Malta;

(iii) to any resale or placement of Bonds subscribed for as aforesaid, taking place within the period of 60 days from the date of the Prospectus.

Neither the Issuer nor the Sponsor has any responsibility for any of the actions of any Authorised Financial Intermediary, including their compliance with applicable conduct of business rules or other local regulatory requirements or other securities law requirements in relation to a resale or placement of Bonds.

Other than as set out above, neither the Issuer nor the Sponsor has authorised (nor do they authorise or consent to the use of this Prospectus in connection with) the making of any public offer of the Bonds by any person in any circumstances. Any such unauthorised offers are not made on behalf of the Issuer or the Sponsor and neither the Issuer nor the Sponsor has any responsibility or liability for the actions of any person making such offers.

Investors should enquire whether an intermediary is considered to be an Authorised Financial Intermediary in terms of the Prospectus. If the investor is in doubt as to whether it can rely on the Prospectus and/or who is responsible for its contents, it should obtain legal advice.

No person has been authorised to give any information or to make any representation not contained in or inconsistent with this Prospectus. If given or made, it must not be relied upon as having been authorised by the Issuer or Sponsor. The Issuer does not accept responsibility for any information not contained in this Prospectus.

**In the event of a resale, placement or other offering of Bonds by an Authorised Financial Intermediary, the Authorised Financial Intermediary shall be responsible to provide information to investors on the terms and conditions of the resale, placement or other offering at the time such is made.**

Any resale, placement or other offering of Bonds to an investor by an Authorised Financial Intermediary will be made in accordance with any terms and other arrangements in place between such Authorised Financial Intermediary and such investor including as to price, allocations and settlement arrangements. Where such information is not contained in the Prospectus, it will be the responsibility of the applicable Authorised Financial Intermediary at the time of such resale, placement or other offering to provide the investor with that information and neither the Issuer nor the Sponsor has any responsibility or liability for such information.

**Any Authorised Financial Intermediary using this Prospectus in connection with a resale, placement or other offering of Bonds subsequent to the Bond Issue shall, limitedly for the period of 60 days from the date of the Prospectus, publish on its website a notice to the effect that it is using this Prospectus for such resale, placement or other offering in accordance with the consent of the Issuer and the conditions attached thereto. The consent provided herein shall no longer apply following the lapse of such period.**

Any new information with respect to Authorised Financial Intermediaries unknown at the time of the approval of this Securities Note will be made available through a company announcement which will also be made available on the Issuer's website: http://www.ihiplc.com.

# 4 ESSENTIAL INFORMATION

### 4.1 Reasons for the Issue and Use of Proceeds

The proceeds from the Bond Issue, which net of Bond Issue expenses are expected to amount to approximately €44,100,000, will be used by the Issuer for the following purposes, in the amounts and order of priority set out below:

(i) a maximum amount of €35,000,000 will be used by the Issuer for the purpose of purchasing Exchangeable Bonds from Existing Bondholders, for cancellation, by way of Exchangeable Bond Transfer, and for the purpose of redeeming any Exchangeable Bonds remaining in issue as at 11 July 2015, being the first early date of redemption of the Exchangeable Bonds in terms of the prospectus dated 12 June 2009 (as at the date of the Prospectus the total value of Exchangeable Bonds in issue stands at €35,000,000); and

(ii) the remaining €9,100,000 balance of the net Bond Issue proceeds will be used by the Issuer to part finance the acquisition of the IHG Group, which is subject to the satisfaction of various conditions as further described in section 4.1.5 of the Registration Document. In the event that the Issuer decides not to proceed with the said acquisition, for any reason, then the remaining portion of net Bond Issue proceeds shall be applied to reduce the bank indebtedness of the Group.

In the event that the Issuer does not receive subscriptions for the full €45,000,000 in Bonds, the Issuer will proceed with the listing of the amount of Bonds subscribed for, and it shall firstly apply the net proceeds received for the purpose mentioned in (i) above. In the event that the subscriptions received do not exceed the amount specified in (i) above, the Issuer will complete the redemption of any remaining Exchangeable Bonds through own funds on 11 July 2015, being the first early date of redemption of the Exchangeable Bonds in terms of the prospectus dated 12 June 2009.

### 4.2 Expenses

Professional fees, and costs related to publicity, advertising, printing, listing, registration, sponsor, management, registrar fees, selling commission, and other miscellaneous expenses in connection with this Bond Issue are estimated not to exceed €900,000. There is no particular order of priority with respect to such expenses.

### 4.3 Issue Statistics

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| **Amount:** | €45,000,000; |
| **Form:** | The Bonds will be issued in fully registered and dematerialised form and will be represented in uncertificated form by the appropriate entry in the electronic register maintained on behalf of the Issuer at the CSD; |
| **Denomination:** | Euro (€); |
| **ISIN:** | MT0000111295; |
| **Minimum amount per subscription, other than a subscription in the Preplacement Offer:** | Minimum of €2,000 and multiples of €100 thereafter; |
| **Minimum amount per subscription in the Preplacement Offer:** | Minimum of €25,000 and multiples of €100 thereafter; |
| **Redemption Date:** | 13 May 2025; |
| **Plan of Distribution:** | The Bonds are open for subscription by all categories of investors including holders of Exchangeable Bonds and the general public; |
| **Preferred Allocation to holders of Exchangeable Bonds:** | Existing Bondholders applying for Bonds may elect to settle all or part of the amount due on the Bonds applied for by the transfer to the Issuer of Exchangeable Bonds at par value, subject to a minimum holding of €2,000 in Bonds. Any Existing Bondholders whose holding in Exchangeable Bonds is less than €2,000 shall be required to pay the difference together with the submission of their Application Form 'A' ("**Cash Top-Up**").<br><br>Existing Bondholders electing to subscribe for Bonds through the transfer to the Issuer of all or part of the Exchangeable Bonds held by them as at the Cut-Off Date shall be allocated Bonds for the corresponding nominal value of Exchangeable Bonds transferred to the Issuer (including Cash Top-Up, where applicable).<br><br>The transfer of Exchangeable Bonds to the Issuer in consideration for the subscription for Bonds shall cause the obligations of the Issuer with respect to such Exchangeable Bonds to be extinguished, and shall give rise to obligations on the part of the Issuer under the Bonds. |
| **Bond Issue Price:** | At par (€100 per Bond); |
| **Status of the Bonds:** | The Bonds constitute the general, direct, unconditional and unsecured obligations of the Issuer and shall at all times rank *pari passu*, without any priority or preference among themselves and with other unsecured debt, if any; |
| **Listing:** | Application has been made to the Listing Authority for the admissibility of the Bonds to listing and to the MSE for the Bonds to be listed and traded on its Official List; |
| **Application Forms available:** | 20 April 2015; |

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| **Preplacement Offer:** | The Issuer shall enter into conditional subscription agreements with a number of Authorised Financial Intermediaries for the subscription of Bonds up to an aggregate amount of €10,000,000 whereby it will bind itself to allocate Bonds to participating investors during the Preplacement Offer period; |
| **Closing date for Applications:** | 30 April 2015 in the case of Existing Bondholders and 6 May 2015 for the general public; |
| **Issue Period:** | 4 May 2015 to 6 May 2015, both days included; |
| **Interest:** | 5.75% per annum; |
| **Interest Payment Date(s):** | Annually on 13 May as from 13 May 2016 (the first interest payment date); |
| **Governing Law of Bonds:** | The Bonds are governed by and shall be construed in accordance with Maltese law; |
| **Jurisdiction:** | The Maltese Courts shall have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Bonds. |

### 4.4 Interest of Natural and Legal Persons involved in the Issue

Save for the possible subscription for Bonds by Authorised Financial Intermediaries (which includes Charts Investment Management Service Limited, Bank of Valletta p.l.c. and HSBC Bank Malta p.l.c.), and any fees payable in connection with the Bond Issue to Charts Investment Management Service Limited as Sponsor, Bank of Valletta p.l.c. as Joint Manager and Registrar, and HSBC Bank Malta p.l.c. as Joint Manager, so far as the Issuer is aware no person involved in the Issue has an interest material to the Issue.

## 5 INFORMATION CONCERNING THE SECURITIES TO BE ISSUED AND ADMITTED TO TRADING

### 5.1 General

**5.1.1** Each Bond forms part of a duly authorised issue of 5.75% Unsecured Bonds 2025 of a nominal value of €100 per Bond issued by the Issuer at par up to the principal amount of €45,000,000 (except as otherwise provided under section 5.12 "Further Issues").

**5.1.2** The currency of the Bonds is Euro (€).

**5.1.3** Subject to admission to listing of the Bonds to the Official List, the Bonds are expected to be assigned ISIN MT0000111295.

**5.1.4** All outstanding Bonds not previously purchased and cancelled shall be redeemed by the Issuer at par on the Redemption Date.

**5.1.5** The issue of the Bonds is made in accordance with the requirements of the Listing Rules, the Act, and the Regulation.

**5.1.6** The Issue Period of the Bonds is between 4 May 2015 and 6 May 2015, both days included.

**5.1.7** The Bond Issue is not underwritten.

**5.1.8** In the event that the Bond Issue is not fully subscribed, the Issuer will proceed to: list the Bonds subscribed for; and effect cancellation of the Exchangeable Bonds received from Existing Bondholders electing to acquire Bonds by Exchangeable Bonds Transfer. Any Exchangeable Bonds remaining in issue are due to be redeemed by the Issuer on 11 July 2015, being the first early date of redemption of the Exchangeable Bonds in terms of the prospectus dated 12 June 2009.

**5.2 Ranking of the Bonds**

The Bonds constitute the general, direct, unconditional and unsecured obligations of the Issuer and shall at all times rank *pari passu*, without any priority or preference among themselves and with other unsecured debt, if any. As at the date of this Securities Note, the Issuer does not have any subordinated indebtedness.

The following sets out a summary of Group indebtedness which as at 31 December 2014 amounted to €299.3 million (2013: €320.4 million), and includes bank loans, corporate bonds and other borrowings from related companies. The bank borrowings listed below are secured by privileges and hypothecs, and therefore the indebtedness being created by the Bonds, together with the other issued bonds, ranks after all these bank borrowings. In addition, the Bonds would also rank after any future debts which may be secured by a cause of preference such as a privilege and/or a hypothec.

Further details on bank borrowings, including, *inter alia*, respective term, security and repayment schedule, are found in the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2014, which have been published and are available on the Issuer's website (www.ihiplc.com) and at its registered office.

| **IHI Group Borrowings & Bonds** | **31 Dec'14 (€'000)** | **31 Dec'13 (€'000)** | **31 Dec'12 (€'000)** |
|---|---|---|---|
| Bank Borrowings | 205,013 | 215,533 | 232,279 |
| Bonds | 88,912 | 91,393 | 97,087 |
| Other interest bearing borrowings | 5,326 | 13,528 | 16,605 |
| **Total borrowings and bonds** | **299,251** | **320,454** | **345,971** |

**5.3 Rights attached to the Bonds**

There are no special rights attached to the Bonds other than the right of the Bondholders to:

(i) the payment of capital;
(ii) the payment of interest;
(iii) ranking with respect to other indebtedness of the Issuer in accordance with the provisions of section 5.2 hereof;
(iv) attend, participate in and vote at meetings of Bondholders in accordance with the terms and conditions of the Bond; and
(v) enjoy all such other rights attached to the Bonds emanating from this Prospectus.

**5.4 Interest**

**5.4.1** The Bonds shall bear interest from and including 13 May 2015 at the rate of 5.75% per annum on the nominal value thereof, payable annually in arrears on each Interest Payment Date. The first interest payment will be effected on 13 May 2016 (covering the period 13 May 2015 to 12 May 2016). Any Interest Payment Date which falls on a day other than a Business Day will be carried over to the next following day that is a Business Day. In terms of article 2156 of the Civil Code (Cap. 16 of the Laws of Malta), the right of Bondholders to bring claims for payment of interest and repayment of the principal on the Bonds is barred by the lapse of five years.

**5.4.2** When interest is required to be calculated for any period of less than a full year, it shall be calculated on the basis of a three hundred and sixty (360) day year consisting of twelve (12) months of thirty (30) days each, and in the case of an incomplete month, the number of days elapsed.

**5.4.3** An Exchangeable Bond Transfer (as defined in section 7.2.1 below) shall be without prejudice to the rights of the holders of Exchangeable Bonds to receive interest on the Exchangeable Bonds up to and including 10 July 2015. The Issuer will settle the difference between the interest rates applicable to the Exchangeable Bonds and the interest rate of 5.75% applicable to the Bonds, from 13 May 2015 up to 10 July 2015, being the day prior to the first early date of redemption of the Exchangeable Bonds, to all persons holding Exchangeable Bonds who would have submitted their Application Form 'A' by not later than 30 April 2015 and, consequently, exercising their option to subscribe for Bonds and settle the consideration for Bonds by transferring their Exchangeable Bonds to the Issuer as mentioned above.

**5.5 Yield**

The gross yield calculated on the basis of the Interest, the Bond Issue Price and the Redemption Value of the Bonds at Redemption Date is 5.75%.

**5.6 Registration, Form, Denomination and Title**

**5.6.1** Certificates will not be delivered to Bondholders in respect of the Bonds in virtue of the fact that the entitlement to Bonds will be represented in an uncertificated form by the appropriate entry in the electronic register maintained on behalf of the Issuer by the CSD. There will be entered in such electronic register the names, addresses, identity card numbers (in the case of natural persons), registration numbers (in the case of companies) and MSE account numbers of the Bondholders and particulars of the Bonds held by them respectively, and the Bondholders shall have, at all reasonable times during business hours, access to the register of bondholders held at the CSD for the purpose of inspecting information held on their respective account.

**5.6.2** The CSD will issue, upon a request by a Bondholder, a statement of holdings to such Bondholder evidencing his/her/its entitlement to Bonds held in the register kept by the CSD.

**5.6.3** The Bonds will be issued in fully registered form, without interest coupons, in denominations of any integral multiple of €100 provided that on subscription, other than on subscription in the Preplacement Offer, the Bonds will be issued for a minimum of €2,000 per individual Bondholder. Authorised Financial Intermediaries subscribing for Bonds through nominee accounts for and on behalf of clients shall apply the minimum subscription amount of €2,000 to each underlying client. As to a subscription in the Preplacement Offer, the Bonds will be issued for a minimum of €25,000 per individual Bondholder or underlying client, as the case may be.

**5.6.4** Any person in whose name a Bond is registered may (to the fullest extent permitted by applicable law) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Bond. Title to the Bonds may be transferred as provided below under the heading "**Transferability of the Bonds**" in section 5.11 of this Securities Note.

**5.7 Negative Pledge**

The Issuer undertakes, for as long as any principal or interest under the Bonds or any of the Bonds remains outstanding, not to create or permit to subsist any Security Interest (as defined below), other than a Permitted Security Interest (as defined below), upon the whole or any part of its present or future assets or revenues to secure any Financial Indebtedness (as defined below) of the Issuer, unless at the same time or prior thereto the Issuer's indebtedness under the Bonds, shares in and is secured equally and rateably therewith, and the instrument creating such Security Interest so provides.

"**Financial Indebtedness**" means any indebtedness in respect of: (A) monies borrowed; (B) any debenture, bond, note, loan stock or other security; (C) any acceptance credit; (D) the acquisition cost of any asset to the extent payable before or after the time of acquisition or possession by the party liable where the advance or deferred payment is arranged primarily as a method of raising finance for the acquisition of that asset; (E) leases entered into primarily as a method of raising finance for the acquisition of the asset leased; (F) amounts raised under any other transaction having the commercial effect of borrowing or raising of money; (G) any guarantee, indemnity or similar assurance against financial loss of any person;

"**Security Interest**" means any privilege, hypothec, pledge, lien, charge or other encumbrance or real right which grants rights of preference to a creditor over the assets of the Issuer;

"**Permitted Security Interest**" means: (A) any Security Interest arising by operation of law; (B) any Security Interest securing temporary bank loans or overdrafts in the ordinary course of business; (C) any other Security Interest (in addition to (A) and (B) above) securing Financial Indebtedness of the Issuer, in an aggregate outstanding amount not exceeding 80% of the difference between the value of the unencumbered assets of the Issuer and the aggregate principal amount of Bonds outstanding at the time.

Provided that the aggregate Security Interests referred to in (B) and (C) above do not result in the unencumbered assets of the Issuer being less than 105.75% of the aggregate principal amount of the Bonds still outstanding;

"**unencumbered assets"** means assets which are not subject to a Security Interest.

**5.8 Payments**

**5.8.1** Payment of the principal amount of a Bond will be made in Euro by the Issuer to the person in whose name such Bonds are registered, with interest accrued up to the Redemption Date, by means of direct credit transfer into such bank account as the Bondholder may designate from time to time, provided such bank account is denominated in Euro and held with any licensed bank in Malta. Such payment shall be effected within seven (7) days of the Redemption Date. The Issuer shall not be responsible for any loss or delay in transmission or any charges in connection therewith. Upon payment of the Redemption Value the Bonds shall be redeemed and the appropriate entry made in the electronic register of the Bonds at the CSD.

In the case of Bonds held subject to usufruct, payment will be made against the joint instructions of all bare owners and usufructuaries. Before effecting payment the Issuer and/or the CSD shall be entitled to request any legal documents deemed necessary concerning the entitlement of the bare owner/s and the usufructuary/ies to payment of the Bonds.

**5.8.2** Payment of interest on a Bond will be made to the person in whose name such Bond is registered at the close of business fifteen (15) days prior to the Interest Payment Date, by means of a direct credit transfer into such bank account as the Bondholder may designate, from time to time, which is denominated in Euro and held with any licensed bank in Malta. Such payment shall be effected within seven (7) days of the Interest Payment Date. The Issuer shall not be responsible for any loss or delay in transmission or any charges in connection therewith.

**5.8.3** All payments with respect to the Bonds are subject in all cases to any applicable fiscal or other laws and regulations prevailing in Malta. In particular, but without limitation, all payments of principal and interest by or on behalf of the Issuer in respect of the Bonds shall be made net of any amount which the Issuer is compelled by law to deduct or withhold for or on account of any present or future taxes, duties, assessments or other government charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Republic of Malta or any authority thereof or therein having power to tax.

**5.8.4** No commissions or expenses shall be charged by the Issuer to Bondholders in respect of such payments.

**5.9 Redemption and Purchase**

**5.9.1** Unless previously purchased and cancelled, the Bonds will be redeemed at their nominal value (together with interest accrued to the date fixed for redemption) on 13 May 2025.

**5.9.2** Subject to the provisions of this section 5.9, the Issuer may at any time purchase Bonds in the open market or otherwise at any price. Any purchase by tender shall be made available to all Bondholders alike.

**5.9.3** All Bonds so purchased will be cancelled forthwith and may not be re-issued or re-sold.

**5.10 Events of Default**

The Bonds shall become immediately due and repayable at their principal amount together with accrued interest, if any, if any of the following events (“**Events of Default”**) shall occur:

**5.10.1** the Issuer shall fail to pay any interest on any Bond when due and such failure shall continue for thirty (30) days after written notice thereof shall have been given to the Issuer by any Bondholder; or

**5.10.2** the Issuer shall fail duly to perform or shall otherwise be in breach of any other material obligation contained in the terms and conditions of the Bonds and such failure shall continue for sixty (60) days after written notice thereof shall have been given to the Issuer by any Bondholder; or

**5.10.3** an order is made or resolution passed or other action taken for the dissolution, termination of existence, liquidation, winding-up or bankruptcy of the Issuer; or

**5.10.4** the Issuer stops or suspends payments (whether of principal or interest) with respect to all or any class of its debts or announces an intention to do so or ceases or threatens to cease to carry on its business or a substantial part of its business; or

**5.10.5** the Issuer is unable, or admits in writing its inability, to pay its debts as they fall due or otherwise becomes insolvent; or

**5.10.6** there shall have been entered against the Issuer a final judgment by a court of competent jurisdiction from which no appeal may be or is made for the payment of money in excess of five million Euro (€5,000,000) or its equivalent and ninety (90) days shall have passed since the date of entry of such judgment without its having been satisfied or stayed; or

**5.10.7** any default occurs and continues for ninety (90) days under any contract or document relating to any Financial Indebtedness (as defined above) of the Issuer in excess of five million Euro (€5,000,000) or its equivalent at any time.

**5.11 Transferability of the Bonds**

**5.11.1** The Bonds are freely transferable and, once admitted to the Official List, shall be transferable only in whole in accordance with the rules and regulations of the MSE applicable from time to time.

**5.11.2** Any person becoming entitled to a Bond in consequence of the death or bankruptcy of a Bondholder may, upon such evidence being produced as may from time to time properly be required by the Issuer or the CSD, elect either to be registered himself as holder of the Bond or to have some person nominated by him registered as the transferee thereof. If the person so becoming entitled shall elect to be registered himself, he shall deliver or send to the CSD a notice in writing signed by him stating that he so elects. If he shall elect to have another person registered he shall testify his election by transferring the Bond, or procuring the transfer of the Bond, in favour of that person.

**5.11.3** All transfers and transmissions are subject in all cases to any pledge (duly constituted) of the Bonds and to any applicable laws and regulations.

**5.11.4** The cost and expenses of effecting any registration of transfer or transmission, except for the expenses of delivery by any means other than regular mail (if any) and except, if the Issuer shall so require, the payment of a sum sufficient to cover any tax, duty or other governmental charge or insurance charges that may be imposed in relation thereto, will be borne by the Issuer.

**5.11.5** The Issuer will not register the transfer or transmission of Bonds for a period of fifteen (15) days preceding the due date for any payment of interest on the Bonds.

**5.12 Further Issues**

The Issuer may, from time to time, without the consent of the Bondholders, create and issue further debentures, debenture stock, bonds, loan notes, or any other debt securities, either having the same terms and conditions as any outstanding debt securities of any series (including the Bonds), and so that such further issue shall be consolidated and form a single series with the outstanding debt securities of the relevant series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue.

**5.13 Meeting of Bondholders**

**5.13.1** The Issuer may from time to time call meetings of Bondholders for the purpose of consultation with Bondholders or for the purpose of obtaining the consent of Bondholders on matters which in terms of the Prospectus require the approval of a Bondholders' meeting.

**5.13.2** A meeting of Bondholders shall be called by the Directors by giving all Bondholders listed on the register of Bondholders as at a date being not more than thirty (30) days preceding the date scheduled for the meeting, not less than fourteen (14) days' notice in writing. Such notice shall set out the time, place and date set for the meeting and the matters to be discussed or decided thereat, including, if applicable, sufficient information on any amendment of the Prospectus that is proposed to be voted upon at the meeting and seeking the approval of the Bondholders. Following a meeting of Bondholders held in accordance with the provisions contained hereunder, the Issuer shall, acting in accordance with the resolution(s) taken at the meeting, communicate to the Bondholders whether the necessary consent to the proposal made by the Issuer has been granted or withheld. Subject to having obtained the necessary approval by the Bondholders in accordance with the provisions of this section 5.13 at a meeting called for that purpose as aforesaid, any such decision shall subsequently be given effect to by the Issuer.

**5.13.3** The amendment or waiver of any of the provisions of and/or conditions contained in this Securities Note, or in any other part of the Prospectus, may only be made with the approval of Bondholders at a meeting called and held for that purpose in accordance with the terms hereof.

**5.13.4** A meeting of Bondholders shall only validly and properly proceed to business if there is a quorum present at the commencement of the meeting. For this purpose at least two (2) Bondholders present, in person or by proxy, representing not less than 50% in nominal value of the Bonds then outstanding, shall constitute a quorum. If a quorum is not present within thirty (30) minutes from the time scheduled for the commencement of the meeting as indicated on the notice convening same, the meeting shall stand adjourned to a place, date and time as shall be communicated by the Directors to the Bondholders present at that meeting. The Issuer shall within two (2) days from the date of the original meeting publish by way of a company announcement the date, time and place where the adjourned meeting is to be held. An adjourned meeting shall be held not earlier than seven (7) days, and not later than fifteen (15) days, following the original meeting. At an adjourned meeting: the number of Bondholders present, in person or by proxy, shall constitute a quorum; and only the matters specified in the notice calling the original meeting shall be placed on the agenda of, and shall be discussed at, the adjourned meeting.

**5.13.5** Any person who in accordance with the Memorandum and Articles of Association of the Issuer is to chair the annual general meetings of shareholders shall also chair meetings of Bondholders.

**5.13.6** Once a quorum is declared present by the chairman of the meeting, the meeting may then proceed to business and address the matters set out in the notice convening the meeting. In the event of decisions being required at the meeting the directors or their representative shall present to the Bondholders the reasons why it is deemed necessary or desirable and appropriate that a particular decision is taken. The meeting shall allow reasonable and adequate time to Bondholders to present their views to the Issuer and the other Bondholders present at the meeting. The meeting shall then put the matter as proposed by the Issuer to a vote of the Bondholders present at the time at which the vote is being taken, and any Bondholders taken into account for the purpose of constituting a quorum who are no longer present for the taking of the vote shall not be taken into account for the purpose of such vote.

**5.13.7** The voting process shall be managed by the Company Secretary under the supervision and scrutiny of the auditors of the Issuer.

**5.13.8** The proposal placed before a meeting of Bondholders shall only be considered approved if at least 65% in nominal value of the Bondholders present at the meeting at the time when the vote is being taken, in person or by proxy, shall have voted in favour of the proposal.

**5.13.9** Save for the above, the rules generally applicable to proceedings at general meetings of shareholders of the Issuer shall *mutatis mutandis* apply to meetings of Bondholders.

### 5.14 Authorisations and Approvals

The Board of Directors of the Issuer authorised the Bond Issue pursuant to a board of directors' resolution passed on 26 February 2015.

### 5.15 Notices

Notices will be mailed to Bondholders at their registered addresses and shall be deemed to have been served at the expiration of twenty four (24) hours after the letter containing the notice is posted, and in proving such service it shall be sufficient to prove that a prepaid letter containing such notice was properly addressed to such Bondholder at his registered address and posted.

# 6 TAXATION

### 6.1 General

Investors and prospective investors are urged to seek professional advice as regards both Maltese and any foreign tax legislation which may be applicable to them in respect of the Bonds, including their acquisition, holding and disposal as well as any income/ gains derived therefrom or made on their disposal. The following is a summary of the anticipated tax treatment applicable to Bondholders in so far as taxation in Malta is concerned. This information does not constitute legal or tax advice and does not purport to be exhaustive.

The information below is based on an interpretation of tax law and practice relative to the applicable legislation, as known to the Issuer at the date of the Prospectus, in respect of a subject on which no official guidelines exist. Investors are reminded that tax law and practice and their interpretation as well as the levels of tax on the subject matter referred to in the preceding paragraph, may change from time to time.

This information is being given solely for the general information of investors. The precise implications for investors will depend, among other things, on their particular circumstances and on the classification of the Bonds from a Maltese tax perspective, and professional advice in this respect should be sought accordingly.

### 6.2 Malta Tax on Interest

Since interest is payable in respect of a Bond which is the subject of a public issue, unless the Issuer is otherwise instructed by a Bondholder or if the Bondholder does not fall within the definition of “recipient” in terms of article 41(c) of the Income Tax Act, (Cap. 123 of the Laws of Malta) (the “Income Tax Act”), interest shall be paid to such person net of a final withholding tax, currently at the rate of 15% of the gross amount of the interest, pursuant to article 33 of the Income Tax Act (Cap. 123 of the Laws of Malta). Bondholders who do not fall within the definition of a “recipient” do not qualify for the said rate and should seek advice on the taxation of such income as special rules may apply.

This withholding tax is considered as a final tax and a Maltese resident individual Bondholder need not declare the interest so received in his income tax return. No person shall be charged to further tax in respect of such income.

In the case of a valid election made by an eligible Bondholder resident in Malta to receive the interest due without the deduction of final tax, interest will be paid gross and such person will be obliged to declare the interest so received in his income tax return and be subject to tax on it at the standard rates applicable to that person at that time. Additionally in this latter case the Issuer will advise the Inland Revenue on an annual basis in respect of all interest paid gross and of the identity of all such recipients unless the beneficiary is a non-resident of Malta. Any such election made by a resident Bondholder at the time of subscription may be subsequently changed by giving notice in writing to the Issuer. Such election or revocation will be effective within the time limit set out in the Income Tax Act.

In terms of article 12(1)(c) of the Income Tax Act, Bondholders who are not resident in Malta satisfying the applicable conditions set out in the Income Tax Act are not taxable in Malta on the interest received and will receive interest gross, subject to the requisite declaration/evidence being provided to the Issuer in terms of law.

### 6.3 European Union Savings Directive

Non-residents of Malta should note that payment of interest to individuals and certain residual entities residing in another EU Member State is reported on an annual basis to the Commissioner who will in turn exchange the information with the competent tax authority of the Member State where the recipient of interest is resident. This exchange of information takes place in terms of the EU Savings Directive 2003/48/EC.

### 6.4 Maltese Taxation on Capital Gains on Tansfer of the Bonds

On the assumption that the Bonds would not fall within the definition of "securities" in terms of article 5(1)(b) of the Income Tax Act, that is, "shares and stocks and such like instrument that participate in any way in the profits of the company and whose return is not limited to a fixed rate of return", no tax on capital gains is chargeable in respect of transfer of the Bonds.

### 6.5 Duty on Documents and Transfers

In terms of article 50 of the Financial Markets Act (Cap. 345 of the Laws of Malta) as the Bonds constitute financial instruments of a company quoted on a regulated market Exchange, as is the MSE, redemptions and transfers of the Bonds are exempt from Maltese duty.

**INVESTORS AND PROSPECTIVE INVESTORS ARE URGED TO SEEK PROFESSIONAL ADVICE AS REGARDS BOTH MALTESE AND ANY FOREIGN TAX LEGISLATION APPLICABLE TO THE ACQUISITION, HOLDING AND DISPOSAL OF BONDS AS WELL AS INTEREST PAYMENTS MADE BY THE ISSUER. THE ABOVE IS A SUMMARY OF THE ANTICIPATED TAX TREATMENT APPLICABLE TO THE BONDS AND TO BONDHOLDERS. THIS INFORMATION, WHICH DOES NOT CONSTITUTE LEGAL OR TAX ADVICE, REFERS ONLY TO BONDHOLDERS WHO DO NOT DEAL IN SECURITIES IN THE COURSE OF THEIR NORMAL TRADING ACTIVITY.**

## 7 TERMS AND CONDITIONS OF THE BOND ISSUE

### 7.1 Expected Timetable of the Bond Issue

| | | |
|---|---|---|
| 1. | Application Forms mailed to holders of Exchangeable Bonds as at the Cut-Off Date | 15 April 2015 |
| 2. | Application Forms available to the general public | 20 April 2015 |
| 3. | Preplacement Offer | 29 April 2015 |
| 4. | Closing date for Applications to be received from holders of Exchangeable Bonds as at the Cut-Off Date | 30 April 2015 |
| 5. | Issue Period (opening and closing of subscription lists, respectively) | 4 May 2015 to 6 May 2015, both days included |
| 6. | Commencement of interest on the Bonds | 13 May 2015 |
| 7. | Announcement of basis of acceptance | 13 May 2015 |
| 8. | Refunds of unallocated monies | 20 May 2015 |
| 9. | Expected dispatch of allotment advices | 20 May 2015 |
| 10. | Expected date of admission of the securities to listing | 22 May 2015 |
| 11. | Expected date of commencement of trading in the securities | 25 May 2015 |

The Issuer reserves the right to close the Bond Issue before 6 May 2015 in the event of over-subscription, in which case the events set out in steps 7 to 11 above shall be brought forward, although the number of workings days between the respective events shall not be altered.

**7.2 Terms and Conditions of Application**

**7.2.1** Existing Bondholders applying for Bonds may elect to settle all or part of the amount due on the Bonds applied for by completing a pre-printed Application Form 'A' indicating that the consideration for the Bonds applied for shall be settled by way of transfer to the Issuer of all or part of the Exchangeable Bonds held as at the Cut-Off Date in an amount equivalent to the par value of the Bonds applied for, subject to a minimum application of €2,000 ("**Exchangeable Bond Transfer**"). Any Existing Bondholders whose holding in Exchangeable Bonds is less than €2,000 shall be required to pay the difference together with the submission of their Application Form 'A' ("**Cash Top-Up**").

**7.2.2** In addition to the aforesaid, holders of Exchangeable Bonds transferring all of the Exchangeable Bonds held by them as at the Cut-Off Date pursuant to section 7.2.1 above may apply for an amount of Bonds in excess of the amount of Exchangeable Bonds being transferred. In such case the holders of Exchangeable Bonds may subscribe for additional Bonds, in multiples of €100, by completing the appropriate section of Application Form 'A'. The completed Application Form 'A' is to be lodged with any of the Authorised Financial Intermediaries by not later than 14.00 hours on 30 April 2015, together with payment of the Cash Top-Up referred to section 7.2.1 above and the full price of the additional Bonds applied for, in Euro and in clear funds. Payment may be made in cash or cheque payable to "**The Registrar – IHI Bond Issue**".

**7.2.3** All other Applicants, not being holders of Exchangeable Bonds, may subscribe for Bonds by submitting an Application Form 'B'. The completed Application Form 'B' is to be lodged with any of the Authorised Financial Intermediaries. All Application Forms 'B' must be accompanied by the full price of the Bonds applied for and payment may be made either in cash or by cheque payable to "**The Registrar – IHI Bond Issue**".

**7.2.4** By submitting a signed Application Form 'A' indicating that the Exchangeable Bond Transfer is being selected (whether in whole or in part consideration for the Bonds being applied for), the Applicant is thereby confirming:

i. that all or part (as the case may be) of the Exchangeable Bonds held by the Applicant on the Cut-off Date are being transferred to the Issuer, together with the payment due in respect of any Cash Top-Up, if applicable;

ii. that the pre-printed Application Form 'A' constitutes the Applicant's irrevocable mandate to the Issuer to:

a. cause the transfer of the said Exchangeable Bonds in the Issuer's name in consideration of the issue of Bonds; and

b. engage, at the Issuer's cost, the services of such brokers or intermediaries as may be necessary to fully and effectively vest title in the said Exchangeable Bonds in the Issuer and fully and effectively vest title in the appropriate number of Bonds in the Applicant;

iii. the obligations of the Issuer with respect to the Exchangeable Bonds being transferred to the Issuer are extinguished, replaced by obligations on the part of the Issuer under the Bonds to be issued upon acceptance by the Issuer of the application in question.

**7.2.5** By submitting a signed Application Form in terms of sections 7.2.2 and 7.2.3 above, the Applicant is thereby confirming that: (i) the Applicant's remittance will be honoured on first presentation and agrees that, if such remittance is not so honoured on its first presentation, the Issuer and the Registrar reserve the right to invalidate the relative Application, and furthermore the Applicant will not be entitled to receive a registration advice or to be registered in the register of Bondholders, unless the Applicant makes payment in cleared funds and such consideration is accepted by the Issuer, acting through the Registrar (which acceptance shall be made in the Issuer's absolute discretion and may be on the basis that the Applicant indemnifies the Issuer against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of the Applicant's remittance to be honoured on first presentation).

**7.2.6** Where the Applicant is the holder of Exchangeable Bonds which as at the Cut-Off Date are held subject to usufruct, the signatures of both the bare owner and the usufructuary will be required in the Application Form 'A'.

### 7.3 General Terms and Conditions

**7.3.1** The issue and allotment of the Bonds is conditional upon the Bonds being admitted to the Official List. In the event that the Bonds are not admitted to the Official List, no Exchangeable Bond Transfers (see section 7.2 above) shall take effect, and any Application monies (in the case of a Cash Top-Up being required) received by the Issuer will be returned without interest by direct credit into the Applicant's bank account indicated by the Applicant on the relative Application Form.

**7.3.2** The subscription lists during the Issue Period will open at 08:30 hours on 4 May 2015 and will close soon thereafter as may be determined by the Issuer, but in any event no later than 16:00 hours on 6 May 2015.

**7.3.3** In view of the fact that the proceeds of the Bond Issue are intended to be applied to the redemption of the outstanding amount of the Exchangeable Bonds, the Company has not established an aggregate minimum subscription level for the Bond Issue.

As indicated in section 4.1 above under the heading "Reasons for the Issue and Use of Proceeds", the Exchangeable Bonds forming the subject of Exchangeable Bond Transfers shall be redeemed out of the proceeds of the Bond Issue, for cancellation by the Issuer. Any Exchangeable Bonds remaining in issue thereafter are due to be redeemed by the Issuer on 11 July 2015, being the first early date of redemption of the Exchangeable Bonds in terms of the prospectus dated 12 June 2009.

It is the responsibility of investors wishing to apply for the Bonds to inform themselves as to the legal requirements of so applying including any requirements relating to external transaction requirements in Malta and any exchange control in the countries of their nationality, residence or domicile.

**7.3.4** The contract created by the Issuer's acceptance of an Application filed by a prospective bondholder shall be subject to all the terms and conditions set out in this Securities Note and the Memorandum and Articles of Association of the Issuer.

**7.3.5** If an Application Form is signed on behalf of another party or on behalf of a corporation or corporate entity or association of persons, the person signing will be deemed to have duly bound his principal, or the relative corporation, corporate entity, or association of persons, and will be deemed also to have given the confirmations, warranties and undertakings contained in these terms and conditions on their behalf. Such representative may be requested to submit the relative power of attorney/resolution or a copy thereof duly certified by a lawyer or notary public if so required by the Issuer and the Registrar, but it shall not be the duty or responsibility of the Registrar or Issuer to ascertain that such representative is duly authorised to appear on the Application Form.

**7.3.6** In the case of joint Applications, reference to the Applicant in these Terms and Conditions is a reference to each of the joint Applicants, and liability therefor is joint and several. The person whose name shall be inserted in the field entitled "Applicant" on the Application Form, or first-named in the register of Bondholders shall, for all intents and purposes, be deemed to be such nominated person by all those joint holders whose names appear in the field entitled "Additional Applicants" in the Application Form or joint holders in the register, as the case may be. Such person shall, for all intents and purposes, be deemed to be the registered holder of the Bond/s so held.

**7.3.7** In respect of a Bond held subject to usufruct, the name of the bare owner and the usufructuary shall be entered in the register. The usufructuary shall, for all intents and purposes, be deemed vis-à-vis the Issuer to be the holder of the Bond/s so held and shall have the right to receive interest on the Bond/s and to vote at meetings of the Bondholders but shall not, during the continuance of the Bond/s, have the right to dispose of the Bond/s so held without the consent of the bare owner, and shall not be entitled to the repayment of principal on the Bond (which shall be due to the bare owner).

**7.3.8** Applications in the name and for the benefit of minors shall be allowed provided that they are signed by both parents or the legal guardian/s and accompanied by a Public Registry birth certificate of the minor in whose name and for whose benefit the Application Form is submitted. Any Bonds allocated pursuant to such an Application shall be registered in the name of the minor as Bondholder, with interest and redemption monies payable to the parents / legal guardian/s signing the Application Form until such time as the minor attains the age of eighteen (18) years, following which all interest and redemption monies shall be paid directly to the registered holder, provided that the Issuer has been duly notified in writing of the fact that the minor has attained the age of eighteen (18) years.

**7.3.9** The Bonds have not been and will not be registered under the Securities Act of 1933 of the United States of America and accordingly may not be offered or sold within the United States or to or for the account or benefit of a U.S. person.

**7.3.10** No person receiving a copy of the Prospectus or an Application Form in any territory other than Malta may treat the same as constituting an invitation or offer to such person, nor should such person in any event use such Application Form, unless, in the relevant territory, such an invitation or offer could lawfully be made to such person or such Application Form could lawfully be used without contravention of any registration or other legal requirements.

**7.3.11** It is the responsibility of any person outside Malta wishing to make any Application to satisfy himself/herself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.

**7.3.12** Subject to all other terms and conditions set out in the Prospectus, the Issuer reserves the right to reject, in whole or in part, or to scale down, any Application, including multiple or suspected multiple applications, and to present any cheques and/or drafts for payment upon receipt. The right is also reserved to refuse any Application which in the opinion of the Issuer is not properly completed in all respects in accordance with the instructions or is not accompanied by the required documents. Only original Application Forms will be accepted and photocopies/ facsimile copies will not be accepted.

**7.3.13** The Bonds will be issued in multiples of €100. Other than in the Preplacement Offer, the minimum subscription amount of Bonds that can be subscribed for by Applicants is €2,000. In the Preplacement Offer, the minimum subscription amount of Bonds that can be subscribed for by Applicants is €25,000.

**7.3.14** Within five (5) Business Days from closing of the subscription lists, the Issuer shall announce the result of the Issue and shall determine, and issue a company announcement setting out, the basis of acceptance of applications and allocation policy to be adopted.

**7.3.15** Other than in the case of an Exchangeable Bond Transfer, in the event that an Applicant has not been allocated any Bonds or has been allocated a number of Bonds which is less than the number applied for, the Applicant shall receive a full refund or, as the case may be, the balance of the price of the Bonds applied for but not allocated, without interest, by credit transfer to such account indicated in the Application Form, at the Applicant's sole risk within five (5) Business Days from the date of final allocation. The Issuer shall not be responsible for any charges or delay arising in connection with such credit transfer.

**7.3.16** For the purposes of the Prevention of Money Laundering and Funding of Terrorism Regulations 2008 as amended from time to time, all appointed Authorised Financial Intermediaries are under a duty to communicate, upon request, all information about clients as is mentioned in Articles 1.2(d) and 2.4 of the "Code of Conduct for Members of the Malta Stock Exchange" appended as Appendix IV to Chapter 3 of the MSE Bye-Laws, irrespective of whether the said appointed Authorised Financial Intermediaries are MSE Members or not. Such information shall be held and controlled by the MSE in terms of the Data Protection Act (Cap. 440 of the Laws of Malta) for the purposes and within the terms of the MSE Data Protection Policy as published from time to time.

**7.3.17** By completing and delivering an Application Form, whether 'A' or 'B', the Applicant:

a agrees and acknowledges to have had the opportunity to read the Prospectus and to be deemed to have had notice of all information and representations concerning the Issuer and the issue of the Bonds contained therein;

b warrants that the information submitted by the Applicant in the Application Form is true and correct in all respects and in the case where an MSE account number is indicated in the Application Form, such MSE account number is the correct account of the Applicant. In the event of a discrepancy between the personal details (including name and surname and the Applicant's address) appearing on the Application Form and those held by the MSE in relation to the MSE account number indicated on the Application Form, the details held by the MSE shall be deemed to be the correct details of the Applicant;

c authorises the Issuer and the MSE to process the personal data that the Applicant provides in the Application Form, for all purposes necessary and subsequent to the Bond Issue applied for, in accordance with the Data Protection Act (Cap. 440 of the Laws of Malta). The Applicant has the right to request access to and rectification of the personal data relating to him/her as processed by the Issuer and/or the MSE. Any such requests must be made in writing and sent to the Issuer at the address indicated in the Prospectus. The requests must further be signed by the Applicant to whom the personal data relates;

d confirms that in making such Application no reliance was placed on any information or representation in relation to the Issuer or the issue of the Bonds other than what is contained in the Prospectus and accordingly agree/s that no person responsible solely or jointly for the Prospectus or any part thereof will have any liability for any such other information or representation;

e agrees that the registration advice and other documents and any monies returnable to the Applicant may be retained pending clearance of his/her remittance or surrender of the Exchangeable Bonds, as the case may be, and any verification of identity as required by the Prevention of Money Laundering Act (Cap. 373 of the Laws of Malta) and regulations made thereunder, and that such monies will not bear interest;

f agrees to provide the Registrar and/or the Issuer, as the case may be, with any information which it/they may request in connection with the Application;

g warrants, in connection with the Application, to have observed all applicable laws, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with his/her Application in any territory, and that the Applicant has not taken any action which will or may result in the Issuer or the Registrar acting in breach of the regulatory or legal requirements of any territory in connection with the issue of the Bond or his/her Application;

h warrants that all applicable exchange control or other such regulations (including those relating to external transactions) have been duly and fully complied with;

i represents that the Applicant is not a U.S. person (as such term is defined in Regulation S under the Securities Act of 1933 of the United States of America, as amended) as well as not to be accepting the invitation set out in the Prospectus from within the United States of America, its territories or its possessions, or any area subject to its jurisdiction (the "United States") or on behalf or for the account of anyone within the United States or anyone who is a U.S. person;

j agrees that Charts Investment Management Service Limited will not, in their capacity of Sponsor, treat the Applicant as their customer by virtue of such Applicant making an Application for the Bonds, and that Charts Investment Management Service Limited will owe the Applicant no duties or responsibilities concerning the price of the Bonds or their suitability for the Applicant;

k agrees that all documents in connection with the issue of the Bonds will be sent at the Applicant's own risk and may be sent by post at the address (or, in the case of joint Applications, the address of the first named Applicant) as set out in the Application Form;

l renounces to any rights the Applicant may have to set off any amounts the Applicant may at any time owe the Issuer against any amount due under the terms of these Bonds.

### 7.4 Plan of Distribution and Allotment

The Bonds are open for subscription to all categories of investors, which may be broadly split as follows:

i. Authorised Financial Intermediaries shall be entitled to subscribe for Bonds up to an aggregate amount of €10,000,000 as detailed in section 7.5 below;

ii. Holders of Exchangeable Bonds may apply for Bonds and settle the consideration due by the transfer to the Issuer of all or part of the Exchangeable Bonds held by such Applicant as at the Cut-Off Date by submitting an Application Form 'A'.

iii. Holders of Exchangeable Bonds shall also have the option to apply for Bonds in excess of their respective holding in Exchangeable Bonds as at the Cut-Off Date by completing the appropriate section of Application Form 'A';

iv. The general public may subscribe for Bonds through any of the Authorised Financial Intermediaries by submitting an Application Form 'B'.

Other than subscriptions in relation to clause (i) above (Preplacement Offer), the minimum subscription amount of Bonds that can be subscribed for by Applicants is €2,000. As to the Preplacement Offer, the minimum subscription amount of Bonds that can be subscribed for by Applicants is €25,000. In each case, subscription amounts shall be in multiples of €100.

It is expected that an allotment advice will be dispatched to Applicants within five (5) Business Days of the announcement of the allocation policy. The registration advice and other documents and any monies returnable to Applicants may be retained pending clearance of the remittance or surrender of the Exchangeable Bonds, as the case may be, and any verification of identity as required by the Prevention of Money Laundering Act, (Cap. 373 of the Laws of Malta) and regulations made thereunder. Such monies will not bear interest while retained as aforesaid.

Dealings in the Bonds shall not commence prior to admission to trading of the Bonds by the MSE or prior to the said notification.

### 7.5 Preplacement Offer

An aggregate amount of €10,000,000 of Bonds is being reserved for Authorised Financial Intermediaries participating in the Preplacement Offer. The Issuer shall enter into conditional subscription agreements with a number of Authorised Financial Intermediaries for the subscription of Bonds whereby it will bind itself to allocate Bonds thereto during the Preplacement Offer period, up to the amount of €10,000,000 as aforesaid.

In the event that subscriptions exceed the reserved portion of €10,000,000, the unsatisfied excess amount of such subscriptions will be considered for allocation purposes with the Applications submitted by the general public without priority or preference.

In terms of each Subscription Agreement entered into with an Authorised Financial Intermediary, the Issuer will be conditionally bound to issue, and each Authorised Financial Intermediary will bind itself to subscribe to, the number of Bonds indicated therein. The Subscription Agreements will become binding on each of the Issuer and the Authorised Financial Intermediaries upon delivery, provided that these intermediaries would have paid to the Issuer all subscription proceeds in cleared funds on delivery of the Subscription Agreement.

The minimum which each Authorised Financial Intermediary may apply for in terms of the Subscription Agreement is €1,000,000 in Bonds and the amount per underlying application must be for a minimum of €25,000 (and in multiples of €100 thereafter).

### 7.6 Pricing

The Bonds are being issued at par, that is, at €100 per Bond.

### 7.7 Allocation Policy

The Issuer shall allocate the Bonds on the basis of the following policy and order of priority:

i. An aggregate amount of €10,000,000 has been reserved for subscription by Authorised Financial Intermediaries participating through the Preplacement Offer in accordance with section 7.5 above.

ii. Up to an aggregate amount of €35,000,000 shall be allocated to Existing Bondholders applying for Bonds by way of Exchangeable Bond Transfer in accordance with section 7.2.1 above and subject to a minimum application of €2,000;

iii. Following the allocation referred to in paragraphs (i) and (ii) hereof, any remaining Bonds shall be allocated to:

   a. Authorised Financial Intermediaries with respect to such unsatisfied excess amount that may result from an oversubscription in the Preplacement Offer detailed in section 7.5 above;

   b. Existing Bondholders having applied for Bonds in excess of their holding in Exchangeable Bonds; and

   c. Applications submitted by the general public;

   without priority or preference and in accordance with the allocation policy as determined by the Issuer and Registrar.

### 7.8 Admission to Trading

**7.8.1** The Listing Authority has authorised the Bonds as admissible to Listing pursuant to the Listing Rules by virtue of a letter dated 10 April 2015.

**7.8.2** Application has been made to the MSE for the Bonds being issued pursuant to the Prospectus to be listed and traded on the Official List.

**7.8.3** The Bonds are expected to be admitted to the MSE with effect from 22 May 2015 and trading is expected to commence on 25 May 2015.

# ANNEX I – AUTHORISED FINANCIAL INTERMEDIARIES

| NAME | ADDRESS | TELEPHONE |
| --- | --- | --- |
| APS Bank Ltd | 17, Republic Street,<br>Valletta VLT 1111 | 25671719 |
| Bank of Valletta p.l.c. | BOV Centre, Cannon Road,<br>St Venera SVR 9030 | 22751732 |
| Calamatta Cuschieri & Co Ltd | Fifth Floor, Valletta Buildings,<br>South Street, Valletta VLT 1103 | 25688688 |
| Charts Investment Management Service Ltd | Valletta Waterfront, Vault 17,<br>Pinto Wharf, Floriana FRN 1913 | 21224106 |
| Crystal Finance Investments Ltd | 10, First Floor,<br>City Gate, Valletta VLT 1010 | 21226190 |
| Curmi & Partners Ltd | Finance House,<br>Princess Elizabeth Street,<br>Ta' Xbiex XBX 1102 | 23426000 |
| Financial Planning Services Ltd | 4, Marina Court No. 1,<br>G. Calì Street, Ta' Xbiex XBX 1421 | 21344244 |
| FINCO Treasury Management Ltd | Level 5, The Mall Complex,<br>The Mall, Floriana FRN 1470 | 21220002 |
| GlobalCapital Financial Management Ltd | Testaferrata Street,<br>Ta'Xbiex XBX 1403 | 21342342 |
| Growth Investments Ltd | Customer Service Centre,<br>Pjazza Papa Giovanni XXIII,<br>Floriana FRN 1420 | 25909000 |
| Hogg Capital Investments Ltd | Ferris Building, Level 4,<br>1, St Luke's Road,<br>Gwardamangia, Pieta PTA 1020 | 21322872 |
| HSBC Bank Malta p.l.c. | 116, Archbishop Street,<br>Valletta VLT 1444 | 23802381 |
| Jesmond Mizzi Financial Advisors Ltd | 67/3, South Street,<br>Valletta VLT 1105 | 23265690 |
| Joseph Scicluna Investment Services Ltd | Bella Vista Court, Level 3,<br>Gorg Borg Olivier Street, Victoria, Gozo VCT 2517 | 21565707 |
| Lombard Bank Malta p.l.c. | 67. Republic Street,<br>Valletta VLT 1117 | 25581114 |
| Mediterranean Bank plc | 10, St Barbara Bastion,<br>Valletta VLT 1961 | 25574400 |
| Mercieca Financial Investment Services Ltd | Mercieca, John F. Kennedy Square,<br>Victoria, Gozo VCT 2580 | 21553892 |
| MFSP Financial Management Ltd | 220, Immaculate Conception Street,<br>Msida MSD 1838 | 21332200 |
| Michael Grech Financial Investment Services Ltd | The Brokerage, Level 0 A, St Marta Street,<br>Victoria, Gozo VCT 2550 | 21554492 |
| MZ Investment Services Ltd | 55, MZ House, St Rita Street,<br>Rabat RBT 1523 | 21453739 |
| Rizzo, Farrugia & Co (Stockbrokers) Ltd | Airways House, Third Floor,<br>High Street, Sliema SLM 1549 | 22583000 |

# ANNEX II – SPECIMEN APPLICATION FORMS

**€45,000,000 5.75% UNSECURED BONDS 2025**
**APPLICATION FORM "A"**

INTERNATIONAL HOTEL INVESTMENTS P.L.C.

Application Number

Please read the notes overleaf before completing this Application Form. **Mark 'X' if applicable.**

**A APPLICANT** *(See notes 2 to 4)*

| TEL. NO. | MOBILE NO. |
|---|---|

This Application Form is not transferable and entitles you to a preferential treatment as holder of International Hotel Investments p.l.c. 6.25% Unsecured Bonds 2015 – 2019 (the "**Exchangeable Bonds**") and is to be submitted as a method of payment where the Applicant selects to apply for the International Hotel Investments p.l.c. 5.75% Unsecured Bonds 2025 (the "**Bonds**") so as to transfer to the Issuer all or part of the holding in Exchangeable Bonds held by the Applicant as at the Cut-Off Date, the nominal value of which is set out in Box 1 of Panel B hereunder. By submitting this signed Application Form, the Applicant is thereby confirming that:

a. all or part (as the case may be) of the Exchangeable Bonds held by the Applicant as at the Cut-Off Date are being transferred to the Issuer as a form of payment at their nominal value, thereby releasing the Issuer from all and any obligations with respect to such Exchangeable Bonds; and
b. this Application Form constitutes the Applicant's irrevocable mandate to the Issuer to cause the transfer of the Exchangeable Bonds in the Issuer's name in consideration of the issue of the Bonds.

**B**

**BOX 1** - Nominal Value of the Exchangeable Bonds.

AMOUNT IN FIGURES **Box 1** €

**BOX 2** - I/We wish to purchase and acquire the amount set out in Box 2 in Bonds at the Bond Issue Price (at par) pursuant to the Prospectus dated 10 April 2015 (minimum €2,000 and in multiples of €100 thereafter).

AMOUNT IN WORDS

AMOUNT IN FIGURES **Box 2** €

**BOX 3** - Amount of Bonds applied for less the nominal holding in Exchangeable Bonds, payable in full upon application under the Terms and Conditions set out in the Prospectus.

AMOUNT IN FIGURES **Box 3**
Difference payable on Application
**Box 2 - Box 1**
€

**C RESIDENT - WITHHOLDING TAX DECLARATION** *(See note 7)* (to be completed ONLY if the Applicant is a Resident of Malta)

☐ I/We elect to have Final Withholding Tax deducted from my/our interest.

☐ I/We elect to receive interest GROSS (i.e. without deduction of withholding tax).

**D NON-RESIDENT - DECLARATION FOR TAX PURPOSES** *(See note 8)* (to be completed ONLY if the Applicant is a Non-Resident)

| TAX COUNTRY | CITY OF BIRTH | |
|---|---|---|
| T.I.N. (Tax Identification Number) | COUNTRY OF BIRTH | |
| PASSPORT/NATIONAL I.D. CARD NUMBER | COUNTRY OF ISSUE | ISSUE DATE |

☐ I/We am/are **NOT** Resident in Malta but I/we am/are Resident in the European Union.

☐ I/We am/are **NOT** Resident in Malta and I/we am/are **NOT** Resident in the European Union.

**E INTEREST, REFUND & REDEMPTION MANDATE** *(See note 9)* Completion of this Panel is **MANDATORY**

| BANK | IBAN |
|---|---|

**I/We have fully understood the instructions for completing this Application Form, and am/are making this Application solely on the basis of the Prospectus, and subject to its Terms and Conditions (as contained therein) which I/we fully accept.**

Signature/s of Applicant/s

Date

(Parent/s or legal guardian/s are/is to sign if Applicant is a minor)
(All parties are to sign in the case of a joint Application)
(Bare owner/s and usufructuary/ies to sign in the case of holdings of Exchangeable Bonds that are subject to usufruct)

| *AUTHORISED FINANCIAL INTERMEDIARY'S STAMP* | *AUTHORISED FINANCIAL INTERMEDIARY'S CODE* |
|---|---|

# ANNEX II – SPECIMEN APPLICATION FORMS

## Notes on how to complete this Application Form and other information

*The following notes are to be read in conjunction with the Prospectus dated 10 April 2015 regulating the Bond Issue*

1. This Application is governed by the Terms and Conditions of Application contained in Section 7.2 of the Securities Note dated 10 April 2015 forming part of the Prospectus. Capitalised terms not defined herein shall, unless the context otherwise requires, have the meaning ascribed to them in the Prospectus.

2. This Application Form is to be completed in BLOCK LETTERS.

3. Applicants who are Non-Residents in Malta for tax purposes must complete Panel D overleaf.

4. The MSE account number pertaining to the Applicant has been pre-printed in Panel A and reflects the MSE account number on the Issuer's Register at the CSD as at 10 April 2015 (trading session of the 8 April 2015). **APPLICANTS ARE TO NOTE THAT ANY BONDS ALLOTTED TO THEM WILL BE RECORED BY THE MALTA STOCK EXCHANGE IN THE MSE ACCOUNT QUOTED ON THE APPLICATION FORM EVEN IF THE DETAILS OF SUCH MSE ACCOUNT, AS HELD BY THE CSD OF THE MALTA STOCK EXCHANGE, DIFFER FROM ANY OR ALL OF THE DETAILS APPEARING OVERLEAF.**

5. In the case where a holder of Exchangeable Bonds is a body corporate, Application Forms must be signed by duly authorised representative/s indicating the capacity in which they are signing.

6. The amount set out in Box 2 of Panel B overleaf must be in multiples of €100. The Issuer will be giving preference to Applications made by holders of Exchangeable Bonds up to their full amount held as at the Cut-Off Date, subject to a minimum application of €2,000.

   Where the Applicant wishes to acquire a number of Bonds having an aggregate value which exceeds the nominal value of the number of Exchangeable Bonds set out in Box 1 of Panel B, the Applicant may do so by including such higher amount in Box 2 in Panel B. In such case, the Applicant must ensure that the relative Application Form is accompanied by payment of the difference between the full price of the amount of Bonds applied for and the nominal value of Exchangeable Bonds being transferred. Payment of the amount representing such difference, which is to be inserted in Box 3 of Panel B overleaf, **must be made in Euro in cleared funds to "The Registrar - IHI Bond Issue".** In the event that the cheque accompanying an Application Form is not honoured on the first presentation, the Issuer and the Registrar reserve the right to invalidate the relative Application.

7. Only Applicants who hold a valid official Maltese Identity Card or companies registered in Malta will be treated as residents in Malta. In such a case, the Applicant may elect to have Final Witholding Tax, currently 15%, deducted from interest payments in which case, such interest need not be declared in the Applicant's income tax return. The Applicant may elect to receive the interest gross (i.e. without deduction of final withholding tax), but will then be obliged to declare interest so received in the tax return. Interest received by non-resident Applicants is not taxable in Malta and non-residents will receive interest gross. Authorised entities applying in the name of a Prescribed Fund will have final withholding tax (currently 10%) deducted from interest payments.

   In terms of Section 6.2 of the Securities Note, unless the Issuer is otherwise instructed by a Bondholder, or if the Bondholder does not fall within the definition of "recipient" in terms of Article 41(c) of the Income Tax Act (Cap. 123 of the Laws of Malta), interest shall be paid to such person net of final withholding tax (currently 15%) of the gross amount of interest, pursuant to Article 33 of the Income Tax Act (Cap. 123 of the Laws of Malta).

8. European Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Directive**") requires all payors established in the EU which pay interest to an individual resident in another EU Member State, to report the interest payment to the tax authorities of the Member State in which the payor is established. If the Applicant's permanent address is in an EU Member State or in another country to which the Directive applies (a "specified territory") then the interest paid will be reported.

   The contents of Notes 7 and 8 above do not constitute tax advice by the Issuer and Applicants are to consult their own independent tax advisors in case of doubt.

9. If any Application is not accepted, after the closure of the subscription lists or is accepted for fewer Bonds than those applied for, the monies of the balance of the amount paid but not allocated, as the case may be, will be returned by direct credit into the bank account as indicated in Panel E. Interest or redemption proceeds will be credited to the account designated in Panel E or as otherwise amended by the Bondholder/s during the term of the Bond.

10. Completed Application Forms are to be delivered to any of the Authorised Financial Intermediaries listed in Annex I of the Securities Note during normal office hours by not later than 14:00 on 30 April 2015. Remittances by post are made at the risk of the Applicant and the Issuer disclaims all responsibility for any such remittances not being received by the closing date indicated above. The Issuer reserves the right to refuse any Application which appears to be in breach of the Terms and Conditions of the Bonds as contained in the Prospectus. Any Applications received by the Registrar after 14:00 on 30 April 2015 will be rejected.

11. By completing and delivering an Application Form, you (as the Applicant/s) acknowledge that:
    a. the Issuer may process the personal data that you may provide in the Application Form in accordance with the Data Protection Act (Cap. 440 of the Laws of Malta);
    b. the Issuer may process such personal data for all purposes necessary for and related to the Bonds applied for; and
    c. you, as the Applicant, have the right to request access to and rectification of the personal data relating to you, as processed by the Issuer. Any such requests must be made in writing and addressed to the Issuer. The request must be signed by yourself, as the Applicant to whom the personal data relates.

**The value of investments can go up or down and past performance is not necessarily indicative of future performance. The nominal value of the Bonds on offer will be repayable in full upon redemption. An investor should consult an independent financial advisor, licensed under the Investments Services Act (Cap. 370 of the Laws of Malta), for advice.**

# ANNEX II – SPECIMEN APPLICATION FORMS

**International Hotel Investments p.l.c.**

**€45,000,000 5.75% UNSECURED BONDS 2025**
**APPLICATION FORM "B"**

Application Number

Please read the notes overleaf before completing this Application Form. Mark 'x' if applicable.

**APPLICANT** *(see notes 2 to 7)*

A ☐ Non-Resident ☐ Minor (under 18) ☐ Body Corporate/ Body of Persons ☐ CIS-Prescribed Fund

B

| TITLE (Mr/Mrs/Ms/...) | FULL NAME AND SURNAME / REGISTERED NAME | | |
|---|---|---|---|
| ADDRESS | | | |
| | | | POSTCODE |
| MSE A/C NO. (if applicable) | I.D. CARD / PASSPORT / COMPANY REG. NO. | TEL. NO. | MOBILE NO. |

C **ADDITIONAL (JOINT) APPLICANTS** *(see note 3)* *(please use additional Application Forms if space is not sufficient)*

| TITLE (Mr/Mrs/Ms/...) | FULL NAME AND SURNAME | I.D. CARD/PASSPORT NO. |
|---|---|---|
| TITLE (Mr/Mrs/Ms/...) | FULL NAME AND SURNAME | I.D. CARD/PASSPORT NO. |

D **MINOR'S PARENTS / LEGAL GUARDIAN/S** *(see note 4)* *(to be completed ONLY if the Applicant is a minor)*

| TITLE (Mr/Mrs/Ms/...) | FULL NAME AND SURNAME | I.D. CARD/PASSPORT NO. |
|---|---|---|
| TITLE (Mr/Mrs/Ms/...) | FULL NAME AND SURNAME | I.D. CARD/PASSPORT NO. |

E **I/WE APPLY TO PURCHASE AND ACQUIRE** *(see notes 8 & 9)*:

| AMOUNT IN FIGURES | AMOUNT IN WORDS |
|---|---|
| € | |

**International Hotel Investments p.l.c. 5.75% Unsecured Bonds 2025 (the "Bonds") (minimum €2,000 and in multiples of €100 thereafter)** at the Bond Issue Price (at par), as defined in the Prospectus dated 10 April 2015 (the '**Prospectus**'), payable in full upon application under the Terms and Conditions as defined in said Prospectus.

F **RESIDENT - WITHHOLDING TAX DECLARATION** *(see note 10)* *(to be completed ONLY if the Applicant is a Resident of Malta)*

☐ I/We elect to have Final Withholding Tax deducted from my/our interest.

☐ I/We elect to receive interest GROSS (i.e. without deduction of withholding tax).

G **NON-RESIDENT - DECLARATION FOR TAX PURPOSES** *(see note 12)* *(to be completed ONLY if the Applicant is a Non-Resident)*

| TAX COUNTRY | CITY OF BIRTH | |
|---|---|---|
| T.I.N. (Tax Identification Number) | COUNTRY OF BIRTH | |
| PASSPORT/NATIONAL I.D. CARD NUMBER | COUNTRY OF ISSUE | ISSUE DATE |

☐ I/We am/are **NOT** resident in Malta but I/we am/are resident in the European Union

☐ I/We am/are **NOT** resident in Malta and I/we am/are **NOT** resident in the European Union

H **INTEREST,REFUND AND REDEMPTION MANDATE** *(see note 11)* *Completion of this panel is **MANDATORY***

| BANK | IBAN |
|---|---|
| | |

**I/We have fully understood the instructions for completing this Application Form, and am/are making this Application solely on the basis of the Prospectus, and subject to its Terms and Conditions as contained therein which I/we fully accept.**

Signature/s of Applicant/s
(Parent/s or legal guardian/s are/is to sign if Applicant is a minor)
(All parties are to sign in the case of a joint Application)

Date

| *AUTHORISED FINANCIAL INTERMEDIARY'S STAMP* | *AUTHORISED FINANCIAL INTERMEDIARY'S CODE* |
|---|---|
| | |

# ANNEX II – SPECIMEN APPLICATION FORMS

## Notes on how to complete this Application Form and other information

*The following notes are to be read in conjunction with the Prospectus dated 10 April 2015 regulating the Bond Issue*

1. This Application is governed by the Terms and Conditions of Application contained in Section 7.2 of the Securities Note dated 10 April 2015 forming part of the Prospectus. Capitalised terms not defined herein shall, unless the context otherwise requires, have the meaning ascribed to them in the Prospectus.

2. The Application Form is to be completed in BLOCK LETTERS.

3. Applicants who are Non-Residents In Malta for tax purposes, must indicate their passport number in Panel B and complete Panel G. The relative box in Panel A must also be marked appropriately.

4. Applicants are to insert full personal details in Panel B. In the case of an Application by more than one person (including husband and wife) full details of all individuals, including I.D. card numbers, must be given in Panels B and C **but the person whose name appears in Panel B shall, for all intents and purposes, be deemed to be the registered holder of the Bonds (vide note 7 below).**

5. Applications in the name and for the benefit of minors shall be allowed provided that they are signed by both parents or by the legal guardian/s and accompanied by a Public Registry birth certificate of the minor in whose name and for whose benefit the Application Form is submitted. The relative box in Panel A must also be marked appropriately. Any Bonds allocated pursuant to such an Application shall be registered in the name of the minor as Bondholder, with interest and redemption proceeds payable to the parents or legal guardian/s signing the Application Form until such time as the minor attains the age of eighteen (18) years, following which all interest and redemption proceeds shall be payable directly to the registered holder, provided that the Issuer has been duly notified in writing of the fact that the minor has attained the age of eighteen (18) years.

6. In the case of a body corporate, the name of the entity exactly as registered, and the registration number are to be inserted in Panel B. Applications must be signed by duly authorised representatives indicating the capacity in which they are signing.

7. **APPLICANTS WHO ALREADY HOLD SECURITIES ON THE MSE ARE TO INDICATE THEIR MSE ACCOUNT NUMBER IN PANEL B. APPLICANTS ARE TO NOTE THAT ANY SECURITIES ALLOTTED TO THEM WILL BE RECORDED IN THE MSE ACCOUNT NUMBER QUOTED ON THE APPLICATION FORM. IF DETAILS OF SUCH MSE ACCOUNT NUMBER, AS HELD BY THE MSE, DIFFER FROM ANY OR ALL OF THE DETAILS APPEARING OVERLEAF, A SEPARATE REQUEST BY THE APPLICANT TO CHANGE THESE DETAILS AS RECORDED AT THE MSE WILL HAVE TO BE EFFECTED.**

8. Applications must be for a minimum of €2,000 and thereafter in multiples of €100.

9. **Payment must be made in Euro, in cleared funds to 'The Registrar - IHI Bond Issue'.** In the event that the cheque accompanying an Application Form is not honoured on the first presentation, the Issuer and the Registrar reserve the right to invalidate the relative Application.

10. Only Applicants who hold a valid official Maltese Identity Card or companies registered in Malta will be treated as resident in Malta. In such a case the Applicant may elect to have Final Withholding Tax, currently 15%, deducted from interest payments in which case such interest need not be declared in the Applicant's income tax return. The Applicant may elect to receive the interest gross (i.e. without deduction of final withholding tax), but will be obliged to declare interest so received in the tax return. Interest received by non-resident Applicants is not taxable in Malta and non-residents will receive interest gross. Authorised entities applying in the name of a Prescribed Fund (having indicated their status in the appropriate box in Panel A) will have final withholding tax (currently 10%), deducted from interest payments.

    In terms of Section 6.2 of the Securities Note, unless the Issuer is otherwise instructed by a Bondholder, or if the Bondholder does not fall within the definition of "recipient" in terms of Article 41(c) of the Income Tax Act (Cap. 123 of the Laws of Malta), interest shall be paid to such person net of final withholding tax,( currently 15%) of the gross amount of interest, pursuant to Article 33 of the Income Tax Act (Cap. 123 of the Laws of Malta).

11. European Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Directive**") requires all payors established in the EU which pay interest to an individual resident in another EU Member State, to report the interest payment to the tax authorities of the Member State in which the payor is established. If the Applicant's permanent residential address is in an EU Member State or in another country to which the said Directive applies (a "specified territory") then the interest paid will be reported.

    The contents of Notes 10 and 11 above do not constitute tax advice by the Issuer and Applicants are to consult their own independent tax advisors in case of doubt.

12. If any Application is not accepted after the closure of the subscription lists or is accepted for fewer Bonds than those applied for, the monies or the balance of the amount paid but not allocated, as the case may be, will be returned by direct credit into the bank account as indicated in Panel H. Interest and redemption proceeds will be credited to the account indicated in Panel H or as otherwise amended by the Bondholder/s during the term of the Bond.

13. Subscription lists will open at 08:30 hours on 4 May 2015 and will close as soon thereafter as may be determined by the Issuer, but not later than 16.00 hours on 6 May 2015. The Issuer reserves the right to close the Bond Issue before 6 May 2015, in the event of over-subscription. The Issuer reserves the right to refuse any Application which appears to be in breach of the Terms and Conditions of the Bonds as contained in the Prospectus. Any Applications received by the Registrar after the subscription lists close will be rejected. Completed Application Forms are to be delivered to any of the Authorised Financial Intermediaries listed in Annex I of the Securities Note, during normal office hours. Remittances by post are made at the risk of the Applicant and the Issuer disclaims all responsibility for any such remittances not being received by the date of closing of the subscription lists.

14. By completing and delivering an Application Form, you (as the Applicant(s)) acknowledge that:
    a. the Issuer may process the personal data that you provide in the Application Form in accordance with the Data Protection Act (Cap. 440 of the Laws of Malta);
    b. the Issuer may process such personal data for all purposes necessary for and related to the Bonds applied for; and
    c. you, as the Applicant, have the right to request access to and rectification of the personal data relating to you, as processed by the Issuer. Any such requests must be made in writing and addressed to the Issuer. The request must be signed by yourself as the Applicant to whom the personal data relates.

**The value of Investments can go up or down and past performance is not necessarily indicative of future performance. The nominal value of the Bonds on offer will be repayable in full upon redemption. An investor should consult an independent financial advisor, licensed under the Investment Services Act (Cap. 370 of the Laws of Malta), for advice.**

ANNEX III – FINANCIAL ANALYSIS SUMMARY

# INTERNATIONAL HOTEL INVESTMENTS P.L.C.

## FINANCIAL ANALYSIS SUMMARY

10 APRIL 2015

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WEALTH MANAGEMENT ▪ CORPORATE BROKING

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The Directors
International Hotel Investments p.l.c.
22, Europa Centre
Floriana FRN 1400
Malta

10 April 2015

Dear Sirs

**IHI p.l.c. Financial Analysis Summary**

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have compiled the Financial Analysis Summary set out on the following pages and which is being forwarded to you together with this letter.

The purpose of the financial analysis is that of summarising key financial data appertaining to International Hotel Investments p.l.c. (the "**Group**", the "**Company**" or "**IHI**"). The data is derived from various sources or is based on our own computations as follows:

(a) Historical financial data for the six years ended 31 December 2009 to 31 December 2014 has been extracted from audited consolidated financial statements of the Company for the six years in question.

(b) The forecast data for the years ending 31 December 2015 and 2016 has been provided by management of the Company.

(c) Our commentary on the results of the Group and on its financial position is based on the explanations provided by IHI.

(d) The ratios quoted in the Financial Analysis Summary have been computed by us applying the definitions set out in Part 5 of the Analysis.

(e) The principal relevant market players listed in Part 3 of the document have been identified by management. Relevant financial data in respect of competitors has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or web sites providing financial data.

The Analysis is meant to assist investors in IHI's securities and potential investors by summarising the more important financial data of the Group. The Analysis does not contain all data that is relevant to investors or potential investors. The Analysis does not constitute an endorsement by our firm of any securities of the Group and should not be interpreted as a recommendation to invest in any of the Group's securities. We shall not accept any liability for any loss or damage arising out of the use of the Analysis. As with all investments, potential investors are encouraged to seek independent professional advice before investing in the Group's securities.

Yours faithfully,

**Wilfred Mallia**
Director

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## PART 1

### 1. COMPANY'S KEY ACTIVITIES

International Hotel Investments p.l.c. ("**IHI**", "**Issuer**" or the "**Group**"), a company listed on the Malta Stock Exchange, is principally engaged in the ownership, development and operation of hotels and ancillary real estate in Europe and North Africa.

To date, IHI has acquired and/or developed hotels in Prague (Czech Republic), Tripoli (Libya), Lisbon (Portugal), Budapest (Hungary), St Petersburg (Russia) and St Julians (Malta). IHI also has a 50% shareholding in a 294 roomed luxury hotel and residential development in London (UK), the latter property consisting of 12 residential apartments located within the same building as the hotel. In April 2014, 11 of the aforesaid apartments were sold to third parties with the holding company retaining ownership of the penthouse apartment.

Revenue and earnings are derived primarily from hotel operations, which include operation of owned hotels, and management and other fees earned by CHI Limited, a wholly owned subsidiary of the Company, from hotels managed pursuant to management contracts with third parties. At 31 December 2014 CHI Limited managed eight hotels (of which one is fifty per cent owned) on behalf of the Group and another five hotels on behalf of third-party owners.

### 2. DIRECTORS AND KEY EMPLOYEES

IHI is managed by a Board consisting of ten directors entrusted with its overall direction and management, including the establishment of strategies for future development.

**Board of Directors**

| | |
|---|---|
| Alfred Pisani | Chairman |
| Frank Xerri de Caro | Senior Independent Non-Executive Director |
| Abdulnaser M.B. Ahmida | Non-Executive Director |
| Douraid Zaghouani | Non-Executive Director |
| Hamad Mubarak Mohd Buamin | Non-Executive Director |
| Abuagila Almahdi | Non-Executive Director |
| Khaled Algonsel | Non-Executive Director |
| Joseph Pisani | Non-Executive Director |
| Michael Beckett | Independent Non-Executive Director |
| Joseph J. Vella | Independent Non-Executive Director |

The Chairman and the Joint Chief Executive Officers (Joseph Fenech and Simon Naudi) are responsible for the identification and execution of new investment opportunities. They are also responsible for ensuring the establishment of appropriate management contracts of the hotel properties in the case of operational properties, and negotiating and awarding project contracts in respect of the development or refurbishment of new properties.

The weekly average number of employees engaged at IHI's corporate office and in its owned hotels during FY2014 amounted to 1,877 persons (FY2013: 1,988).

## 3. MAJOR ASSETS OWNED BY THE ISSUER & OPERATIONAL DEVELOPMENT

### 3.1 HOTEL PROPERTIES

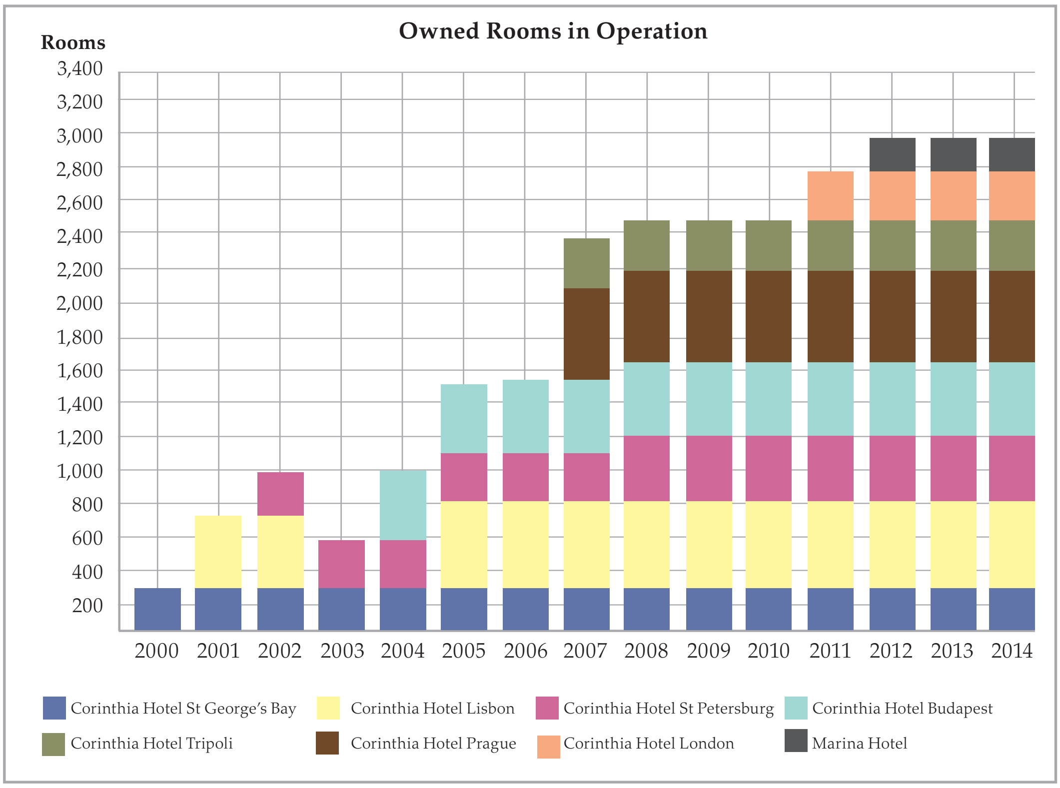
#### 3.1.1 Valuation

The table below illustrates the fair value of the Group's hotel properties included in the audited financial statements of IHI for the years ended 31 December 2011 to 2014. The 50% investment in Corinthia Hotel London & Apartments is excluded from the list since it is classified as an investment in associate and consequently is accounted for using the equity method. All other hotel properties are held through wholly owned subsidiary companies and are therefore consolidated with the parent company in its annual audited financial statements.

| **Valuation of Hotel Properties** | **FY2014** | **FY2013** | **FY2012** | **FY2011** |
|---|---|---|---|---|
| | **€'000** | **€'000** | **€'000** | **€'000** |
| Corinthia Hotel Budapest | 95,231 | 85,984 | 87,700 | 92,400 |
| Corinthia Hotel St Petersburg | 90,729 | 113,448 | 126,400 | 141,426 |
| Corinthia Hotel Lisbon | 92,168 | 79,725 | 77,125 | 84,807 |
| Corinthia Hotel Prague | 74,039 | 76,700 | 79,420 | 77,813 |
| Corinthia Hotel Tripoli | 86,687 | 124,090 | 131,509 | 137,062 |
| Corinthia Hotel St George's Bay | 27,557 | 28,327 | 29,661 | 30,100 |
| Marina Hotel St George's Bay, Malta | 22,499 | 20,896 | 21,000 | |
| | 488,910 | 529,170 | 552,815 | 563,608 |

*Source: Consolidated audited financial statements of IHI for the years ended 31 December 2011, 2012, 2013 and 2014.*

The following chart sets out the growth in room stock of the Group since inception to the date of this report. During the period under review, this increased from 250 to 2,928 rooms.




*Source: Management information*

### 3.1.2 Corinthia Hotel Budapest

***Introduction***

IHI Hungary Zrt (a fully-owned subsidiary of the Company) owns the 414-room five-star Corinthia Hotel located in Budapest, Hungary ("**Corinthia Hotel Budapest**"). The hotel was acquired as a vacant building in 2000 for €27 million. The property was subsequently demolished except for the historic facade and ballroom and rebuilt at a cost of €90 million. It was officially opened in April 2003. In 2006, 26 self-catering apartments were added to its stock of rooms and a health spa was opened. The carrying value of the Corinthia Hotel Budapest as at 31 December 2014 is €95.2 million (FY2013: €86.0 million).

***Market Overview***

*i. Economic update*

Hungary grew at the fastest pace in eight years in 2014 as the economy expanded 3.6% (which was up from the 1.5% expansion recorded in 2013), supported by strong fiscal and monetary stimulus and its improved ability to absorb funding from the European Union (EU). Following a moderation in Q3, the economy sped up slightly in the final quarter of the year primarily as the result of increasing exports and consumption. More recent indicators, however, send mixed signals about the state of the economy. While industrial production recorded the largest gain in six months in January 2015, economic sentiment moderated for a fourth consecutive month in February 2015. Meanwhile, the government pledged to reduce the EU's highest bank tax next year to boost spending and avoid implementing additional measures that would reduce the banking sector's profitability. Hungary's growth is poised to slow in 2015 as the fiscal and monetary stimulus that drove the economy in 2014 is fading. The Central Bank expects the economy to expand 2.3% in 2015 and 2.1% in 2016.

*ii. Tourism market*

In 2014, the tourism market continued to perform at a record level, registering y-o-y increases in tourist arrivals (+7.2%), guest nights (+5.4%) and expenditure on accommodation (+12.4%). The yearly performance of Hungary's tourism sector exceeded all expectations, especially in the last month of the year. Compared to December 2013 – in the same period – foreign overnight stays increased by 14.9%, while room revenues increased by 27.1%. Domestic tourism also increased with overnight stays increasing by 10.1% while the room revenues generated by these tourists increased by 18.5% compared to December 2013. In the aforesaid month, tourist traffic increased by 12.5%. Key markets that are contributing to such growth include Germany, Austria, Russia, UK and the US. While statistics are encouraging, the long-term success of Hungarian tourism is linked to its capacity to overcome its traditional challenges, namely seasonality, low revenues and weak internal demand.

The market in Budapest has been recovering gradually, after the decline in overall hotel performance in 2008/09 with the focus being on increasing occupancy levels albeit at the expense of discounted room rates. The increase in volume can be attributed mainly to tour groups and leisure individuals taking advantage of discounted prices and a favourable exchange rate. The spike in leisure business in recent years is however not sustainable in the longer term and the market will need to replace this demand from alternative sources. Effort is being made by the industry to focus on thematic product development including: (i) health, heritage & culture, conferences & events: (ii) festivals, religious events, gastronomy; and (iii) products which can extend the average length of stay such as adventure tourism.

As to conference & events business, the city has experienced a decline in the number of international standard conferences. In 2011, Budapest hosted 108 international meetings (2010: 87) and ranked 9th on a European level. In 2012, its ranking declined to 15th place as it hosted 98 meetings during the year, but improved marginally to 14th place in FY2013 as 106 meetings were hosted by the city. In the near term Budapest will continue to face stiff competition in this market from other destinations such as Prague.

*Operational Performance*

The following table sets out the highlights of the hotel's operating performance for the years indicated therein:

| | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 22,171 | 21,496 | 20,404 | 18,477 | 18,069 | 17,030 |
| Rooms (€'000) | 14,869 | 14,477 | 13,624 | 11,998 | 11,567 | 10,758 |
| Food & Beverage, and other revenue (€'000) | 7,302 | 7,019 | 6,780 | 6,479 | 6,502 | 6,272 |
| Occupancy level (%) | 76 | 76 | 75 | 72 | 71 | 69 |
| Average room rate (€) | 123 | 120 | 114 | 103 | 100 | 98 |
| Revenue per available room (RevPAR) (€) | 93 | 91 | 85 | 74 | 71 | 68 |
| Gross operating profit before incentive fees (€'000) | 7,624 | 7,024 | 6,500 | 5,572 | 5,503 | 5,350 |
| Gross operating profit margin (%) | 34 | 33 | 32 | 30 | 30 | 31 |

*Source: Management information*

In FY2013, the Corinthia Hotel Budapest registered increases in both occupancy (from 71% to 72%) and average room rate (from €100 to €103), which contributed to a 4.2% increase in RevPAR. Gross operating profit before incentive fees remained flat at *circa* €5.5 million. In line with the market, demand from the conference & events segment remained subdued in FY2013. On the other hand, group leisure and groups business performed well in FY2013 and accounted for 37% of total room nights sold. Positive results were achieved in FY2014, in which, the Hotel registered a 15% increase in RevPAR and a growth in revenue of €1.9 million to €20.4 million. This increase resulted in a €0.9 million improvement in gross operating profit. Looking forward, management's revenue strategy focuses on increasing leisure, corporate and conferences & events segments with a progressive decrease in the volume of low rated sectors such as groups and tour operator business. As such, it is projected that average room rate will grow further by 5% from €114 in FY2014 to €120 in FY2015, and RevPAR will increase by 7% to €91 in FY2015. With a projected improvement in gross operating profit margin to 33%, gross operating profit is expected to increase by €0.5 million to €7.02 million in FY2015 over the corresponding figure in FY2014. In the projected year (FY2016), management anticipates RevPAR to increase from €91 (FY2015) to €93, and gross operating profit is expected to increase by 8.5% to €7.6 million.

***Market Positioning***

| **Key Performance Indicators (KPIs)** | **FY2016 Projection** | **FY2015 Forecast** | **FY2014 Actual** | **FY2013 Actual** | **FY2012 Actual** | **FY2011 Actual** |
|---|---|---|---|---|---|---|
| **Corinthia Hotel Budapest** | | | | | | |
| Occupancy level (%) | 76 | 76 | 75 | 72 | 71 | 69 |
| Average room rate (€) | 123 | 120 | 114 | 103 | 100 | 98 |
| Revenue per available room (RevPAR) (€) | 93 | 91 | 85 | 74 | 71 | 68 |
| **Performance of Competitive Set** | | | | | | |
| Occupancy level (%) | 75 | 75 | 74 | 72 | 72 | 71 |
| Average room rate (€) | 113 | 109 | 104 | 102 | 101 | 99 |
| Revenue per available room (RevPAR) (€) | 85 | 81 | 77 | 73 | 73 | 70 |
| **Market Penetration Rate** | | | | | | |
| Occupancy | 1.01 | 1.01 | 1.01 | 1.00 | 0.99 | 0.97 |
| Rate | 1.09 | 1.10 | 1.10 | 1.01 | 0.99 | 0.99 |
| **Revenue Generating Index** | **1.09** | **1.12** | **1.10** | **1.01** | **0.97** | **0.97** |

*Source: Management information*

The above table outlines the historical performance of the Hotel and its competitive set, and expectations for FY2015 and FY2016. The Hotel's competitive set includes Kempinski, Le Meridien, InterContinental, Marriott and Hilton Budapest. As from FY2014, Le Meridien has been replaced with Sofitel and the Boscolo.

The Revenue Generating Index (RGI), which measures a hotel's fair market share of its segment's revenue per available room, indicates that the Corinthia Hotel Budapest has performed broadly in line with its competitive set in FY2011 to FY2013 but outperformed its market by 10% in FY2014 (RGI below 1 means the hotel is underperforming its segment, whilst RGI above 1 denotes that the hotel is outperforming its market).

Management is currently implementing a strategy of increasing occupancy and average rate by: (i) improving performance of its conference & events business, and (ii) progressively decreasing low-rated segments such as group leisure. In FY2014 the Hotel performed at a similar level to its competitive set as to occupancy, but achieved a marginally higher average room rate than its competitors. Overall, the Hotel performed much better than its competitive set in FY2014 (RGI: 1.10) and same trend is projected for FY2015 (RGI: 1.12) and FY2016 (RGI: 1.09).

### 3.1.3 Corinthia Hotel St Petersburg

***Introduction***

IHI Benelux B.V. (a fully-owned subsidiary of the Company) owns the 388-room five-star Corinthia Hotel located in St Petersburg, Russia ("**Corinthia Hotel St Petersburg**"), which was acquired in 2002 for €35 million. The company also purchased properties adjacent to the hotel, which were subsequently demolished and rebuilt as a hotel extension and a commercial centre including retail and office space. This project, which was completed in May 2009, also involved the refurbishment of the lobby and the public areas of the existing hotel. It is the intention of the Group to refurbish the rooms of the existing hotel and to develop, in the near future, an area measuring *circa* 1,500 square metres situated behind the Hotel and which will consist of the creation of a car park and further office space. The carrying amount of the Corinthia Hotel St Petersburg and the commercial centre as at 31 December 2014 is €90.7 million (FY2013: €113.4 million) and €77.8 million (FY2013: €87.4 million) respectively.

***Market Overview***

*i. Economic update*

Toward the end of 2014, the Russian economy experienced a sizeable deterioration due to a rapid fall in oil prices, a sharp depreciation of the Rouble, high interest rates and the impact of Western sanctions. Recent data suggest that economic conditions have grown considerably worse in the outset of 2015. In order to protect key sectors of the economy and to provide a cushion against a potential economic collapse, the government announced an anti-crisis plan in January 2015. The plan will be financed by the National Wealth Fund. In spite of the announcement, ratings agencies Standard & Poor's and Moody's both cut Russia's sovereign credit rating to junk status on 26 January 2015 and 20 February 2015, respectively, citing the conflict in Ukraine, low oil prices and the slide of the Rouble, as the reason for this downgrade.

The Central Bank pointed out that, "structural factors continue to exert a restraining influence in economic growth," although it did recognise that the economic slowdown is becoming more cyclical. Monetary authorities warned that economic activity will contract in the coming months, which, will contribute to lower inflation. Economic activity is expected to deteriorate going forward mainly due to low oil prices - on average, oil prices are significantly lower compared to last year - more difficult financial conditions for Russian borrowers, and the fact that Russian firms are increasingly finding foreign capital markets to be inaccessible. Consequently, investment is expected to deteriorate and drag on growth. However, an increase in exports will partially mitigate this drag as exports will become more competitive due to the depreciation of the Rouble. The Central Bank expects GDP to contract between 3.5% and 4.0% in 2015.

*ii. Tourism market*

Demand for hotel accommodation in St Petersburg is predominantly leisure driven and concentrated during the summer months (May to August), in which hotels experience very high demand levels. This strong seasonality has typically restricted the annual average occupancy for five-star hotels at 60 – 65%. Corporate travel represents approximately 40% of the total demand. The conference & events segment remains underdeveloped although a brand new convention facility at the Expo Forum was opened in 2013.

In June 2011, the government launched a new programme aimed at developing the city into a year-round tourist destination, to increase the average length of stay in St Petersburg to five days and to encourage repeat visits. The main challenges for the development of the destination remain the lack of direct flights, entry regulation and visa requirements and limited tourism promotion. With respect to travelling to the city, a €340 million renovation and expansion of Pulkovo Airport is currently underway. Furthermore, the direct high-speed train link that connects Moscow to St Petersburg has also improved transport links to the city from the capital.

Unfortunately, the progress in enhancing tourist numbers has been hampered with the situation in Ukraine and Crimea, presenting tour operators and hoteliers with a gap in projected revenues. Russia's interference in Ukraine in 2014 has caused a sharp drop in foreign tourism arrivals in Russia, with a number of bookings (including conferences & events) being either cancelled or their attendances significantly reduced, for political and security reasons ahead of the peak summer season. Most Russian tour operators have reported declines in sales, with cancellations coming in from around the world, including regions that were traditionally considered loyal to Russia.

In 2014, the number of inbound tourists to Russia declined from all European countries and the United States. On the other hand, the number of Chinese tourists in Russia grew to 1.125 million visitors. China has now surpassed Germany as the lead country for the Russian inbound tourism market. Overall, arrivals declined by more than 20% (equivalent to 6 million passengers) to around 24.6 million. To partly compensate for the decline in European and US travellers, the Russian government has become more focused on domestic tourism. Due to the instability of the local currency, trips abroad for Russians are less affordable and there is a shift to domestic over outbound travel.

***Operational Performance***

The following table sets out the highlights of the hotel's operating performance for the years indicated therein:

| | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 13,082 | 11,421 | 14,229 | 18,997 | 17,645 | 15,459 |
| Rooms (€'000) | 9,409 | 8,298 | 10,199 | 13,834 | 12,056 | 10,454 |
| Food & Beverage, and other revenue (€'000) | 3,673 | 2,123 | 4,030 | 5,163 | 5,589 | 5,005 |
| Occupancy level (%) | 49 | 59 | 52 | 54 | 52 | 41 |
| Average room rate (€) | 135 | 100 | 139 | 180 | 165 | 181 |
| Revenue per available room (RevPAR) (€) | 66 | 59 | 72 | 98 | 86 | 74 |
| Gross operating profit before incentive fees (€'000) | 4,302 | 3,873 | 3,007 | 7,619 | 6,775 | 5,400 |
| Gross operating profit margin (%) | 33 | 34 | 21 | 40 | 38 | 35 |

*Source: Management information*

The Corinthia Hotel St Petersburg registered a gross operating profit of €7.6 million in FY2013, which represents an increase of €0.8 million (12%) on FY2012. Occupancy levels reached 54% in the same year, mainly due to a marked increase in leisure business (+5,200 room nights), whilst the other business segments registered occupancies in line with FY2012 levels. The Hotel's average room rate increased by 9%, from €165 in FY2012 to €180 in FY2013, and RevPAR increased by 14%, from the corresponding period, to €98. FY2013 has been an exceptional year for the Hotel in terms of performance, as two major citywide events (the Economic Forum and the G20 Summit) that took place during the summer months.

In 2013, management approved a major renovation programme, amounting to €23.5 million, that principally includes the refurbishment of all the 284 rooms and suites in the main building and a reconceptualisation of the F&B outlets. The said programme was set to commence in Q4 2014 but, in view of the economic slowdown in the country, was put on hold. Management has assumed that works on this renovation project will commence during FY2016.

As for FY2014, revenue declined by 25% to €14.2 million due to a decrease in demand (both leisure and conference business) as a result of the political situation between Russia and Ukraine. Management's strategy for the year was to maintain occupancy rate at above 50%, which was achieved at the expense of a reduction in average room rate (from €180 in FY2013 to €139 in FY2014), mainly in consequence of the tumbling Rouble.

Occupancy level is forecasted to improve in FY2015 by 13% on the expectation that the Hotel will be able to capture a higher share of the domestic market. However, the average room rate is estimated to decrease by 28% from €139 to €100 in FY2015 mainly as a result of a weaker Rouble which will affect 2015 for a full year as opposed to a restricted affect in FY2014. The challenges set to and so far acted upon by the Hotel's management team have been to source alternative markets, targeting in particular as much business as possible from within the Russian Federation itself, and to operate the Hotel with a wide range of room rates targeting upscale corporate to luxury travellers. A sales office has been opened in Moscow with Russian-language online marketing being given prominence. RevPAR will remain under pressure in the near term, because of competition in the market and the increasing supply of new hotels. Consequently, the strategy adopted by the Hotel will remain focused on securing a base demand and driving occupancy rather than building average room rate.

In FY2016, it is expected that parts of the Hotel will be closed for refurbishment in the winter and shoulder months and as such occupancy is projected to decline from 59% in FY2015 to 49%. On the other hand, management anticipates that the Hotel will be able to command an improved RevPAR of €66 as compared to €59 in the prior year, partly as a result of a refreshed product and due to a projected recovery of the local currency. Gross operating profit is expected to improve by €0.4 million in FY2016 to €4.3 million.

*Market Positioning*

| Key Performance Indicators (KPIs) | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| **Corinthia Hotel St Petersburg** | | | | | | |
| Occupancy level (%) | 49 | 59 | 52 | 54 | 52 | 41 |
| Average room rate (€) | 135 | 100 | 139 | 180 | 165 | 181 |
| Revenue per available room (RevPAR) (€) | 66 | 59 | 72 | 98 | 86 | 74 |
| **Performance of Competitive Set** | | | | | | |
| Occupancy level (%) | 49 | 46 | 44 | 56 | 52 | 48 |
| Average room rate (€) | 173 | 144 | 193 | 212 | 213 | 218 |
| Revenue per available room (RevPAR) (€) | 84 | 66 | 85 | 118 | 111 | 105 |
| **Market Penetration Rate** | | | | | | |
| Occupancy | 1.00 | 1.34 | 1.18 | 0.96 | 1.00 | 0.85 |
| Rate | 0.78 | 0.69 | 0.72 | 0.85 | 0.77 | 0.83 |
| **Revenue Generating Index** | **0.79** | **0.92** | **0.85** | **0.83** | **0.77** | **0.70** |

*Source: Management information*

The above table outlines the historical performance of the Hotel and its competitive set, and expectations for FY2015 and FY2016. The Hotel's competitive set includes Kempinski Moika Hotel, Hotel Astoria, Grand Hotel Europe, Radisson SAS Royal and the Hotel Angleterre.

Although the Hotel registered improvements in FY2013, its overall performance was below that achieved by competition and therefore the RGI for the year remained below 1 at 0.83. The Hotel has performed broadly at par with its market piers as to occupancy, but the average room rate achieved was well below its competitors at €180 as compared to €212 (-15%).

Similar to the Hotel, its competitive set registered a decrease in RevPAR in FY2014 of 28% (Hotel: -26%), principally as a consequence of the conflict with Ukraine, and also because two major events were organised in FY2013 which increased average rates above normal levels. In FY2015, the Hotel's performance is expected to decrease further, and hence it is projected that RevPAR will decrease by 18% as compared to a decline of 22% for the competitive set. Overall, the RGI is set to increase from the current 0.85 to 0.92 in FY2015. Beyond FY2015, provided the political situation in Russia is resolved, management expects to initiate the refurbishment of the property. This should enable the Hotel to command improved occupancy levels and room rates in the near to medium term. The recovery in KPIs will likely occur in FY2017, since the focus in FY2016 will be on progress of works at the Hotel and the completion thereof.

***Commercial Operations***

The following table sets out the turnover of the commercial properties adjacent to the Corinthia Hotel St Petersburg for the years indicated therein:

| | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 5,050 | 4,000 | 4,209 | 4,740 | 2,459 | 892 |

*Source: Management information*

The commercial properties comprise a mix of commercial areas, shops and office space, with total rentable area in excess of 11,600 square metres. In FY2011, approximately 3,770 square metres were rented to third parties for a limited period in the year, at a total aggregate amount of €892,000. Rental income nearly trebled in FY2012 due to the charging of one full year of rent to tenants who took up occupancy during FY2011, and as a result of further rental agreements coming into force which were signed by the company during the year. In FY2013, occupancy level improved from 28% to 45% and the company achieved a growth in income of 93% from €2.5 million to €4.7 million. Occupancy in FY2014 increased to 48% and is projected to remain constant in FY2015 and FY2016. Projected income is reflective of agreements reached with respective tenants and a recovery in the exchange rate of the Russian Rouble.

### 3.1.4 Corinthia Hotel Lisbon

***Introduction***

Alfa Investimentos Lda (a fully-owned subsidiary of the Company) owns the 518-room five-star Corinthia Hotel located in Lisbon, Portugal ("**Corinthia Hotel Lisbon**"), which was acquired in 2001 for €45 million. The Corinthia Hotel Lisbon required significant renovation and following an extensive refurbishment was re-opened in May 2004. The carrying amount of the Corinthia Hotel Lisbon as at 31 December 2014 is €92.2 million (FY2013: €79.7 million). Alfa Investimentos Lda also owns a block of 5 apartments in Lisbon for rental purposes, valued at €1.1 million as at 31 December 2014 (FY2013: €1.2 million).

***Market Overview***

*i. Economic update*

The Portuguese economy accelerated in the final quarter of 2014 on the back of strong growth in exports, which more than offset a slight contraction in domestic demand. In annual terms, the economy expanded for the first time in four years in 2014 by 0.9% (2013: -1.3%), underpinned by a strong recovery in both private consumption and investment. Meanwhile, in February 2015, the government unveiled a plan to repay IMF bailout loans ahead of schedule. The government, which ended a three-year €78 billion bailout program in May 2014, plans to repay nearly half of IMF loans in the next 30 months. The move is aimed at taking advantage of record-low bond interest rates. The Central Bank of Portugal expects the economy to expand 1.5% in 2015 and 1.6% in 2016. Looking forward, growth is expected to be driven by stronger export growth and steady domestic demand. However, large public debt still presents a downside risk to growth.

*ii. Tourism market*

In 2014, tourism accommodation establishments hosted 16.1 million guests (2013: 14.4 million, +11.8%) and registered 46.1 million overnight stays (2013: 41.7 million, +10.6%). The internal market grew by 13.0%, reversing the trend from the previous years, having attained 13.8 million overnight stays. Non-residents spent 10.2% more overnight stays in 2014, which is the highest growth since 2011 (2013: +7.7%, 2012: +4.8%). On a regional basis, growth was registered in all regions of mainland Portugal, with the emphasis on the Alentejo region and Lisbon (+17.2% and +15.0%). In the Azores the number of overnight stays changed slightly (+0.9%) and in Madeira the results were up by 4.7%. The coordination between tourism and aviation authorities to expand available routes turned out to be crucial for Portugal's success in the tourism industry. In 2014, total revenue reached €2.20 billion and revenue from accommodation amounted to €1.56 billion, corresponding to increases of 12.8% and 13.5% respectively on the previous year.

In recent years, the Lisbon market has shifted from a leisure-oriented market to a business destination. The continuing popularity of cruise tourism and golf tourism and an increased awareness of Lisbon in the conference & events sector have aided demand growth, particularly in the five-star segment.

According to an HVS Market Intelligence Report about Lisbon's 4 and 5 star hotels, it is predicted that this segment will see the completion of new hotels over the next three years that should provide an additional 1,076 rooms. The majority of these hotels were scheduled to be opened by the end of 2012 or early 2013, but progress on these projects has been very slow due to the economic crisis. Existing hotels are therefore benefiting from the delay in the delivery of the additional supply of hotel rooms through better occupancy levels and average room rates.

***Operational Performance***

The following table sets out the highlights of the hotel's operating performance for the years indicated therein:

| | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 21,499 | 20,584 | 19,597 | 17,769 | 16,187 | 18,727 |
| Rooms (€'000) | 14,606 | 13,826 | 13,167 | 11,751 | 10,764 | 12,240 |
| Food & Beverage, and other revenue (€'000) | 6,893 | 6,758 | 6,430 | 6,018 | 5,423 | 6,487 |
| Occupancy level (%) | 72 | 72 | 71 | 66 | 63 | 67 |
| Average room rate (€) | 107 | 101 | 98 | 94 | 89 | 97 |
| Revenue per available room (RevPAR) (€) | 77 | 73 | 70 | 62 | 57 | 65 |
| Gross operating profit before incentive fees (€'000) | 6,440 | 5,841 | 5,674 | 4,322 | 3,565 | 5,158 |
| Gross operating profit margin (%) | 30 | 28 | 29 | 24 | 22 | 28 |

*Source: Management information*

The Corinthia Hotel Lisbon registered a gross operating profit of €4.3 million in FY2013, which represents an improvement of €0.7 million (+20%) on FY2012. RevPAR increased by 9% to €62 with concurrent increases in occupancy (+5%) and average room rate (+6%). The Hotel also registered an increase in its F&B operations (11%) due to higher conference & events business. Occupancy level for FY2013 recovered to FY2011 level at 66%. The Hotel improved its performance in FY2013 as it sold more rooms in the Leisure (+4,200 room nights), conference & events (+2,900 room nights) and corporate segments (+1,300 room nights). Due to the increased business in the higher yielding segments, the Hotel registered an improved average room rate of €94 (2012: €89).

Overall results have improved further in FY2014 as the Hotel registered an increase in revenue of €1.8 million (+10%) mainly as a consequence of an increase in RevPAR from €62 to €70. This positive movement resulted in an increase in gross operating profit of €1.4 million. Management plans to continue to focus on higher yielding segments (leisure and conference & events) and considers that due to the size of the Hotel, there should not be any displacement of leisure guests when signing larger conference & events business. It is estimated that revenue will increase by 5% and 4.4% in FY2015 and FY2016 respectively, and gross operating profit is expected to grow by 3% in FY2015 and 10% in the subsequent year to €6.4 million.

*Market Positioning*

| Key Performance Indicators (KPIs) | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| **Corinthia Hotel Lisbon** | | | | | | |
| Occupancy level (%) | 72 | 72 | 71 | 66 | 63 | 67 |
| Average room rate (€) | 107 | 101 | 98 | 94 | 89 | 97 |
| Revenue per available room (RevPAR) (€) | 77 | 73 | 70 | 62 | 57 | 65 |
| **Performance of Competitive Set** | | | | | | |
| Occupancy level (%) | 70 | 69 | 68 | 66 | 64 | 68 |
| Average room rate (€) | 107 | 102 | 98 | 96 | 96 | 104 |
| Revenue per available room (RevPAR) (€) | 75 | 70 | 67 | 63 | 61 | 71 |
| **Market Penetration Rate** | | | | | | |
| Occupancy | 1.03 | 1.04 | 1.04 | 1.00 | 0.98 | 0.99 |
| Rate | 1.00 | 0.99 | 1.00 | 0.98 | 0.93 | 0.93 |
| **Revenue Generating Index** | **1.03** | **1.03** | **1.04** | **0.98** | **0.92** | **0.92** |

*Source: Management information*

The above table outlines the historical performance of the Hotel and its competitive set, and expectations for FY2015 and FY2016. The Hotel's competitive set includes Marriott, Sheraton, Tiara Park Atlantic and Tivoli.

Compared to its competitive set, the Hotel managed to do well in terms of occupancy, with a FY2013 penetration rate of 0.98 (FY2012: 0.92). The Hotel's strategy is to continue to improve its average occupancy and expects to reach 72% in FY2015 and FY2016 from 71% in FY2014.

Although the Hotel has performed better in FY2013 as a result of attracting higher yielding clients, its average room rate still remained marginally below its competitive set at 0.98. In FY2014, the Hotel's performance surpassed that of its competitors principally as a result of a higher occupancy level. As for FY2015 and FY2016, the Hotel is projected to marginally perform better than its competitive set in terms of growth and thereby achieve an RGI above 1.00.

### 3.1.5 Corinthia Hotel Prague

***Introduction***

IHI Towers s.r.o. (a fully-owned subsidiary of the Company) owns the 539-room five-star Corinthia Hotel located in Prague, Czech Republic ("**Corinthia Hotel Prague**"), which was acquired in 2007 for €105 million. The carrying amount of the Corinthia Hotel Prague as at 31 December 2014 is €74.0 million (FY2013: €76.7 million).

***Market Overview***

i. *Economic update*

The Czech Republic returned to growth in 2014 following two years in recession with a 2.0% expansion. Increasing exports, growing private consumption and a recovery in investment were behind the pickup. However, Q4 GDP growth marked a four-quarter low, resulting from slower growth of investment and declining inventories. More recent indicators suggest that the economy started 2015 on a solid footing. In February 2015, the Manufacturing PMI rested comfortably in expansionary territory and economic sentiment was high again in the same month. The Czech National Bank expects the economy to expand 2.6% in 2015.

ii. *Tourism market*

The tourism sector witnessed strong growth in 2014, particularly in terms of inbound arrivals and tourist expenditure. Inbound tourist arrivals grew by 7.1% in 2014, totalling 10.4 million while expenditure expanded by 7.5% reaching CZK130.3 billion (equivalent to €6.1 billion). The Czech government is increasingly prioritising to move tourism beyond concentration in the capital, Prague, and increase the potential of undiscovered places in the country. Most significant source markets are Germany, Russia, Italy, UK, US, Slovakia and Poland, while demand is also increasing from other markets such as China and South Korea.

Prague has seen a number of hotels enter the market over recent years, leading to a large growth in hotel room stock (principally upscale and luxury rooms). As a result of this increase in room supply, hotels in Prague have been suffering declines in performance both in terms of occupancies and rates since supply exceeds demand, which was further impacted by the economic crisis. There was a reversal in this trend in 2011 and was sustained thereafter, as the overall hotel market in Prague registered yearly increases in both occupancy levels and average room rates.

Although Prague remains an important meeting and convention destination, its primary market remains tour operator business and this mismatch between supply and demand continues to exert significant pressure on room rates. Apart from the oversupply of hotel rooms, other challenges experienced by the market in Prague include the absence of high-spending leisure clientele, low demand on weekends and the dependence on the domestic corporate market.

During 2014 the Czech capital registered an all-time high of 6.1 million tourists (+11% on 2013), of which, 0.8 million were domestic trips and 5.3 million represented inbound visits. The total number of nights in accommodation establishments in Prague reached 14.8 million in 2014, which is up 8% compared to 2013. The top inbound market for Prague in terms of number of visits in 2014 was Germany, with Russia and Slovakia taking second and third place respectively.

Hotel performance in Prague is generally expected to continue to improve in the coming years as the market gradually absorbs the current oversupply of hotel rooms, leveraging on its image as an attractive and corporate destination. The number of inbound trips is expected to grow at a volume CAGR of 3% over the near term and this growth will be driven by arrivals from Russia and China. The performance of inbound tourism will be supported by a second airport in the Czech capital, Prague (Vodochody), which is planned to be operational by the end of 2015. This will bring cheaper flights for tourists as several low cost carriers have shown interest in operating flights to Prague.

***Operational Performance***

The following table sets out the highlights of the hotel's operating performance for the years indicated therein:

| | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 17,010 | 16,118 | 15,740 | 14,310 | 16,611 | 16,445 |
| Rooms (€'000) | 10,505 | 9,769 | 9,024 | 8,467 | 9,805 | 9,319 |
| Food & Beverage, and other revenue (€'000) | 6,505 | 6,349 | 6,716 | 5,843 | 6,806 | 7,126 |
| Occupancy level (%) | 72 | 71 | 65 | 60 | 67 | 64 |
| Average room rate (€) | 74 | 70 | 71 | 72 | 75 | 74 |
| Revenue per available room (RevPAR) (€) | 53 | 50 | 46 | 43 | 50 | 47 |
| Gross operating profit before incentive fees (€'000) | 4,666 | 4,090 | 4,064 | 2,846 | 3,066 | 3,036 |
| Gross operating profit margin (%) | 27 | 25 | 26 | 20 | 18 | 18 |

*Source: Management information*

The Corinthia Hotel Prague recorded a gross operating profit before incentive fees of €2.85 million in 2013 (-7% on 2012). RevPAR decreased by 14% to €43, following a decline in occupancy (from 67% to 60%) and average room rates (from €75 to €72). The deterioration in performance is largely attributable to a weaker performance in conference & events business, with rooms sold in this segment contracting by 33% on FY2012. The effect of this reduction in room revenue was substantially mitigated by increased cost efficiencies in both room and F&B operations and other savings.

In the near term, management will continue to work towards displacing tour operator bookings with the more profitable conference & events and leisure business in an effort to improve RevPAR. In FY2014, the Hotel registered a satisfactory performance as it managed to improve occupancy by 8% whilst broadly maintaining an average room rate above €70. The projections for FY2015 and FY2016 principally assume that the Hotel will maintain this trend and expects to register RevPAR of €50 (+9%) in FY2015 and €53 (+6%) in FY2016, and gross operating profit of €4.1 million (+1%) and €4.7 million (+14%) respectively.

***Market Positioning***

| **Key Performance Indicators (KPIs)** | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| **Corinthia Hotel Prague** | | | | | | |
| Occupancy level (%) | 72 | 71 | 65 | 60 | 67 | 64 |
| Average room rate (€) | 74 | 70 | 71 | 72 | 75 | 74 |
| Revenue per available room (RevPAR) (€) | 53 | 50 | 46 | 43 | 50 | 47 |
| **Performance of Competitive Set** | | | | | | |
| Occupancy level (%) | 72 | 71 | 71 | 67 | 68 | 67 |
| Average room rate (€) | 110 | 106 | 102 | 96 | 106 | 103 |
| Revenue per available room (RevPAR) (€) | 79 | 75 | 73 | 65 | 72 | 69 |
| **Market Penetration Rate** | | | | | | |
| Occupancy | 1.00 | 1.00 | 0.92 | 0.90 | 0.99 | 0.95 |
| Rate | 0.67 | 0.66 | 0.70 | 0.75 | 0.71 | 0.72 |
| **Revenue Generating Index** | **0.67** | **0.66** | **0.64** | **0.66** | **0.69** | **0.68** |

*Source: Management information*

The above table outlines the historical performance of the Hotel and its competitive set, and expectations for FY2015 and FY2016. The Hotel's competitive set includes InterContinental, Hilton Prague, Marriott Prague and Crowne Plaza.

In recent years, the Hotel has consistently underperformed its competitive set, principally in terms of room rates. This gap in room rates is largely linked to the Hotel's location just outside the City centre in Prague making it more challenging to compete for market share. Consistent with recent performance, management expects to continue to match its competitive set in terms of occupancy and recover part of the gap in room rates. The Hotel is forecasting room rates to increase through, *inter alia*, the generation of more room nights from higher-rated segments, improved segmentation and the expected increase in conference & events business organised at the (neighbouring) Prague Congress Centre.

In FY2013, the competitive set registered declines in occupancy (-1%) and average room rate (-9%). The result was a RevPAR of €65, which is 10% lower than the previous year. The Hotel's performance during the same year was slightly weaker at an RGI of 0.66 (FY2012: 0.69). The current gap in relation to the hotel's peers is largely arising from the variance in room rates. The Hotel's average room rate in FY2013 was *circa* 25% below that of its competitive set. In FY2014, the Hotel increased its market share as occupancy expanded from 60% to 65%. This was achieved however at the expense of average room rate which remained 30% below the Hotel's competitive set. In FY2015 and FY2016, management is aiming to match its competitive set in terms of occupancy. However, average room rate is expected to remain at the current level which is approximately 34% below the rate of the competitive set. Overall, minimal progress is expected to be made when compared to the competitive set and as such the Hotel's revenue generating index will be maintained at *circa* 0.66.

### 3.1.6 Corinthia Hotel Tripoli

***Introduction***

Corinthia Towers Tripoli Limited (a fully-owned subsidiary of the Company) owns the 299-room five-star Corinthia Hotel located in Tripoli, Libya ("**Corinthia Hotel Tripoli**"), and a commercial centre measuring *circa* 10,000 square metres and a tract of undeveloped land both of which are adjacent to the hotel. The said properties were acquired in 2007 for a total consideration of €207 million analysed as follows: Corinthia Hotel Tripoli (€139 million); the commercial centre (€62 million); and the undeveloped land (€6 million). The carrying amounts of the Corinthia Hotel Tripoli, commercial centre and the adjacent plot as at 31 December 2014 are €86.7 million (FY2013: €124.1 million), €68.9 million and €28.8 million respectively (FY2013: €73.6 million, €28.8 million), or a combined total of €184.4 million.

***Market Overview***

Prior to the commencement of the revolution in February 2011, the hotel market was starting to develop with a number of internationally branded hotel chains planning to open hotels in Tripoli in view of the continued increase in business and leisure travelers. The revolution in 2011 halted hotel development in Tripoli and only three internationally branded hotels remained open during the period – Corinthia Tripoli, Rixos and Radisson Blu Al Mahary. At present, the Corinthia Tripoli with a number of small unbranded four star hotels are the only hotels operating in Tripoli. The purpose of stay at the hotels is mainly related to corporate business travel and ambassadors and diplomats on embassy-related business. Leisure demand is currently non-existent.

When Libya was liberated from the previous regime in 2011, there was a sudden surge of interest in the country on the part of foreigners wanting to invest. Libya's economic activity began to recover in 2012 mainly due to the nearly full resumption of oil production, an increase in construction and infrastructure activity, and the prospects of reduced political instability. By September 2012, Libya's oil production had nearly reached its pre-revolution levels of 1.6 million barrels per day.

However, by the end of 2012 incidents related to civil unrest became more frequent and have since been a hindrance to increasing economic activity. Oil fields and ports have been disabled, with the consequence of a reduction in oil output to under 300,000 barrels/day. To exacerbate matters, the international price of oil has plummeted, causing a tremendous squeeze on the reserves of the Central Bank of Libya.

The security situation is at a critical level due to the formation of two rival governments and parliaments (in Tobruk and Tripoli), each claiming to be legitimate. It is hoped that representatives of all sides take up the recent offer made by the UN to sit down for peace talks. It may mark the last realistic opportunity to form a unity government to resolve Libya's political crisis before it descends, once again, into more conflict. One reason for hope is that all sides have now amply demonstrated their failure to master the situation on their own.

| | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 9,275 | 5,518 | 8,345 | 19,705 | 16,526 | 13,372 |
| Rooms (€'000) | 5,718 | 3,351 | 5,105 | 13,357 | 11,137 | 8,968 |
| Food & Beverage, and other revenue (€'000) | 3,557 | 2,167 | 3,240 | 6,348 | 5,389 | 4,404 |
| Occupancy level (%) | 25 | 15 | 22 | 59 | 48 | 35 |
| Average room rate (€) | 209 | 205 | 212 | 208 | 212 | 229 |
| Revenue per available room (RevPAR) (€) | 52 | 31 | 47 | 122 | 102 | 82 |
| Gross operating profit before incentive fees (€'000) | 887 | (852) | (1,211) | 6,568 | 4,917 | 4,667 |
| Gross operating profit margin (%) | 10 | n/a | n/a | 33 | 30 | 35 |

*Source: Management information*

The Corinthia Hotel Tripoli registered a gross operating profit before incentive fees of €6.6 million in FY2013, an improvement of €1.7 million on FY2012 (+34%). The Hotel registered a RevPAR of €122 (+21% on FY2012) with occupancy increasing to 59%. The demand remained predominantly corporate, with this segment accounting for 88% of the total rooms sold in FY2013 (FY2012: 90%). On the other hand, average room rate came in lower by 2% at €208, probably due to increasing competitive in the market.

The results for FY2014 and projections for FY2015 and FY2016 reflect the prevailing difficult political environment in the country due to the persistent conflicts, unstable political situation and the closure of the international airport. In FY2014, revenue declined by 58% to €8.3 million and a gross operating loss of €1.2 million was registered.

On 27 January 2015, the Corinthia Hotel Tripoli was the scene of an armed attack. The Hotel's management has returned to the premises and an assessment of the affected parts of the hotel has revealed that damages were contained. The estimated cost of repairs, which are currently underway, is in the region of €1 million. Whilst management is committed to resume the operation of the Hotel within the shortest time possible, it is likely that the present situation of low occupancy at the Corinthia Hotel Tripoli will persist in FY2015. As such, it is the hotel management's objective during the course of the said year to incur a marginal loss on the operation of the hotel, and to ensure payroll and other operating costs are matched to operating income and contribute in some manner towards general overheads such as utilities, security and maintenance. It is assumed that FY2016 will be broadly similar to FY2015, with occupancy level increasing from 15% to 25%.

***Market Positioning***

There are currently no statistics published in terms of hotel performance in Tripoli.

***Commercial Operations***

The following table sets out the turnover of the Commercial Centre adjacent to the Corinthia Hotel Tripoli for the years indicated therein:

| | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 5,868 | 5,593 | 5,863 | 5,868 | 6,263 | 5,969 |

*Source: Management information*

The Commercial Centre which is fully occupied, save for an area of 1,222 square metres which was vacated in 2013, includes rentable office space having a gross area of 7,249 square metres. It also comprises 306 square metres of storage space and 235 of internal and external car spaces. To date, the performance of the Commercial Centre remains largely unaffected by the political conflicts that the country is witnessing.

### 3.1.7 Corinthia Hotel St George's Bay

***Introduction***

Five Star Hotels Limited (a fully-owned subsidiary of the Company) owns the 250-room five-star Corinthia Hotel located in St Julians, Malta ("**Corinthia Hotel St George's Bay**"), which was acquired in 2000 for €32 million. In 2006 a major refurbishment programme was carried out which included the upgrade of the entire room stock, the lobby and the technological equipment. The refurbishment was completed in the first quarter of 2007 at a total cost of *circa* €4 million. The carrying amount of the Corinthia Hotel St George's Bay as at 31 December 2014 is €27.6 million (FY2013: €28.3 million).

***Market Overview***

*i. Economic update*

Economic activity in Malta continued to grow robustly in the last quarter of 2014, with real GDP increasing by 4.0% on a year earlier (Q3 2014: +3.7%), driven mainly by domestic demand (mainly private and government consumption). On an annual basis, real GDP improved by 3.5% in 2014 (2013: +2.7%).

According to the Central Bank of Malta, real GDP should ease slightly in 2015 to 2.8%. Private consumption is projected to increase to 3.1%, supported by disposable income growth, as a result of a buoyant labour market and a further reduction in income tax rates for households. Government consumption (which includes compensation to employees) is expected to rise further in 2015. However, this expenditure will be reduced as receipts in connection with the Individual Investor Programme (IIP) will be offset against Government consumption. Investment is expected to gather momentum in 2015, boosted by private investment. A major project underpinning private capital expenditure is the new gas-fired power plant, which is expected to gather pace in 2015 and be completed in the following year. Private dwelling investment is expected to grow moderately in 2015, in response to a recovery in the number of building permits granted in the third quarter of 2014 and expectations that robust foreign demand for property in Malta will support investment in the luxury segment of the market.

*ii. Tourism market*

Tourism in Malta has in recent years been performing at a strong level and this trend continued in 2014 as well. Inbound tourism in 2014 amounted to 1.7 million guests, an increase of 7.8% over the same period in 2013. Total nights spent by inbound tourists went up by 4.9%, reaching 13.5 million room nights. During the period under review, total tourism expenditure was estimated at €1.5 billion, 6.1% higher than that recorded for the same period in 2013.

The majority of incoming tourists were leisure guests, predominantly from the European Union. However, an increase of 2.7% was registered in tourists originating from non-EU countries. Non-package travel was higher than package travel, with a 54% share of the total market. Nonetheless, package travel still advanced by 5.3% when compared to 2013. Total room nights spent by tourists during 2014 were estimated at 13.5 million, up by 4.9% over the previous year, while average length of stay remained flat at 8.0 nights. Expenditure by inbound tourists was also on the increase during the period under review and reached €1.5 billion (+6.1%).

Malta International Airport has announced that it expects to host some 4.4 million passengers in 2015, forecasting a 2% growth over the previous year. Focus will be maintained on increasing traffic during the winter months and attracting more visitors from new markets to Malta. This bodes well for the Maltese hospitality industry to continue to grow revenues and increase profitability. Beyond 2015, Malta' EU Presidency in 2017 together with Valletta serving as the European City of Culture in 2018 are widely expected to generate increased demand for hotels and enhance Malta's image as a tourist destination, which would in turn generate future growth.

***Operational Performance***

The following table sets out the highlights of the hotel's operating performance for the years indicated therein:

| | **FY2016 Projection** | **FY2015 Forecast** | **FY2014 Actual** | **FY2013 Actual** | **FY2012 Actual** | **FY2011 Actual** |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 13,817 | 14,154 | 13,339 | 11,721 | 11,196 | 10,647 |
| Rooms (€'000) | 8,681 | 9,072 | 8,378 | 6,852 | 6,267 | 6,003 |
| Food & Beverage, and other revenue (€'000) | 5,136 | 5,082 | 4,961 | 4,869 | 4,929 | 4,644 |
| Occupancy level (%) | 77 | 81 | 79 | 71 | 68 | 70 |
| Average room rate (€) | 124 | 123 | 117 | 107 | 100 | 93 |
| Revenue per available room (RevPAR) (€) | 95 | 100 | 92 | 75 | 69 | 66 |
| Gross operating profit before incentive fees (€'000) | 2,929 | 3,299 | 3,049 | 1,501 | 1,518 | 1,413 |
| Gross operating profit margin (%) | 21 | 23 | 23 | 13 | 14 | 13 |

*Source: Management information*

The Corinthia Hotel St George's Bay registered a gross operating profit before incentive fees of €1.5 million in FY2013, a performance which was at par with FY2012. The Hotel recorded a higher occupancy levels (+4%) at better average room rates (+7%), which resulted in a 9% increase in RevPAR. This positive movement in RevPAR was primarily due to a marked increase in leisure business (+20% on FY2012). The effect of the increased room revenue was however largely offset by a reduction in F&B contribution and increases in indirect costs, resulting in a gross operating profit similar to FY2012.

In FY2014, the Hotel registered a 14% increase in revenue over FY2013 to €13.3 million. This positive performance had a significant effect on gross operating profit of +103% from €1.5 million recorded in FY2013 to €3.0 million in FY2014, also on account of substantial savings in operating and administrative costs. As for FY2015, the Hotel will continue with the revenue management strategy of increasing rates and driving business through its largest growing segment (leisure), principally by undertaking more web-based online and other marketing initiatives. RevPAR is therefore estimated to increase from €92 in FY2014 to €100 in FY2015 (+9%) through a marginal increase in occupancy of 3% and an improvement in average room rate of 5% from €117 in FY2014 to €123 in FY2015. This should translate in an increase in both revenue and gross operating profit of €0.8 million (+6%) and €0.3 million (+8%) respectively.

*Market Positioning*

| Key Performance Indicators (KPIs) | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| **Corinthia Hotel St George's Bay** | | | | | | |
| Occupancy level (%) | 77 | 81 | 79 | 71 | 68 | 70 |
| Average room rate (€) | 124 | 123 | 117 | 107 | 100 | 93 |
| Revenue per available room (RevPAR) (€) | 95 | 100 | 92 | 75 | 69 | 66 |
| **Performance of Competitive Set** | | | | | | |
| Occupancy level (%) | 75 | 75 | 74 | 72 | 72 | 69 |
| Average room rate (€) | 139 | 135 | 130 | 120 | 116 | 111 |
| Revenue per available room (RevPAR) (€) | 104 | 101 | 96 | 86 | 84 | 77 |
| **Market Penetration Rate** | | | | | | |
| Occupancy | 1.03 | 1.08 | 1.07 | 0.99 | 0.94 | 1.01 |
| Rate | 0.89 | 0.91 | 0.90 | 0.89 | 0.86 | 0.84 |
| **Revenue Generating Index** | **0.91** | **0.98** | **0.96** | **0.87** | **0.82** | **0.86** |

*Source: Management information*

The above table outlines the historical performance of the Hotel and its competitive set, and expectations for FY2015 and FY2016. The Hotel's competitive set includes Hilton Malta, Westin Dragonara, InterContinental and Radisson Blu.

The Hotel's competitive set has registered a 39% growth in RevPAR over the four year period (FY2011 – FY2014), which improvement was mainly driven by increases in room rates. Occupancy level for FY2013 was broadly similar to FY2012, but increased by 8 percentage points to 79% in FY2014. An occupancy level of 81% and 77% is projected for FY2015 and FY2016 respectively. Average room rate improved 9% from €107 in FY2013 to €117, and is expected to increase by a further 5% in FY2015 and remain flat in FY2016. Overall, RevPAR for FY2015 is projected to grow by 9% from €92 in FY2014 to €100 in FY2015, but is likely to decrease to €95 in the subsequent year.

In terms of occupancy, the Hotel has been performing reasonably well against its competitive set. In FY2015, it is projected that the Hotel's occupancy will be 8% higher than the market at circa 81%. As to average room rate, the Hotel is expected to achieve an average rate of €123, which is 9% below same of the competitive set.

Since FY2012, the Hotel has implemented measures to attract more higher-yielding revenue, in particular, from conference & events and leisure segments to significantly increase its RevPAR and improve its competitiveness in the market. This strategy is yielding results as the Hotel is progressively reducing the gap with its competitors – RGI has improved from 0.86 in FY2011 to almost par in FY2014, and is projected that the Hotel will maintain such RGI in FY2015. As to FY2016, while the competitive set is expected to increase average room rate by 3%, the Hotel is projected to maintain average room rate at FY2015 level. In this regard, the RGI of the Hotel is anticipated to decrease from almost par to 0.91 in FY2016.

### 3.1.8 Marina Hotel

***Introduction***

Marina San Gorg Limited (a fully-owned subsidiary of the Company) owns the 200-room four-star Hotel located in St Julians, Malta ("**Marina Hotel**"), adjacent to the Corinthia Hotel St George's Bay. It was acquired in early 2012 for €23 million. A number of facilities at the Hotel are shared with the Corinthia Hotel St George's Bay, which provides guests with a larger product variety, especially with regards to food and beverage offering and swimming pool areas. Being a four-star hotel with access to five-star conference and meeting space at the Corinthia Hotel St George's Bay is another unique selling point of the property. The carrying amount of the Marina Hotel as at 31 December 2014 is €22.5 million (2013: €20.9 million).

***Market Overview***

The market overview relating to tourism in Malta is included in section 3.1.7 above.

***Operational Performance***

The following table sets out the highlights of the hotel's operating performance for the years indicated therein:

| | **FY2016 Projection** | **FY2015 Forecast** | **FY2014 Actual** | **FY2013 Actual** | **FY2012 Actual** | **FY2011 Actual** |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 8,337 | 8,440 | 7,852 | 6,886 | 6,655 | 6,254 |
| Rooms (€'000) | 5,493 | 5,584 | 5,182 | 4,266 | 4,016 | 3,886 |
| Food & Beverage, and other revenue (€'000) | 2,844 | 2,856 | 2,670 | 2,620 | 2,639 | 2,368 |
| Occupancy level (%) | 81 | 82 | 81 | 76 | 76 | 76 |
| Average room rate (€) | 93 | 93 | 87 | 77 | 72 | 68 |
| Revenue per available room (RevPAR) (€) | 75 | 76 | 71 | 59 | 55 | 53 |
| Gross operating profit before incentive fees (€'000) | 2,177 | 2,333 | 1,822 | 1,343 | 1,446 | 1,386 |
| Gross operating profit margin (%) | 26 | 28 | 23 | 20 | 22 | 22 |

*Note: The Marina Hotel was acquired by IHI with effect from 1 January 2012 and therefore the financial information for 2011 has been included in the table above for analysis purposes only.*

*Source: Management information*

The Hotel registered a gross operating profit of €1.34 million in FY2013, a decrease of €0.1 million (-7%) on the results of FY2012. Occupancy level was stable at 76% at better average room rates (+7%), which resulted in a 7% increase in RevPAR. The increase in room revenue was however offset by a decrease in contribution from non-accommodation operations and increases in indirect costs.

During the year there was a decrease in rooms sold in the tour operator, conference & events and corporate segments, and a significant increase in rooms sold to the higher-yielding leisure segment. The tour operator sector remains the principal business segment of the Hotel (38% of rooms sold in FY2013).

The focus as from FY2013 is on yield management, with a drive towards achieving higher rates by increasing business levels in the higher yielding segments including leisure and corporate. This change in strategy has been reflected in FY2014 as the average room rate reached €87 (+13%) and RevPAR improved by 20% to €71. A further increase in RevPAR (+7%) is being projected for FY2015. In consequence of the projected growth in revenue from €7.9 million in FY2014 to €8.4 million in FY2015 (+7%), with only a corresponding increase in variable costs, gross operating profit is expected to increase by 28% from €1.8 million to €2.3 million (+€0.5 million). This should result in an improved gross profit margin from 23% (FY2014) to 28% (FY2015). FY2016 is projected as a flat year for the Hotel, with revenue, KPIs and gross operating profit remaining broadly similar to FY2015.

***Market Positioning***

| Key Performance Indicators (KPIs) | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| **Marina Hotel** | | | | | | |
| Occupancy level (%) | 81 | 82 | 81 | 76 | 76 | 76 |
| Average room rate (€) | 93 | 93 | 87 | 77 | 72 | 68 |
| Revenue per available room (RevPAR) (€) | 75 | 76 | 71 | 59 | 55 | 53 |
| **Performance of Competitive Set** | | | | | | |
| Occupancy level (%) | 76 | 76 | 75 | 74 | 75 | 77 |
| Average room rate (€) | 97 | 94 | 90 | 84 | 80 | 77 |
| Revenue per available room (RevPAR) (€) | 74 | 71 | 68 | 62 | 60 | 59 |
| **Market Penetration Rate** | | | | | | |
| Occupancy | 1.07 | 1.08 | 1.08 | 1.03 | 1.01 | 0.99 |
| Rate | 0.96 | 0.99 | 0.97 | 0.92 | 0.90 | 0.88 |
| **Revenue Generating Index** | **1.01** | **1.07** | **1.04** | **0.95** | **0.92** | **0.90** |

*Source: Management information*

The above table outlines the historical performance of the Hotel and its competitive set, and expectations for FY2015 and FY2016. The Hotel's competitive set includes Hotel Phoenicia, Radisson SAS Bay Point Resort, Maritim Antonine Hotel & Spa and Le Meridien, which are mainly five star properties.

The Hotel outperformed its competitive set in terms of occupancy in FY2014, reaching an occupancy penetration of 1.08. In the same year, the Hotel managed to grow its average rate from €77 to €87 (+13%), resulting in a RevPAR increase of 20%. In terms of revenue penetration, the target of 1.00 has been surpassed in FY2014, from a low of 0.90 in FY2011 to 1.04 in FY2014. The focus in FY2014 has been on the leisure segment as last-minute business and online bookings are becoming more important. The Hotel's strategy is to increase rates by shifting to individual leisure as much as possible, whilst being selective with tour operators and increasing package deals. It is expected that the Hotel occupancy level will exceed the market average in FY2015 (+8%) and FY2016 (+7%), and will continue to improve average room rate to achieve a revenue penetration rate of 1.07 in FY2015. The RGI for FY2016 will be at par to the market as it is assumed that average room rate will remain stable at €93 as opposed to a growth of 3% for the competitive set.

### 3.1.9 Corinthia Hotel London

***Introduction***

NLI Holdings Limited (equally owned by the Libyan Foreign Investment Company (LFICO) and IHI) owns the 294-room luxury Corinthia Hotel located in London, United Kingdom ("**Corinthia Hotel London**") together with a penthouse apartment (FY2013: 12 apartments - the remaining 11 residential apartments were sold in April 2014). In 2008, NLI Holdings Limited acquired the former Metropole Building and its adjoining 10 Whitehall Place for £136 million (*circa* €160 million) and after raising a €150 million bank facility in April 2009, embarked on a two-year project to redevelop and reconstruct the said properties to the luxury Corinthia Hotel and Residences. The carrying amount of the Corinthia Hotel London (excluding the Residences) as at 31 December 2014 was €537.1 million (FY2013: €480.1 million).

***Market Overview***

*i. Economic update*

The economy decelerated slightly in the fourth quarter of last year and registered a GDP growth of 0.5% quarter-on-quarter. The external sector acted as the main driver of the expansion, while domestic demand performed worse compared to the previous quarter. Despite Q4's slowdown, output expanded at the strongest rate in seven years in 2014, significantly outpacing 2013's result. Over the course of the year, strong GDP growth was consistent with robust labour demand. In December, the unemployment rate fell to its lowest level in over six years. A range of monthly indicators from the start of 2015 is allaying fears of a more pronounced slowdown. In January 2015, growth in retail sales accelerated and consumers were significantly more optimistic. It is forecasted that the economy is likely to expand by 2.5% and 2.3% in 2015 and 2016 respectively.

*ii. Tourism market*

In 2014, overseas visitors spent a record £21.7 billion while in the UK. According to the Office of National Statistics, overseas visitors made 34.8 million trips to the UK, an increase of 6% on the 2013 total with spend up 3%. Of these visits, 3.69 million were North American visitors and 25.83 million were Europeans – a rise of 4% and 7% respectively. It is forecasted that in FY2015, total visits to the UK will amount to 35.1 million and visitors are expected to spend £22.2 billion.

Two years after the Olympics, London's booming tourism industry is still setting remarkable new highs. In the three-month summer tourism peak from July to the end of September, 5.0 million foreigners arrived (+3% on 2013), while spending was 6% higher. Over the first nine months of 2014, spending in London reached £8.9 billion (+6.6%). Blockbuster exhibitions (such as Tate Modern, Imperial War Museum, Historic Royal Palaces and the National Gallery) and long periods of warm summer weather helped to draw visitors from all over the world.

In 2012, London experienced the largest increase in room supply through new developments, with the Olympics being the main catalyst for development. This brought about the concern of a post Olympic supply overhang with another 5,000 rooms supplied in 2013 in addition to those which opened ahead of the event (the long term historical average is 1,500 rooms per year). The strong growth referred to in the preceding paragraph has eliminated such fear. Nevertheless, despite London being one of the most popular tourist destinations globally, a constant growth in tourism is required to maintain current hotel occupancy levels.

***Operational Performance***

The following table sets out the highlights of the hotel's operating performance for the years indicated therein:

| | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| Turnover (£'000) | 59,045 | 57,905 | 47,494 | 46,401 | 38,424 | 14,013 |
| Rooms (£'000) | 39,090 | 38,269 | 31,756 | 31,660 | 25,695 | 8,159 |
| Food & Beverage, and other revenue (£'000) | 19,955 | 19,637 | 15,738 | 14,741 | 12,729 | 5,854 |
| Occupancy level (%) | 79 | 80 | 73 | 72 | 63 | 29 |
| Average room rate (£) | 461 | 447 | 404 | 407 | 380 | 353 |
| Revenue per available room (RevPAR) (£) | 363 | 358 | 295 | 293 | 239 | 74 |
| Gross operating profit before incentive fees (£'000) | 18,288 | 17,588 | 14,374 | 14,012 | 7,820 | (4,652) |
| Gross operating profit margin (%) | 31 | 30 | 30 | 30 | 20 | (33) |

*Note: IHI owns 50% of the Corinthia Hotel London and as such its share of profits or losses is included in the consolidated financial statements of IHI under the heading 'Share of profit from equity accounted investments' of the income statement.*

*Source: Management information*

The Hotel registered a gross operating profit of £7.8 million in FY2012, which was its first full year of operation. Occupancy levels reached an average of 63% as management focused on achieving volume penetration in order to establish market presence. The additional business came at the expense of rates, which averaged £380 in FY2012.

In FY2013, the Hotel generated £46.4 million in revenue (+21%) and a gross operating profit of £14.0 million (+£6.2 million on FY2012). RevPAR increased by 23% to £293 with concurrent increases in occupancy (+14%) and average room rate (+7%). The Hotel's performance in FY2014 was broadly similar to the results achieved in FY2013. Revenue increased by 3% to £47.8 million reflecting a slight increase in occupancy by one percentage point and a £3 dip in the average room rate to £404. Management is targeting a 22% increase in gross operating profit in FY2015 from £14.4 million in FY2014 to £17.6 million, principally through an increase in both occupancy (+10%) and average room rate (+11%). A further 4% growth is being projected in gross operating profit for FY2016 to £18.3 million. The Hotel is aiming to achieve and maintain an average occupancy level of *circa* 80% as more visitors utilise the Hotel and the Corinthia brand becomes more known in London and the UK, thus moving closer to its stabilised level of operation.

*Market Positioning*

| Key Performance Indicators (KPIs) | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| **Corinthia Hotel London** | | | | | | |
| Occupancy level (%) | 79 | 80 | 73 | 72 | 63 | 29 |
| Average room rate (£) | 461 | 447 | 404 | 407 | 380 | 353 |
| Revenue per available room (RevPAR) (£) | 363 | 358 | 295 | 293 | 239 | 74 |
| **Performance of Competitive Set** | | | | | | |
| Occupancy level (%) | 80 | 81 | 78 | 77 | 79 | 60 |
| Average room rate (£) | 576 | 562 | 539 | 509 | 562 | 534 |
| Revenue per available room (RevPAR) (£) | 459 | 453 | 421 | 394 | 444 | 320 |
| **Market Penetration Rate** | | | | | | |
| Occupancy | 0.99 | 0.99 | 0.94 | 0.94 | 0.80 | 0.48 |
| Rate | 0.80 | 0.80 | 0.75 | 0.80 | 0.68 | 0.66 |
| **Revenue Generating Index** | **0.79** | **0.79** | **0.70** | **0.74** | **0.54** | **0.23** |

*Source: Management information*

The above table outlines the historical performance of the Hotel and its competitive set, and expectations for FY2015 and FY2016. The Hotel's competitive set includes Four Seasons Park Lane, Claridge's and The Dorchester.

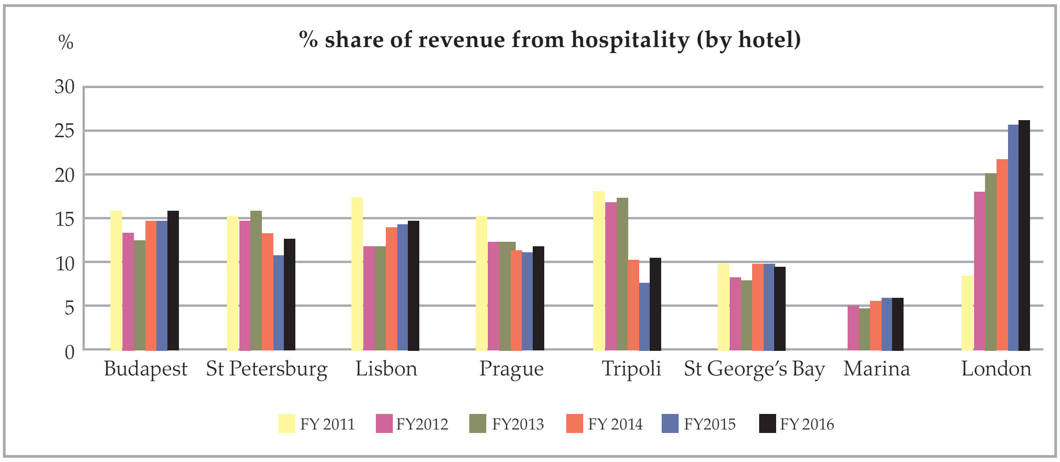
In FY2013, the Hotel continued to gain market share and thus narrow the gap with its competitive set. In its second full year of operations (FY2013), the Hotel achieved an occupancy level of 72% as compared to 77% for its competitive set and derived an average room rate of £407 (competitive set: £509). The Hotel's RevPAR growth of 23% improved the Hotel's RGI from 0.54 to 0.74. In FY2014, the Hotel performed at the same level as in the previous year. On the other hand, its competitive set registered an increase in RevPAR of 7% over FY2013, which resulted in a marginal decline in the Hotel's RGI from 0.74 to 0.70.

The Hotel is expected to perform better in FY2015 and FY2016 by achieving a similar occupancy rate as its competitor set (approx. 80%). Moreover, management is expected to place particular emphasis on improving the Hotel's average room rate, which is still more than 20% below its competitor set.

### 3.1.10 Aggregate Hotel Revenue and Operating Profit

***Revenue geographic distribution***

The chart below depicts total revenue generated by each hotel as a percentage of aggregate hotel revenue generated by the Group's hotels. In the case of Corinthia Hotel London the amounts included for each year is 50% of actual revenue, reflecting the 50% shareholding of IHI in the Hotel.



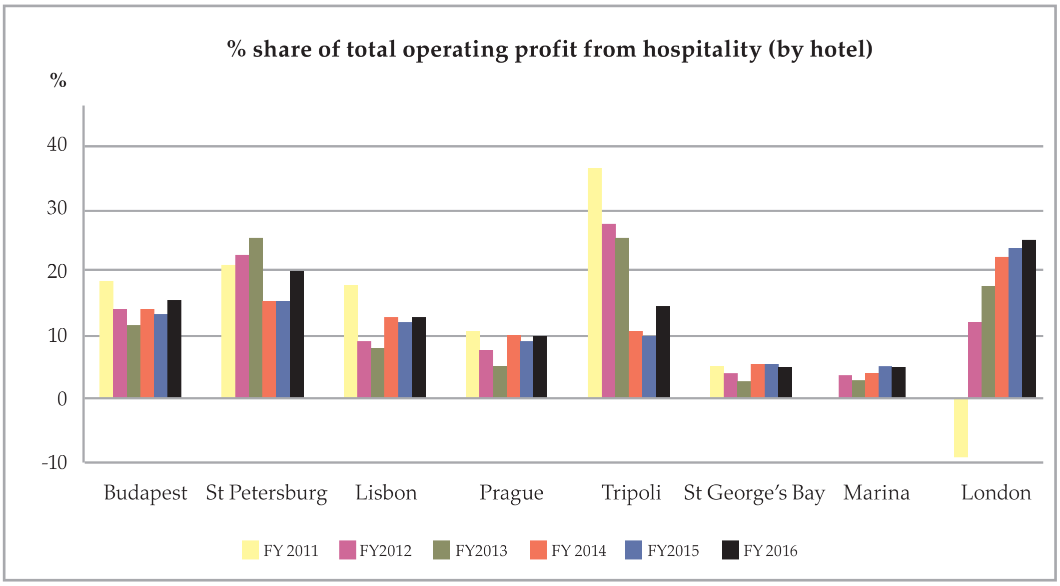

In FY2011, income contributed by each of the following five hotels - Budapest, St Petersburg, Lisbon, Prague and Tripoli – averaged 16% of total revenue, whilst Corinthia Hotel St George's Bay achieved a 10% share. Corinthia Hotel London initiated operations in FY2011 and the Marina Hotel was not part of IHI in FY2011 (acquired in FY2012). Thereafter, Corinthia Hotel Budapest, Corinthia Hotel St Petersburg, Corinthia Hotel St George's Bay and the Marina Hotel have maintained their respective share in FY2012 and FY2013. Corinthia Hotel Lisbon and Corinthia Hotel Prague registered declines in FY2012 (from 17% to 12% and 15% to 12% respectively) but have stabilised since. As to FY2014, the Corinthia Hotels in Budapest, Lisbon, Prague, St George's Bay and the Marina Hotel each increased their share by 1 to 3 percentage points, but Corinthia St Petersburg lost 3 percentage points from 16% in FY2013 to 13%. Similar levels are projected for FY2015 and FY2016, except for Corinthia St Petersburg, which is projected to decline by a further 2 percentage points in FY2015 but should re-establish its share of 13% in FY2016 if the Russian Rouble recoups some of its loss against the Euro.

The share of revenue from Corinthia Hotel Tripoli was broadly stable between FY2011 and FY2013, but in view of the instability in Libya, the Hotel's share has decreased substantially in FY2014 and will decline further in FY2015. It is assumed that performance of the Tripoli hotel in FY2016 will remain low but marginally higher than FY2015 results.

On the other hand, since opening for business in FY2011 Corinthia Hotel London has recorded significant increases in revenue and has become an important component of the IHI Group, although only accounting for the Group's 50% share of this investment. It is projected that income generated in FY2015 and FY2016 by the London Hotel will equate to *circa* 26% of Group revenue.

***Operating profit geographic distribution***

The chart below shows operating profit generated by each hotel as a percentage of the Group's hotel operating profit. The amounts relating to the Corinthia Hotel London are only 50% of the hotel's actual performance, reflecting the 50% shareholding of IHI in this investment.




Until FY2013, the primary contributors to operating profit included Corinthia Hotel Tripoli, Corinthia Hotel St Petersburg, Corinthia Hotel Budapest and Corinthia Hotel London. Thereafter, and particularly in FY2014, operating profits generated by Corinthia Hotel Tripoli and Corinthia Hotel St Petersburg declined substantially for country specific reasons mentioned elsewhere in this report. Such decreases have had a material adverse effect on the consolidated operating profit of the Group, which was however partly mitigated by the improvement in the operating results of the Group's European hotels.

The other hotels all registered improvements in their respective operating profit results relative to the previous year. With respect to Corinthia Hotel London, although the said hotel is achieving positive operating growth, it is an associated company (IHI has a 50% shareholding in the Hotel) and is therefore not consolidated with other Group hotels for statutory financial reporting purposes. As such, its operating profit is not accounted for with the operating results of the rest of the IHI Group.

### 3.2 MANAGEMENT COMPANY

CHI Limited (a fully-owned subsidiary of the Company) manages and operates a number of hotel properties, predominantly owned by IHI and Corinthia Palace Hotel Company Limited (the ultimate shareholder of the Corinthia Group). IHI acquired the shares of CHI in three tranches: a 20% shareholding was purchased in 2000 at a cost of *circa* €750,000, a further 50% was acquired in October 2006 at a cost of €20.15 million, and in May 2012 IHI acquired the remaining 30% from Wyndham for an aggregate consideration of €250,000 in terms of an agreement signed in 2006.

*Operational Performance*
The following table sets out the turnover of CHI Limited for the years indicated therein:

| | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 13,939 | 13,273 | 11,305 | 10,875 | 8,475 | 6,089 |
| IHI Properties (owned and associate) (€'000) | 11,912 | 11,286 | 9,463 | 8,378 | 6,430 | 4,644 |
| Other Properties (€'000) | 2,027 | 1,987 | 1,842 | 2,497 | 2,045 | 1,445 |

*Source: Management information*

In FY2011 most of the IHI properties registered improvements when compared to the previous year and as a result, total fee revenue received by CHI during the year increased to €6.1 million from €4.4 million (+40%). Included in the turnover figure for FY2011 is revenue derived from Corinthia Hotel London which commenced operations in April 2011. On a like-for-like basis (that is, excluding Corinthia Hotel London which was still under construction in FY2010 and therefore was not operating during the year), turnover increased by 28% from €4.4 million in FY2010 to €5.6 million in FY2011.

In order to support CHI's sales and marketing team and improve its room reservation and distribution capabilities, in FY2010, IHI created its own global distribution system ('GDS') to enable direct bookings through the major GDS companies (Sabre, Apollo and Travelport) for all Corinthia branded hotels managed by CHI. To further optimise bookings through its GDS, IHI revamped its websites and implemented a new central reservations system. A main objective of management is to improve average room rates in its hotels and its short term strategy is to replace low yielding bookings (primarily tour operator business) by higher yielding reservations channelled directly through its GDS. Bookings generated from Corinthia branded channels represented 9% and 19% of room revenue in FY2011 and FY2012 respectively and increased further to 23% in FY2013.

During the financial year 2012, total revenue increased by €2.4 million to €8.5 million (+39%). This increase reflects the revenue from the first full year of operation of the Corinthia Hotel London, which contributed €2.2 million to income generated by CHI. Similarly, the results of CHI for FY2013 show an increase in turnover of €2.4 million on the previous year and the primary contributor of this increase is Corinthia Hotel London. Income generated from the other Hotels was broadly stable apart from a decrease in income from Corinthia Hotel Prague reflecting a reduction in gross revenue for the year under review.

Revenue in FY2014 increased over the previous year by 4% (+€0.4 million) principally due to further improvement in results of the London property which however was mitigated by revenue declines at Corinthia Hotel Tripoli and Corinthia Hotel St Petersburg. As for FY2015 and FY2016, CHI is targeting turnover at €13.3 million and €13.9 million respectively which assumes a subdued operating environment at the Tripoli Hotel and Corinthia Hotel St Petersburg, and a robust performance in revenue at the London hotel. Further improvements are also expected in the performance of the other European hotels owned by the Group.

### 3.3 OTHER ASSETS

In December 2010, IHI acquired the 'Corinthia' brand from Corinthia Palace Hotel Company Limited. The transaction provides for a two tier settlement whereby: (i) IHI initially paid the amount of €19.6 million for the existing room stock operated under the Corinthia brand; and (ii) IHI will also pay a pre-agreed price to Corinthia Palace Hotel Company Limited every time a Corinthia hotel opens for business until 2020. The amount of €19.6 million is recognised as an intangible asset in the balance sheet of the Group.

IHI has a 55% equity participation in Libya Hotel Development and Investment JSC, a company set up to acquire a derelict building formerly known as the El-Jazeera Hotel and adjoining site in Benghazi, Libya. Libya Hotel Development and Investment JSC will eventually develop a mixed-use project consisting of a 228-room five-star hotel, 2,000 square metres of retail space and 10,000 square metres of office space. Whilst the necessary planning permits for the project were issued by the Benghazi planning authorities and demolition works commenced in January 2014, in light of the prevailing situation in Libya all works on this development have been put on hold, and current plans are due for reconsideration depending on future developments in Libya. It is anticipated that the funding required for the project, once resumed, will be sourced from a combination of equity injected by the shareholders and appropriate bank financing.

IHI owns 25% of the share capital of Medina Tower Joint Stock Company, a company set up for the purpose of owning and developing the Medina Tower. IHI has to date injected €13 million in the company as its equity participation. The parcel of land measures *circa* 11,000m$^2$ and is situated in Tripoli's main high street. The architectural concept stems from a 4-storey podium that will include a mix of residential, retail, commercial and conference space. A curved tower rises from the 6th level and peaks at the 40$^{th}$ level. The development will comprise a total gross floor area of *circa* 199,000m$^2$.

The project designs of the Medina Tower are complete and all development approvals have been obtained from the relevant authorities. As to the financing of the project, the equity contribution for the first phase of this project is already fully paid up and will comprise 40% of the capital requirement for the said project. The remaining 60% of funding is expected to be raised through a bank loan, which the company has finalised with a Libyan financial institution. A sanction letter has already been approved and signed, and once Medina Tower Joint Stock Company has registered in favour of the financing bank a first hypothec over the property, it will be able to start making drawdowns under the loan facility. However, like the Benghazi project, this development will not commence before the prevailing situation in Libya improves and the political impasse is resolved.

IHI owns 20% of QPM Limited, which specialises in construction and the provision of project management services, both locally and overseas. QPM operates independently of, and at arm's length to, IHI and offers a range of project, construction and cost management services to a number of international clients in various countries. In August 2012 the offices of David Xuereb and Associates and QPM merged to provide a more comprehensive list of professional services within the construction industry, including project and construction management. Whilst continuing to provide services to the Group, QPM is increasing its third party client base. In FY2014, the majority of QPM's income was derived from third party clients' engagements.

### 3.4 PROPOSED ACQUISITION OF THE IHG GROUP

The Issuer announced on 16 January 2015 that it has executed a preliminary conditional agreement with the majority shareholders in Island Hotels Group Holdings p.l.c. ("**IHG Group**"), with a view to consider making a voluntary offer for the purchase of 100% of the issued share capital of the IHG Group.

The business of the IHG Group largely relates to: the ownership, management and operation of five-star hotels in Malta (namely, the Radisson Blu Resort St Julians and the Radisson Blu Resort & Spa, Golden Sands); the operating of a vacation ownership marketing business for the aforesaid hotels; the operation of retail and event catering business (Island Caterers and Papillion Caterers); and the development and operation of Costa Coffee outlets in Malta, the East Coast of Spain, Canary Islands and the Balearic Islands. The IHG Group also owns a plot of land measuring 83,000m$^2$ located next to the Golden Bay, Mellieha with permits to develop this land into a luxury tourist complex. The IHG Group's revenue and EBITDA for the financial year ended 31 October 2014 amounted to €36.6 million (FY2013: €30.7 million) and €8.8 million (FY2013: €6.0 million) respectively.

On the basis of publicly available information and IHI's analysis, IHI has indicated a tentative enterprise value and net equity value of the IHG Group of €106.5 million and €50 million respectively. Subject to the satisfaction of the conditions described in the preliminary conditional agreement, and the confirmation of the indicative value of the IHG Group, IHI intends to make a voluntary offer for the shares constituting 100% of the issued share capital of the IHG Group. It is contemplated in the said agreement with shareholders that IHI shall, if and when it makes the voluntary offer, settle the net consideration of €50 million for the acquisition of all the shares of the IHG Group as detailed hereafter. A consideration of €1 per share shall be payable in cash and split into two tranches. The first tranche amounting to €0.55 per share (in aggregate *circa* €20 million) shall be payable on execution of the transaction. The remaining amount of €0.45 per share, making up the second tranche, shall be settled 12 months thereafter (in aggregate *circa* €16 million). Furthermore, as part of the consideration, IHG Group shareholders will also receive 0.246 IHI shares for each IHG Group share through the issuance of 9 million IHI ordinary shares.

Part of the Bond proceeds, not exceeding €10 million, are being earmarked to part finance the first tranche of that acquisition if, following a due diligence exercise to be undertaken by the Issuer and other compliance and regulatory requirements, it is determined that IHI ought to proceed with that acquisition. The Issuer is currently negotiating with financial institutions the sanctioning of a new bank loan facility to finance the remaining balance of the first tranche of *circa* €10 million. In the event that the Issuer decides not to proceed with that acquisition, for any reason, then the proceeds from the Bond not exceeding €10 million shall be applied to reduce the bank indebtedness of the Group.

The Directors believe that the acquisition of the IHG Group will provide the Issuer with operational synergies and efficiencies which will benefit the Issuer and its overall operations, but at the date of the Prospectus the Issuer has not had the opportunity of undertaking a full due diligence exercise with respect to the IHG Group, its business and operations. Also, additional development opportunities may arise as a result of an amalgamation of IHG Group's hotel operation in St George's Bay with that of IHI's own neighbouring hotels. Accordingly, it is not in a position to make a full assessment of the impact that the acquisition of the IHG Group will have on the Issuer and its financial position. The Directors will conduct such an assessment as and when the IHG Group is in a position to lawfully disclose to the Issuer and its advisors sufficient information, including price sensitive information, to enable them to conduct a proper due diligence exercise on the IHG Group.

PART 2

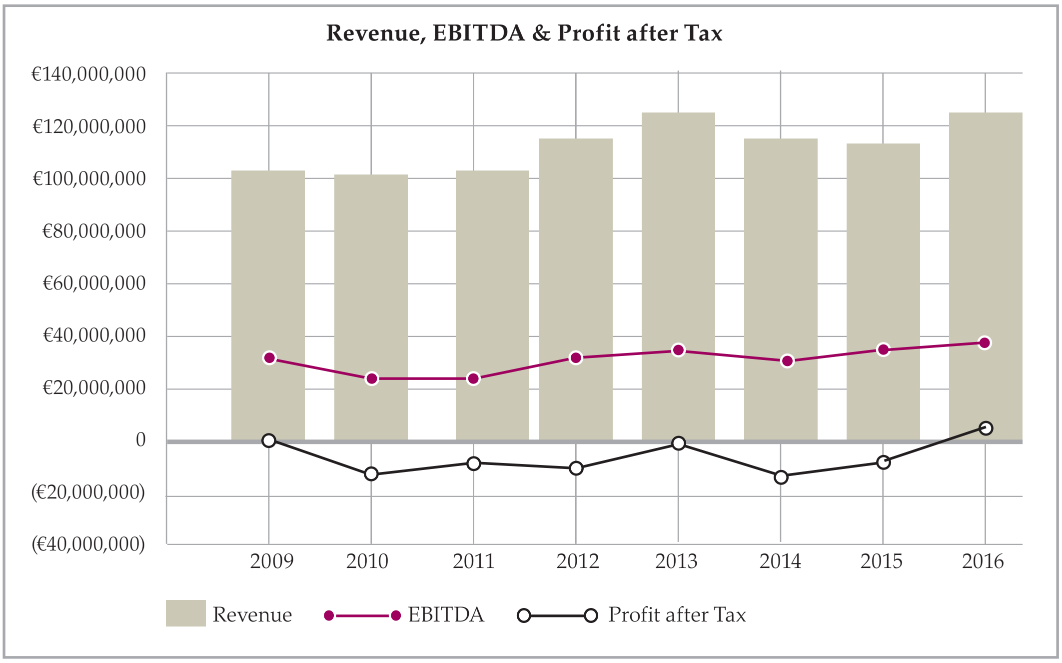
## 4. GROUP PERFORMANCE REVIEW

### 4.1 INCOME STATEMENT

The following financial information is extracted from the audited consolidated financial statements of IHI for each of the years ended 31 December 2011 to 31 December 2014. The forecasted financial information for the years ending 31 December 2015 and 2016 has been provided by management of the Company. **The projected financial statements relate to events in the future and are based on assumptions which the Company believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.**

| IHI Group Income Statement (€'000) | FY2016 Projection | FY2015 Forecast | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|---|---|
| Revenue | 123,888 | 114,971 | 116,379 | 123,734 | 118,567 | 104,223 |
| Direct costs | (52,969) | (49,997) | (61,147) | (64,152) | (63,554) | (53,863) |
| **Gross profit** | **70,919** | **64,974** | **55,232** | **59,582** | **55,013** | **50,360** |
| Other operating costs | (35,095) | (33,655) | (26,382) | (24,601) | (27,288) | (27,982) |
| **EBITDA** [1] | **35,824** | **31,319** | **28,850** | **34,981** | **27,725** | **22,378** |
| Depreciation and amortisation | (18,814) | (18,482) | (18,390) | (23,763) | (24,208) | (24,429) |
| Movement in fair value of investment property | - | - | (15,391) | 571 | 4,154 | 5,448 |
| Net impairment of hotel properties | - | - | 2,081 | 5,000 | (7,796) | (2,497) |
| **Results from operating activities** | **17,010** | **12,837** | **(2,850)** | **16,789** | **(125)** | **900** |
| Share of (loss) profit from equity accounted investments | (94) | (4,042) | (14,537) | (5,788) | 4,970 | 1,155 |
| Net finance costs | (12,025) | (12,392) | (13,035) | (15,940) | (16,783) | (13,899) |
| Net fair value loss on interest rate swaps | - | - | 1,466 | 1,789 | 1,009 | 432 |
| Movement in reimbursement assets | (880) | (880) | (879) | (883) | (454) | (399) |
| **Profit (loss) before tax** | **4,011** | **(4,477)** | **(29,835)** | **(4,033)** | **(11,383)** | **(11,811)** |
| Taxation | (1,430) | (2,049) | 13,549 | 4,299 | 950 | 1,079 |
| **Profit (loss) for the year** | **2,581** | **(6,526)** | **(16,286)** | **266** | **(10,433)** | **(10,732)** |
| Non-controlling interest | - | - | 20 | - | 170 | 334 |
| **Profit (loss) attributable to parent company** | **2,581** | **(6,526)** | **(16,266)** | **266** | **(10,263)** | **(10,398)** |

[1] *EBITDA – Earnings before interest, tax, depreciation and amortisation*




The key accounting ratios are set out below:

| | FY2016 | FY2015 | FY2014 | FY2013 | FY2012 | FY2011 |
|---|---|---|---|---|---|---|
| Gross profit margin<br>*(Gross profit/revenue)* | 57% | 57% | 47% | 48% | 46% | 48% |
| Operating profit margin<br>*(EBITDA/revenue)* | 29% | 27% | 25% | 28% | 23% | 21% |
| Interest cover (times)<br>*(EBITDA/net finance cost)* | 3.0 | 2.5 | 2.2 | 2.2 | 1.7 | 1.6 |
| Net profit margin<br>*(Profit after tax/revenue)* | 2% | -6% | -14% | 0% | -9% | -10% |
| Earnings per share (€)[1]<br>*(Profit after tax/number of shares)* | 0.00 | -0.01 | -0.03 | 0.00 | -0.02 | -0.02 |
| Return on equity<br>*(Profit after tax/shareholders' equity)* | 1% | -1% | -3% | 0% | -2% | -2% |
| Return on capital employed<br>*(Operating profit/total assets less current liabilities)* | 4% | 3% | 3% | 3% | 3% | 2% |
| Return on assets<br>*(Profit after tax/total assets)* | 1% | -1% | -2% | 0% | -1% | -1% |

[1] *Earnings per share calculation set out above has been based on the current number of shares in issue of the Company of 554,238,573 shares of €1 each.*

*Source: Charts Investment Management Service Limited*

In **FY2011**, the Corinthia Hotel Tripoli was affected by the revolution in Libya and revenues decreased by 35% (equivalent to €10.6 million) relative to FY2010. All the other Group hotel properties achieved increases in revenues amounting to €13.1 million, principally due to enhanced marketing by CHI, an increase in conference & events business in a number of Hotels and an increase in higher yielding room bookings registered through the Group's global distribution system which was launched in FY2010. For the second year, CHI continued to implement its strategy of replacing low yielding bookings generally derived through tour operators by higher yielding reservations through its GDS. Bookings generated from Corinthia branded channels represented 9% of room revenue in FY2011 (FY2010: 5.8%). The percentage increases in revenue over FY2010 were as follows: Corinthia Hotel St Petersburg (24%), Corinthia Hotel Lisbon and Corinthia Hotel Prague (18%), Corinthia Hotel Budapest (13%) and Corinthia Hotel St George's Bay (8%). In FY2011, expenses amounting to €1.8 million incurred during prior years in connection with the Company's possible listing on the London Stock Exchange were written off. Excluding these one-off costs, EBITDA for FY2011 would have totalled €24.2 million, an improvement of 5.7% over FY2010.

The valuation of the Group's investment properties resulted in a net uplift of €5.5 million mainly through the increase in value of the commercial centre in St Petersburg. However, the valuation of the Group's hotel properties resulted in a net impairment of €2.5 million (Corinthia Hotel Prague: +€4.5 million, Corinthia Hotel Budapest: -€4.3 million, Corinthia Hotel St George's Bay: -€2.7 million). The share of profit of €1.2 million from equity accounted investments primarily related to IHI's 50% investment in Corinthia Residences in London.

Results from the respective hotel operations in **FY2012** were generally positive. The Group financial statements for the said year also reflected the acquisition of the Marina Hotel and the first full year of operation of the Corinthia Hotel London. However the results of the Corinthia Hotel, as mentioned elsewhere in this report are not consolidated in the Group's results. Group revenue for FY2012 increased by €14.4 million (+14%) to €118.6 million when compared to FY2011 (€104.2 million). The main factors included the contribution from the Marina Hotel (+€6.6 million) and significant improvements at Corinthia Hotel St Petersburg (+23%) and Corinthia Hotel Tripoli (+18%). The remaining hotels registered broadly similar revenue as in FY2011, except for Corinthia Hotel Lisbon which showed a decrease in income of 13% from €18.7 million in FY2011 to €16.2 million in FY2012. Countries such as Portugal and Hungary were severely affected by the adverse economic situation in a number of their feeder markets, increased competition, and a decline in consumer spending.

In FY2012, gross operating profit improved at Corinthia Hotel St Petersburg (43%), Corinthia Hotel Tripoli (5%) and Corinthia Hotel St George's Bay (7%). At Corinthia Hotel Tripoli, operating costs increased by more than the proportionate growth in revenue and therefore, gross operating profit was relatively disappointing. Overall, Group EBITDA for FY2012 increased by €5.35 million to €27.7 million, which also reflects the impact from the initial year of the Marina Hotel within the Group (+€1.4 million).

During the year under review net property revaluation adjustments, through the income statement and comprehensive income statement, amounted to a positive balance of €3.9 million (FY2011: -€15.1 million). The fair value of the Commercial Centre in St Petersburg was increased by €4.2 million (FY2011: -€5.6 million) on account of growth in lease income streams. This uplift was offset by impairments totalling €18.7 million (FY2011: €15.2 million) in the valuation of the hotel properties, mainly, Corinthia Hotel Lisbon (€6.4 million), Corinthia Hotel Budapest (€3.0 million) and Corinthia Hotel St Petersburg (€10.9 million). The impairments resulted from an oversupply of hotel rooms in the respective markets and increased competition which has restricted improvements in both occupancy rate and average room rate, and in the case of the former two hotels the respective countries' economic situation and associated risks. On the other hand, there has been a positive uplift in the value of the 50% share in the Corinthia Residences of €18.5 million (FY2011: -€5.4 million).

The Corinthia Hotel London registered an operating profit of €9.59 million in FY2012, which is a significant improvement to the operating loss of €5.54 million incurred in FY2011. However, this positive performance was more than offset by substantial charges of depreciation and finance costs. Since the hotel is 50% owned by the Group, its results are included in the income statement as share of profit from equity accounted investments. In this line item the operating results have been netted with an uplift in the value of the 12 apartments amounting to €31.9 million (FY2011: €37.6 million).

IHI's revenue for **FY2013** amounted to €123.7 million, reflecting an improvement of €5.2 million (+4%) on turnover registered in FY2012. This increase in revenue was mainly due to better results at the Group's properties in Tripoli (+19% y-o-y), Lisbon (+10% y-o-y) and St Petersburg (+8% y-o-y). In contrast, Corinthia Hotel Prague experienced a decline of 14% in revenue as a result of a lower occupancy level (-10%) and achieved average room rate (-4%) primarily in consequence of a 33% contraction in the conference & events business. The drop in turnover at Corinthia Hotel Prague was however mitigated by substantial cost savings at operational level. The other Hotels recorded modest gains when compared to prior year. Overall, in FY2013 there was a significant increase in EBITDA of €7.3 million (+26%) over the results achieved in FY2012.

In FY2013, the property valuation of the Corinthia Hotel Lisbon was revised upwards by €5 million in view of the improved outlook at the Hotel. In addition, a net uplift of €571,000 in the fair value of investment properties was recorded in the year under review (commercial property St Petersburg: +€400,000; commercial property Tripoli: +€200,000; apartments in Lisbon: -€29,000).

"Share of results from equity accounted investments" represents IHI's 50% equity shareholding in Corinthia Hotel London. As highlighted in section 3.1.9 of this document, operating profit generated by the Hotel in its second year of operation improved significantly to £14.0 million (equivalent to €18 million) (FY2012: £7.8 million, equivalent to €10 million). However, after accounting for depreciation, property charges and finance costs the Hotel incurred a loss for the year, of which, IHI's 50% share of such loss amounted to €5.8 million.

Net finance costs for FY2013 was lower by €1.6 million when compared to prior year, primarily reflecting (i) the continued reduction of Group indebtedness through regular repayments of borrowings; and (ii) the recognition of fair value gains on interest rate swaps. Overall, IHI registered a profit for the year ended 31 December 2013 of €0.3 million (FY2012: net loss of €10.4 million).

In view of the prolonged instability in Libya and the political issues between Russia and Ukraine, revenue generated at Corinthia Hotel Tripoli and Corinthia Hotel St Petersburg in **FY2014** was lower than the prior year by *circa* €16.1 million. Such reduction was however partly compensated by increased revenues at the other Group properties and therefore the overall decrease in income for the said financial year amounted to €7.4 million (a reduction of 6%). This reduction in income inevitably impacted the Group's EBITDA, which decreased by 18% from €35.0 million in 2013 to €28.9 million in 2014. The depreciation charge for 2014 reduced by more than €5.4 million (from €23.8 million in 2013 to €18.4 million in 2014) as no provision was made on assets that were fully depreciated.

Management believes that the situation in St Petersburg and Libya will prolong further in FY2015 and FY2016. As such, it is projected that revenue generated in FY2015 by the Corinthia St Petersburg and Corinthia Tripoli will decrease by 20% and 34% respectively, but should be higher by an aggregate amount of €5.4 million in FY2016. The other properties are expected to increase their respective turnover principally through the achievement of better average room rates. Group EBITDA should achieve a recovery in FY2015 of €2.5 million to €31.3 million, and a further €4.5 million to €35.8 million in FY2016.

In April 2014, 11 apartments in Whitehall Place London adjacent to the Corinthia Hotel London, of which IHI holds a 50% stake, were sold to third parties. The penthouse apartment was retained and will be sold when the right opportunity arises. Except for one-off property costs resulting from the aforesaid sale of the apartments, the disposal had no effect on the Group financial statements since the apartments were already valued at their market price in 2013. A loss was registered from equity accounted investments (London Hotel and Residences) for 2014 of €14.6 million, in consequence of building taxes, depreciation, interest and the one-time selling costs of the 11 apartments as the hotel performance registered a marginal improvement in performance in 2014 over 2013. A smaller loss is expected from equity accounted investments (London Hotel) for FY2015 of €4.0 million and should breakeven in the subsequent year.

There has also been a reduction of approximately €2.9 million in finance costs in 2014 (from €15.9 million in 2013 to €13.0 million in 2014) as a result of reduced EURIBOR rates in 2014 coupled with the further reduction of the Group's debt in consequence of scheduled repayments of bank loans.

After accounting for movements in fair value of properties described hereunder, the Group recorded a loss for the year ended 31 December 2014 of €16.3 million (2013: Profit of €0.3 million).

**Analysis of Movements in Property Values**
*For the year ended 31 December 2014*

| | **Income Statement €'000** | **Other Comprehensive Income €'000** | **Total €'000** |
|---|---|---|---|
| Corinthia Hotel Lisbon | 1,240 | 13,728 | **14,968** |
| Lisbon Apartments | (156) | - | **(156)** |
| Corinthia Hotel Budapest | 0,357 | - | **10,357** |
| Marina Hotel | 1,766 | - | **1,766** |
| Corinthia Hotel Tripoli | (8,038) | (26,814) | **(34,852)** |
| Tripoli Commercial Centre | (5,659) | - | **(5,659)** |
| Corinthia Hotel St Petersburg | (3,243) | (15,867) | **(19,110)** |
| St Petersburg Commercial Centre | (9,577) | - | **(9,577)** |
| Corinthia Hotel London | - | 17,933 | **17,933** |
| **Net movement in property values** | **(13,310)** | **(11,020)** | **(24,330)** |
| **Classified in the financial statements as follows:** | | | |
| Movement in fair value of investment property | (15,391) | - | **(15,391)** |
| Net impairment reversal (loss) on hotel properties | 2,081 | (28,953) | **(26,872)** |
| Revaluation of hotel property (equity accounted investments) | - | 17,933 | **17,933** |
| **Net movement in property values** | **(13,310)** | **(11,020)** | **(24,330)** |

On a yearly basis, a value in use assessment is carried out on the Issuer's hotels and investment properties by independent advisors. This process involves the preparation of 10-year future cash flows prepared by an expert in the hospitality industry and financial modeling by an independent accountancy firm. In 2014, the aforesaid process was performed on all Group properties other than the Corinthia Hotel Tripoli, due to the current uncertain environment prevailing in Libya which presented significant difficulty for such advisors to determine a value in use of the property.

As such, a value in use on the Corinthia Hotel Tripoli was determined after the independent advisors presented several scenarios and parameters to the Directors for their consideration. The Directors resolved to adopt the more prudent basis of valuation by applying to the model higher country and other risk premia, and assume a weaker outlook on future performance. In consequence, the value of the property was impaired by €34.9 million.

As denoted in the above table, the Group was negatively impacted in 2014 by a reduction of €69.2 million in the values of its properties in Tripoli and St Petersburg (hotels and commercial centres) as a consequence of the *force majeure* situation prevailing in each of the said jurisdictions and the devaluation of the Russian Rouble. On the other hand, through the robust performance achieved by a number of the Group's European hotels, the Issuer registered an improvement of €44.9 million in the fair values of such properties, most notably of which is the uplift in London (limited to 50% share), in Lisbon and in Budapest.

Overall, during the year under review, the Group reported a net impairment (before tax) in the fair value of its properties of €24.3 million (2013: +€36.8 million) which is reported as to €13.3 million in the Income Statement and €11.0 million in the Comprehensive Income Statement.

**The estimates for the forward years as presented in this document assume that the carrying values of hotel properties will remain constant in FY2015 and FY2016, and therefore no adjustment has been made as to possible impairment or uplift of assets that may be booked and which may materially affect the consolidated income statement.**

## 4.2 CASH FLOW STATEMENT

| **IHI Group Cash Flow Statement (€'000)** | **FY2016 Projection** | **FY2015 Forecast** | **FY2014 Actual** | **FY2013 Actual** | **FY2012 Actual** | **FY2011 Actual** |
|---|---|---|---|---|---|---|
| Net cash from operating activities | 30,599 | 41,884 | 30,016 | 42,078 | 30,145 | 14,430 |
| Net cash from investing activities | (11,575) | (8,439) | (4,160) | (4,284) | (21,187) | (10,275) |
| Net cash from financing activities | (29,879) | (15,946) | (13,467) | (43,666) | (23,837) | (3,163) |
| **Net movement in cash and cash equivalents** | **(10,855)** | **17,499** | **12,359** | **(5,872)** | **(14,879)** | **992** |
| Cash and cash equivalents at beginning of year | 35,349 | 17,850 | 5,491 | 11,363 | 26,242 | 25,250 |
| **Cash and cash equivalents at end of year** | **24,494** | **35,349** | **17,850** | **5,491** | **11,363** | **26,242** |

Net cash from operating activities improved in FY2012 by €15.7 million to €30.1 million and further increased to €42.1 million in FY2013, primarily due to an improvement in results at most hotels and better working capital management. In addition, €3.1 million of advances made in prior years to Corinthia Hotel London were repaid in FY2013. Country issues in Libya and Russia reduced cash inflows in FY2014 which were partially mitigated as a result of progress in operating performance at the other hotels. As such, net cash from operating activities amounted to €30.0 million in FY2014, a decrease of €12.1 million (-29%) when compared to FY2013. Expectation of improved results in FY2015 and FY2016 are being projected which will have a positive impact on cash inflows.

During FY2012 the Group settled the outstanding amount of €4.3 million due to CPHCL in relation to the acquisition of the Marina Hotel and contributed €9.1 million towards the Medina Tower project. No significant investment was effected by IHI in FY2013 and FY2014, and the cash outflows of €4.3 million and €4.2 million respectively principally related to payments for tangible fixed assets and general upkeep of the Group properties. In FY2015 and FY2016, the Group is projecting to spend €20.1 million in similar expenditure and, in particular, plans to implement a refurbishment programme at Corinthia Hotel Budapest, Corinthia Hotel Lisbon and Corinthia St Petersburg.

The principal movements in financing activities in FY2013 included: (i) the repayment on bank borrowings, related party loans and bonds totalling €34.6 million; and (ii) bank financing increased by €8.5 million. Interest paid during the year decreased from €18.1 million in FY2012 to €17.4 million. In FY2014, net borrowings decreased by €23.4 million and an amount of €41.0 million of loans receivable from an associate was received by the Group. Interest paid during the reviewed year totalled €15.1 million. During FY2014 IHI paid a dividend of €11.5 million to its shareholders and affected a payment of €5.0 million to sinking fund reserves for the benefit of bondholders.

In FY2015, the Company is expected to receive €9.1 million being the net cash difference (after expenses) from the issuance of a €45 million bond and the redemption of a €35 million bond, and a net cash inflow of €3.1 million from release of funds held in the sinking fund reserve relating to the maturing bond. Net cash outflows for the said year are projected to amount to €28.2 million representing repayment of borrowing (€16.1 million) and interest payments (€12.1 million). As to FY2016, the Group is expected to utlise €29.9 million in respect of repayment of borrowings (€15.7 million), payments to sinking fund reserves (€2.3 million) and interest payments (€11.9 million).

### 4.3 BALANCE SHEET

| **IHI Group Balance Sheet (€'000)** | **31 Dec'16 Projection** | **31 Dec'15 Forecast** | **31 Dec'14 Actual** | **31 Dec'13 Actual** | **31 Dec'12 Actual** | **31 Dec'11 Actual** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| *Non-current* | | | | | | |
| Intangible assets | 40,992 | 42,274 | 43,556 | 44,856 | 46,095 | 47,415 |
| Reimbursement assets | 19,926 | 20,806 | 21,687 | 22,566 | 23,449 | 22,432 |
| Investment properties | 176,675 | 176,675 | 176,675 | 191,964 | 191,393 | 187,239 |
| Property, plant and equipment | 480,202 | 486,084 | 494,971 | 534,558 | 555,482 | 565,568 |
| Investments in associates | 199,128 | 199,223 | 213,241 | 201,689 | 167,441 | 132,867 |
| Loan receivable | - | - | 3,208 | 44,332 | 43,450 | 29,450 |
| Cash proceeds from Bond Issue | 9,100 | 9,100 | - | - | - | - |
| Cash held by trustee | 7,323 | 5,046 | 7,967 | 2,303 | 2,223 | - |
| | 933,346 | 939,208 | 961,305 | 1,042,268 | 1,029,533 | 984,971 |
| *Current* | | | | | | |
| Inventories | 5,534 | 5,408 | 5,307 | 5,454 | 5,294 | 5,382 |
| Loan receivable | - | - | - | - | - | 11,500 |
| Trade and other receivables | 23,976 | 21,698 | 23,309 | 31,819 | 36,997 | 36,561 |
| Taxation | 21 | 21 | 2,639 | 2,883 | 436 | 407 |
| Cash and cash equivalents | 15,394 | 26,255 | 19,480 | 10,248 | 16,423 | 28,008 |
| | 44,925 | 53,382 | 50,735 | 50,404 | 59,150 | 81,858 |
| **Total assets** | **978,271** | **992,590** | **1,012,040** | **1,092,672** | **1,088,683** | **1,066,829** |

Intangible assets as at 31 December 2014 amounted to €43.6 million and included (i) goodwill on the purchase of CHI with a carrying value of €9.7 million; (ii) the Corinthia brand of €19.6 million; and (iii) the website development costs and the value attributable to CHI's management agreements with a carrying value of €14.3 million.

Reimbursement assets represent any tax that may become reimbursable by CPHCL in relation to the transfer of shares of IHI Towers s.r.o. (Corinthia Hotel Prague) and Corinthia Tripoli Towers Ltd (Corinthia Hotel Tripoli) to IHI in 2007, and the transfer of shares of Marina San Gorg Limited to IHI in 2012, but which was deferred. This tax will only become due in the eventuality that IHI sells its shares in these companies or properties to unrelated third parties.

Investment properties include commercial centres in Tripoli and St Petersburg and apartments in Lisbon. The carrying values as at 31 December 2014 were: (i) Commercial Centre Tripoli: €68.9 million; (ii) vacant plot of land Tripoli: €28.8 million; (iii) Commercial Centre St Petersburg: €77.8 million; and (iv) an apartment block in Lisbon: €1.1 million. At 31 December 2014, the fair value of the commercial centres in St Petersburg and Tripoli were reduced by €9.6 million and €5.7 million respectively, and the fair value of the Lisbon apartments was lowered by €0.2 million (aggregate movement: -€15.4 million).

Property, plant and equipment principally consist of the hotel properties, the aggregate value of which decreased by €70.6 million between 31 December 2011 and 31 December 2014 mainly due to depreciation charges and impairments, net of the assets of Marina Hotel acquired in FY2012 amounting to €23 million.

Investments in associates include investments in non-controlling companies, namely NLI Holdings Limited (Corinthia Hotel London), Medina Towers J.S.C. and QPM Limited. In 2009, IHI increased its shareholding in NLI Holdings Limited from 33.3% to 50% between 2009 and 2010 at a total cost of €35.9 million. The carrying value of this investment has increased from €188.7 million in FY2013 to €199.5 million in FY2014. During the financial year ended 31 December 2010, IHI acquired a 25% stake in Medina Towers S.J.C. for a total consideration of €3.9 million. In FY2012, the Group invested a further €9.1 million in Medina Towers (FY2014: €12.7 million in total). The carrying value of QPM Limited as at 31 December 2014 is €1.0 million.

Loan receivable comprises amounts advanced to NLI Holdings Ltd which as at 31 December 2014 amounted to €3.2 million (2013: €44.3 million). The loan is unsecured, bears interest at 3% and is subordinated to bank borrowings. Amounts advanced to NLI Holdings Ltd were almost fully repaid during FY2014 through the disposal proceeds of 11 London apartments which took place in April 2014. The balance of €3.2 million should be settled in FY2015.

Current assets are principally made up of working capital assets including: (i) inventories of food and beverage, consumables, room supplies and maintenance stocks; and (ii) amounts receivable from tour operators, corporate customers and credit card companies.

| IHI Group Balance Sheet *(cont.)* (€'000) | 31 Dec'16 Projection | 31 Dec'15 Forecast | 31 Dec'14 Actual | 31 Dec'13 Actual | 31 Dec'12 Actual | 31 Dec'11 Actual |
|---|---|---|---|---|---|---|
| **Equity and liabilities** | | | | | | |
| EQUITY | | | | | | |
| Called up share capital | 554,238 | 554,238 | 554,239 | 554,238 | 554,238 | 554,238 |
| Reserves and other equity components | 88,886 | 88,886 | 88,886 | 88,701 | 63,842 | 56,628 |
| Retained earnings | (52,886) | (55,467) | (48,941) | (16,448) | (17,824) | (14,171) |
| Minority interest | 630 | 630 | 630 | - | - | 5,920 |
| | **590,868** | **588,287** | **594,814** | **626,491** | **600,256** | **602,615** |
| LIABILITIES | | | | | | |
| *Non-current* | | | | | | |
| Borrowings and bonds | 253,511 | 271,791 | 271,464 | 292,729 | 312,995 | 300,413 |
| Other non-current liabilities | 79,608 | 81,107 | 82,938 | 97,332 | 97,390 | 98,706 |
| | 333,119 | 352,898 | 354,402 | 390,061 | 410,385 | 399,119 |
| *Current* | | | | | | |
| Borrowings and bonds | 18,805 | 15,979 | 27,787 | 27,725 | 32,976 | 25,782 |
| Other current liabilities | 35,479 | 35,426 | 35,037 | 48,395 | 45,066 | 39,313 |
| | 54,284 | 51,405 | 62,824 | 76,120 | 78,042 | 65,095 |
| | **387,403** | **404,303** | **417,226** | **466,181** | **488,427** | **464,214** |
| **Total equity and liabilities** | **978,271** | **992,590** | **1,012,040** | **1,092,672** | **1,088,683** | **1,066,829** |

As at 31 December 2014, the Group had a working capital deficiency (current assets less current liabilities) of €12.1 million. This deficiency is being addressed by the Issuer as follows:

- In view of the prevailing situation in Libya, the lender of the €40 million loan on Corinthia Hotel Tripoli has confirmed its intention to postpone capital repayments due on this loan in 2015; and

- An agreement has been reached for the amount payable as dividend to the institutional shareholders of €5.1 million to be settled after the penthouse apartment in London is sold and paid for.

Other than equity, the Group is financed through bank loans, corporate bonds and other borrowings from related companies, analysed as follows:

| IHI Group Borrowings (€'000) | 31 Dec'16 Projection | 31 Dec'15 Forecast | 31 Dec'14 Actual | 31 Dec'13 Actual | 31 Dec'12 Actual | 31 Dec'11 Actual |
|---|---|---|---|---|---|---|
| **Bank borrowings** | | | | | | |
| Corinthia Hotel St George's Bay | - | - | 1,271 | 2,143 | 2,968 | 3,760 |
| Corinthia Hotel Budapest | 24,490 | 26,937 | 29,235 | 31,383 | 33,396 | 35,283 |
| Corinthia Hotel St Petersburg | 52,745 | 54,146 | 55,248 | 55,999 | 49,095 | 49,995 |
| Corinthia Hotel Lisbon | 26,358 | 28,959 | 31,622 | 34,181 | 35,722 | 37,220 |
| Corinthia Hotel Tripoli | 33,333 | 36,667 | 36,917 | 42,000 | 51,500 | 52,000 |
| Corinthia Hotel Prague | 26,255 | 28,586 | 30,840 | 33,018 | 40,126 | 42,162 |
| Marina Hotel | 7,545 | 8,295 | 9,150 | 833 | 1,112 | |
| CHI | 301 | 674 | 1,000 | | | |
| IHI p.l.c. | 2,500 | 5,000 | 8,100 | 11,200 | 13,300 | 9,900 |
| Bank overdrafts | - | 6 | 1,630 | 4,760 | 5,060 | 1,767 |
| | **173,527** | **189,270** | **205,013** | **215,533** | **232,279** | **232,087** |
| **Bonds** | | | | | | |
| 6.3% Bonds 2013 | | | | | 4,054 | 13,966 |
| 6.2% - 6.8% Bonds 2013 | | | | | 1,690 | 8,070 |
| 6.5% Bonds 2012 - 2014 | | | | 2,500 | 12,475 | 12,456 |
| 6.25% Bonds 2015 - 2019 | | | 34,762 | 34,678 | 34,600 | 34,527 |
| 6.25% Bonds 2017 - 2020 | 24,817 | 24,717 | 24,641 | 24,758 | 24,711 | 24,667 |
| 5.8% Bonds 2021 | 19,803 | 19,679 | 19,633 | 19,592 | 19,557 | |
| 5.8% Bonds 2023 | 9,858 | 9,868 | 9,876 | 9,865 | | |
| 5.75% Bonds 2025 | 44,077 | 44,002 | | | | |
| | **98,555** | **98,266** | **88,912** | **91,393** | **97,087** | **93,686** |
| **Other interest bearing borrowings** | | | | | | |
| Parent company | - | - | 5,092 | 13,236 | 16,089 | - |
| Related companies | 234 | 234 | 234 | 292 | 516 | 422 |
| | **234** | **234** | **5,326** | **13,528** | **16,605** | **422** |
| **Total borrowings and bonds** | **272,316** | **287,770** | **299,251** | **320,454** | **345,971** | **326,195** |

The key accounting ratios are set out below:

| | FY2016 | FY2015 | FY2014 | FY2013 | FY2012 | FY2011 |
|---|---|---|---|---|---|---|
| Net assets per share (€)[1] *(Net asset value/number of shares)* | 1.07 | 1.06 | 1.07 | 1.13 | 1.08 | 1.08 |
| Liquidity ratio (times) *(Current assets/current liabilities)* | 0.83 | 1.04 | 0.81 | 0.66 | 0.76 | 1.26 |
| Gearing ratio *(Total debt/shareholders' equity)* | 46% | 49% | 50% | 51% | 58% | 55% |
| Debt service cover ratio (times) *(Net interest payable + capital loan repayments/EBITDA)* | 1.30 | 1.22 | 0.83 | 0.73 | 0.77 | 0.90 |

[1] *Net assets per share calculation set out above has been based on the current number of shares in issue of the Company of 554,238,573 shares of €1 each.*

*Source: Charts Investment Management Service Limited*

The debt service cover ratio measures a company's ability to service its current debts by comparing EBITDA to total debt service obligations. In FY2014, the Group registered a debt service cover ratio of 0.83 times (FY2013: 0.73), being marginally below the target ratio of 1.0. The Group was adversely impacted by the difficult political and operating climate in both Libya and Russia and the devaluation of the local currency in the Russian Federation. This situation caused significant declines in revenue and operating profit generated by the Corinthia Hotel Tripoli and the Corinthia Hotel St Petersburg, and therefore was the primary reason for the Group's debt service cover ratio to remain below 1.0. On the other hand, in FY2014, the Issuer's other hotel properties performed better in terms of EBITDA earnings relative to FY2013, and this partly mitigated the above mentioned decrease in EBITDA.

When compared to 2013 the debt service cover ratio has improved from 0.73 to 0.83 in in 2014. Such recovery was principally the result of a reduction in the Group's indebtedness from €320.5 million (in 2013) to €299.3 million in 2014, and a decrease in borrowing costs due to the decline in EURIBOR rates in the past few years. As to annual net interest payable, this amount decreased by €2.9 million from €15.9 million (in 2013) to €13.0 million in 2014.

### 4.4 SINKING FUND

In terms of the Prospectuses of each of the bonds detailed hereunder, the Company is required to build a sinking fund for each of the said bonds, the value of which will by the respective redemption date of each bond be equivalent to 50% of the outstanding value of the bonds. Below is a table outlining the contributions paid/payable by the Company for the purpose of building up each of the three sinking funds.

| Contributions to Sinking Fund | 31 Dec'16 (€'000) | 31 Dec'15 (€'000) | 31 Dec'14 (€'000) | 31 Dec'13 (€'000) | 31 Dec'12 (€'000) | 31 Dec'11 (€'000) |
|---|---|---|---|---|---|---|
| €35 million 6.25% Bonds 2015 - 2019 | - | - | 4,999 | 2,267 | 2,137 | 50 |
| €25 million 6.25% Bonds 2017 - 2020 | 6,250 | 4,688 | 2,972 | 36 | 36 | - |
| €20 million 5.8% Bonds 2021[1] | 1,073 | 358 | | | | |
| | **7,323** | **5,046** | **7,967** | **2,303** | **2,173** | **50** |

[1] The contributions to the sinking fund will commence as from 31 December 2015.

The balance of €8.0 million as at 31 December 2014 is held in an account administered by Bank of Valletta plc as an independent trustee for the repayment of above bonds on maturity.

### 4.5 RELATED PARTY LISTED DEBT

Corinthia Palace Hotel Company Limited ("**CPHCL**") is the parent company and owns 58.78% of the issued share capital of IHI. CPHCL, through its wholly owned subsidiary Corinthia Finance p.l.c., has the following outstanding debt securities listed on the Malta Stock Exchange:

| Security ISIN | Amount Listed | Security Name | Currency |
|---|---|---|---|
| MT0000101239 | 39,967,600 | 6.25% Corinthia Finance plc 2016 – 2019 | EUR |
| MT0000101254 | 7,500,000 | 6% Corinthia Finance plc 2019 – 2022 | EUR |

*Source: Malta Stock Exchange*

CPHCL owns 50% of Mediterranean Investments Holding p.l.c. ("**MIH**"), a company principally involved in the Palm City Residences Project and the Medina Tower Project and which are both situated in Libya. MIH has the following outstanding debt securities listed on the Malta Stock Exchange:

| Security ISIN | Amount Listed | Security Name | Currency |
|---|---|---|---|
| MT0000371220 | 19,649,600 | 7.5% MIH 2015 | EUR |
| MT0000371238 | 28,519,400 | 7.15% MIH 2015 - 2017 | EUR |
| MT0000371246 | 4,351,100 | 7.15% MIH 2015 - 2017 | GBP |
| MT0000371253 | 7,120,300 | 7.15% MIH 2015 - 2017 | USD |
| MT0000371261 | 12,000,000 | 6% MIH 2021 | EUR |

*Source: Malta Stock Exchange*

PART 3

## 5. GLOBAL HOTEL COMPARABLES

The table below highlights the financial performance of IHI's peer group as compared to the Company for the year ended 31 December 2014 (being the latest available annual financial information). Although the hotel operators in the peer group are much larger in terms of market capitalisation when compared to IHI, their hotels compete directly with IHI's hotels in cities in which both have a presence.

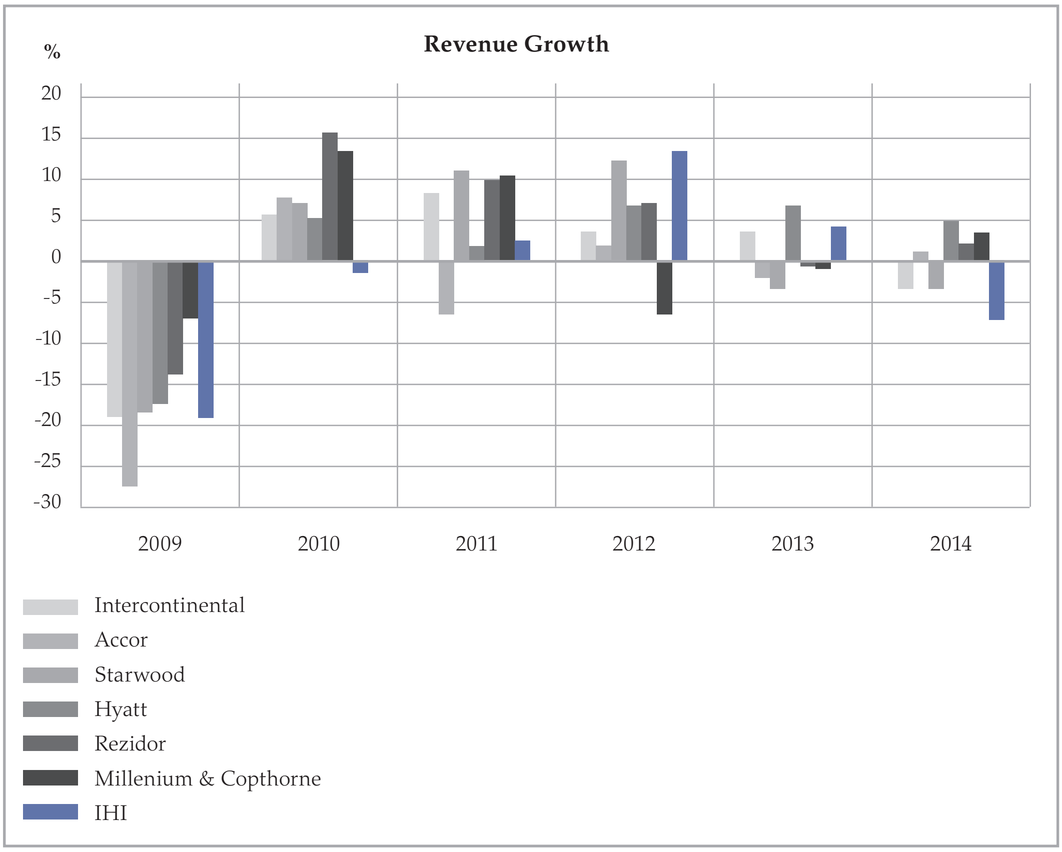
| At 31 Dec'14 | Mkt Cap (m) (local)[1] | Hotel Portfolio | Countries Present | Owned or Leased[2] | EBITDA[3]/ Assets | EBITDA[3]/ Equity | Long Term Debt/Equity |
|---|---|---|---|---|---|---|---|
| InterContinental ($) | 9,256 | 4,840 | 100 | <1% | 26.44% | -[4] | -[4] |
| Accor (€) | 11,263 | 3,717 | 92 | 36% | 10.50% | 25.15% | 76.19% |
| Starwood ($) | 14,633 | 1,222 | 100 | 3% | 13.42% | 76.20% | 168.79% |
| Hyatt ($) | 8,608 | 587 | 50 | 7% | 7.78% | 13.68% | 29.85% |
| Rezidor (€) | 597 | 340 | 58 | 21% | 16.82% | 32.76% | -[5] |
| Millennium & Copthorne (£) | 1,899 | 120 | 60 | 53% | 5.96% | 10.91% | 22.89% |
| **IHI (€)** | **388** | **12** | **9** | **67%** | **2.85%** | **4.85%** | **45.64%** |

[1] *Market capitalisation as at 27 March 2015.*
[2] *The remaining hotels are managed and/or under franchise agreements.*
[3] *EBITDA – profit before interest, tax, depreciation and amortisation.*
[4] *Equity as at 31 December 2014 amounted to -$725 million.*
[5] *The company had no long term debt as at 31 December 2014.*

*Source: Reuters Wealth Manager, Company information*

Operating cash profits generated by IHI in FY2014 as a percentage of total assets used in the business (EBITDA/ Assets) amounted to 2.85% (FY2013: 3.20%), and the return to its equity shareholders (EBIDTA/Equity) was of 4.85% (FY2012: 5.58%). As indicated in other parts of this document, the majority of the Group's European hotels performed better than in the previous year, but such y-o-y improvement was more than offset by reduced earnings generated at the Corinthia Hotel Tripoli and Corinthia Hotel St Petersburg. In view of the geopolitical tension in Libya and Russia, the Group expects performance of the aforesaid hotels to remain weak at least until the end of FY2016, which will dilute the prospective operational growth (or part thereof) of the other hotels. Overall, the Group will continue to execute its strategy of reducing low yielding room reservations in favour of higher yielding bookings, and maintain promotion of its online reservations system so as to improve revenue and gross operating profit across its portfolio of hotels.

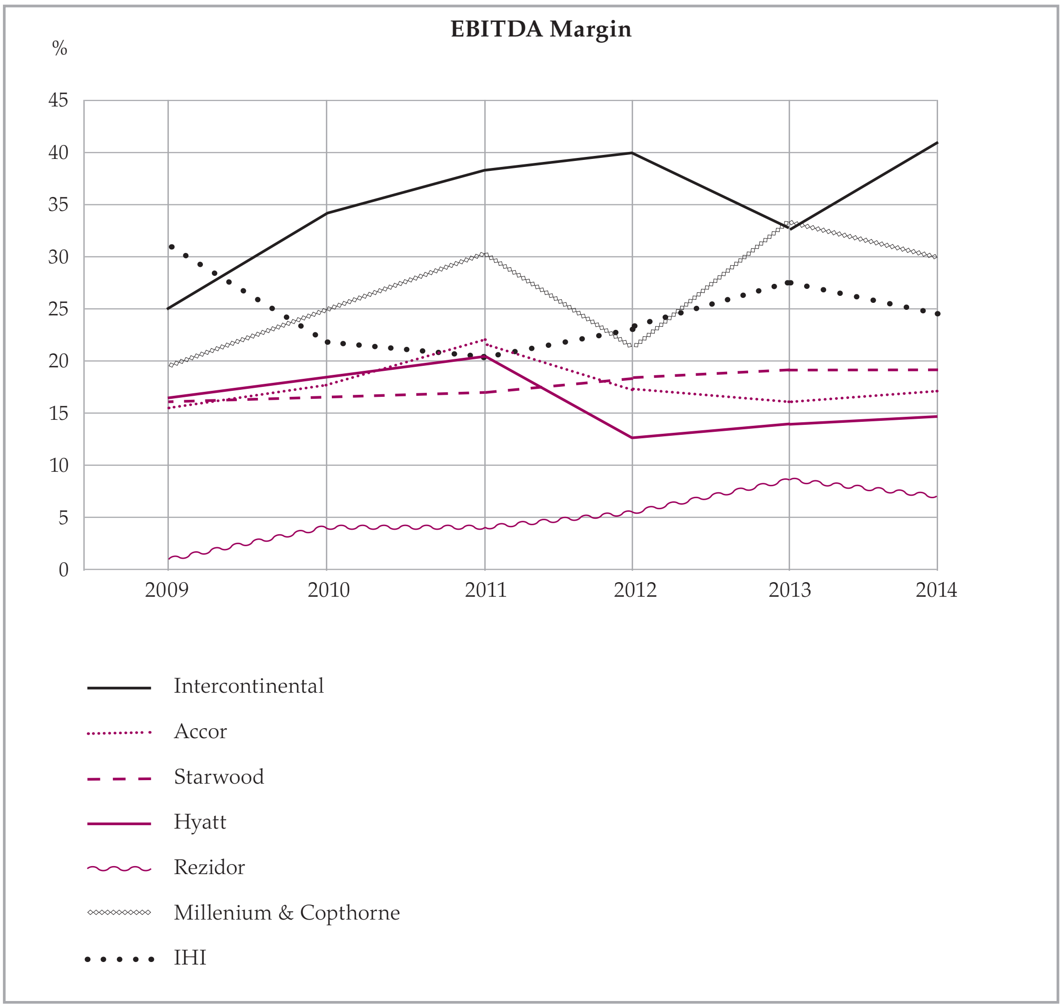
A common business strategy within the peer group emerges from analysing the above data. All the hotel operators own fewer hotels in relation to their respective hotel portfolios, when compared to IHI. It is evident that the peer group is generating higher returns by managing more hotels without actually owning the properties, and as a result, achieving operational efficiencies through economies of scale and increased profitability. CHI, the hotel management arm of the Group, has recently embarked on a strategy to increase its portfolio of third party owned hotels which it can manage and operate in addition to the Group hotels. However, at least in the near term, it is expected that the majority of hotels within the Group's portfolio will be owned properties.




*Source: Reuters Wealth Manager, Company information*

The peer group, which is a broad reflection of the global hotel industry, was negatively affected by the economic and financial crisis which commenced in FY2008. As depicted in the chart entitled "**Revenue Growth**", all hotels registered negative growth in revenue in FY2009 ranging from -6.96% for Millennium & Copthorne to -27.70% for Accor. In the subsequent two financial years, all hotels within the peer group registered a recovery in revenue growth, except for IHI which was hampered by a decline in performance of the Corinthia Hotel Tripoli as a result of a decrease in business activity in Libya in FY2010 following the imposition of visa restrictions, and the Libyan conflict the year after.

In FY2012, Group revenue improved considerably with an increase of 13.77% on previous year. The main contributors were the addition of the Marina Hotel to the Group portfolio (+€6.6 million) and the positive performance achieved at Corinthia Hotel St Petersburg (+15%) and Corinthia Hotel Tripoli (+20%). FY2013 was a relatively flat year for most of the peer group and performance ranged from -3.26% for Starwood to 5.95% for Hyatt. IHI achieved a growth rate of 4.36% in revenue, primarily attributable to better results at Corinthia Hotel Tripoli and higher fees generated by CHI through managing the Corinthia Hotel London. With respect to FY2014, Hyatt and Millennium & Copthorne recorded y-o-y growth of 5.52% and 3.80% respectively, but performance of the other hotel chains was broadly flat. The latest financial year of IHI was characterised by the instability in Libya and the political issues between Russia and Ukraine, and on the other hand the positive results achieved by the other hotels. On a net basis, IHI reported a decrease in revenue of €7.4 million when compared to FY2013.




*Source: Reuters Wealth Manager, Company information*

The above chart entitled "**EBITDA Margin**" emphasises the profitability at operational level of each hotel company within the peer group prior to other charges, including depreciation, interest payable, asset impairment and exceptional items. EBITDA margin is computed by dividing operating profit before depreciation by revenue. In FY2009, IHI managed to maintain a strong EBITDA margin of 31% principally due to the continued positive performance of the Corinthia Hotel Tripoli which mitigated the adverse impact of the European recession on IHI's Central European hotels. Further to the events in Libya, and the negative consequences on the performance of the Corinthia Hotel Tripoli, IHI's EBITDA margin decreased significantly to 22% in FY2010 and 21% in FY2011, but recovered to 23.38% and 28.27% in FY2012 and FY2013 respectively.

As expected, the EBITDA margin of the Group for FY2014 was adversely impacted by the difficult situation in Libya and Russia, as well as due to the weakened Russian Rouble as compared to the Euro. On a positive note, although the EBITDA margin declined from 28.27% (FY2013) to 24.79%, the latter figure was still higher than the margin achieved by IHI in both FY2011 and FY2012.

## 6. THE GROUP'S SIX YEAR SUMMARY

The following financial information is extracted from the audited consolidated financial statements of IHI for the six years ended 31 December 2009 to 31 December 2014.

### 6.1 INCOME STATEMENT

| **IHI Group Income Statement (€'000)** | **FY2014 Actual** | **FY2013 Actual** | **FY2012 Actual** | **FY2011 Actual** | **FY2010 Actual** | **FY2009 Actual** |
|---|---|---|---|---|---|---|
| Revenue | 116,369 | 123,734 | 118,567 | 104,223 | 101,843 | 103,320 |
| Direct costs | (61,147) | (64,152) | (63,554) | (53,863) | (52,509) | (48,184) |
| **Gross profit** | **55,232** | **59,582** | **55,013** | **50,360** | **49,334** | **55,136** |
| Other operating costs | (26,382) | (24,601) | (27,288) | (27,982) | (26,473) | (23,511) |
| **EBITDA** | **28,850** | **34,981** | **27,725** | **22,378** | **22,861** | **31,625** |
| Depreciation and amortisation | (18,390) | (23,763) | (24,208) | (24,429) | (24,730) | (24,779) |
| Increase in fair value of investment property | (15,391) | 571 | 4,154 | 5,448 | 2,746 | 12,064 |
| Net impairment of hotel properties | 2,081 | 5,000 | (7,796) | (2,497) | 2,400 | (22,334) |
| **Results from operating activities** | **(2,850)** | **16,789** | **(125)** | **900** | **3,277** | **(3,424)** |
| Share of profit (loss) from equity accounted investments | (14,537) | (5,788) | 4,970 | 1,155 | (546) | 14,483 |
| Net finance costs | (13,035) | (15,940) | (16,783) | (13,899) | (14,027) | (10,519) |
| Net fair value gain (loss) on interest rate swaps | 1,466 | 1,789 | 1,009 | 432 | 216 | (1,604) |
| Movement in reimbursement assets | (879) | (883) | (454) | (399) | (340) | (505) |
| **Profit (loss) before tax** | **(29,835)** | **(4,033)** | **(11,383)** | **(11,811)** | **(11,420)** | **(1,569)** |
| Taxation | 13,549 | 4,299 | 950 | 1,079 | (1,651) | (47) |
| **Profit (loss) for the year** | **(16,286)** | **266** | **(10,433)** | **(10,732)** | **(13,071)** | **(1,616)** |
| Non-controlling interest | 20 | - | 170 | 334 | - | - |
| **Profit (loss) attributable to parent company** | **(16,266)** | **266** | **(10,263)** | **(10,398)** | **(13,071)** | **(1,616)** |

### 6.2 CASH FLOW STATEMENT

| **IHI Group Cash Flow Statement (€'000)** | **FY2014 Actual** | **FY2013 Actual** | **FY2012 Actual** | **FY2011 Actual** | **FY2010 Actual** | **FY2009 Actual** |
|---|---|---|---|---|---|---|
| Net cash from operating activities | 30,016 | 42,078 | 30,145 | 14,430 | 19,020 | 26,810 |
| Net cash from investing activities | (4,160) | (4,284) | (21,187) | (10,275) | (23,787) | (59,680) |
| Net cash from financing activities | (13,467) | (43,666) | (23,837) | (3,163) | (18,237) | 11,227 |
| **Net movement in cash and cash equivalents** | **12,359** | **(5,872)** | **(14,879)** | **992** | **(23,004)** | **(21,643)** |
| Cash and cash equivalents at beginning of year | 5,491 | 11,363 | 26,242 | 25,250 | 48,254 | 69,897 |
| **Cash and cash equivalents at end of year** | **17,850** | **5,491** | **11,363** | **26,242** | **25,250** | **48,254** |

## 6.3 BALANCE SHEET

| IHI Group Balance Sheet (€'000) | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual | FY2010 Actual | FY2009 Actual |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| *Non-current* | | | | | | |
| Intangible assets | 43,556 | 44,856 | 46,095 | 47,415 | 48,016 | 29,366 |
| Reimbursement assets | 21,687 | 22,566 | 23,449 | 22,432 | 22,831 | 23,171 |
| Investment properties | 176,675 | 191,964 | 191,393 | 187,239 | 181,705 | 178,876 |
| Property, plant and equipment | 494,971 | 534,558 | 555,482 | 565,568 | 599,713 | 636,216 |
| Investments accounted for using the equity method | 213,241 | 201,689 | 167,441 | 132,867 | 135,694 | 93,584 |
| Loan receivable | 3,208 | 44,332 | 43,450 | 29,450 | 6,971 | - |
| Cash held by trustee | 7,967 | 2,303 | 2,223 | - | - | - |
| | **961,305** | **1,042,268** | **1,029,533** | **984,971** | **994,930** | **961,213** |
| *Current* | | | | | | |
| Inventories | 5,307 | 5,454 | 5,294 | 5,382 | 5,185 | 5,201 |
| Loan receivable | - | - | - | 11,500 | - | - |
| Trade and other receivables | 23,309 | 31,819 | 36,997 | 36,561 | 25,803 | 20,521 |
| Taxation | 2,639 | 2,883 | 436 | 407 | 669 | 359 |
| Cash and cash equivalents | 19,480 | 10,248 | 16,423 | 28,008 | 26,675 | 50,386 |
| | 50,735 | 50,404 | 59,150 | 81,858 | 58,332 | 76,467 |
| **Total assets** | **1,012,040** | **1,092,672** | **1,088,683** | **1,066,829** | **1,053,262** | **1,037,680** |
| **Equity and liabilities** | | | | | | |
| EQUITY | | | | | | |
| Called up share capital | 554,239 | 554,238 | 554,238 | 554,238 | 554,238 | 553,225 |
| Reserves and other equity components | 88,886 | 88,701 | 63,842 | 56,628 | 76,280 | 59,969 |
| Retained earnings | (48,941) | (16,448) | (17,824) | (14,171) | (10,027) | 2,157 |
| Minority interest | 630 | - | - | 5,920 | 6,254 | 7,394 |
| | **594,814** | **626,491** | **600,256** | **602,615** | **626,745** | **622,745** |
| LIABILITIES | | | | | | |
| *Non-current* | | | | | | |
| Borrowings and bonds | 271,464 | 292,729 | 312,995 | 300,413 | 265,012 | 228,763 |
| Other non-current liabilities | 82,938 | 97,332 | 97,390 | 98,706 | 104,117 | 110,824 |
| | 354,402 | 390,061 | 410,385 | 399,119 | 369,129 | 339,587 |
| *Current* | | | | | | |
| Borrowings and bonds | 27,787 | 27,725 | 32,976 | 25,782 | 21,308 | 45,607 |
| Other current liabilities | 35,037 | 48,395 | 45,066 | 39,313 | 36,080 | 29,741 |
| | 62,824 | 76,120 | 78,042 | 65,095 | 57,388 | 75,348 |
| | **417,226** | **466,181** | **488,427** | **464,214** | **426,517** | **414,935** |
| **Total equity and liabilities** | **1,012,040** | **1,092,672** | **1,088,683** | **1,066,829** | **1,053,262** | **1,037,680** |

## 6.4 OPERATING PERFORMANCE

The tables below set out the highlights of each of the hotels' operating performance for the years indicated therein.

**Corinthia Hotel Budapest**

| | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual | FY2010 Actual | FY2009 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 20,404 | 18,477 | 18,069 | 17,030 | 15,102 | 15,199 |
| Rooms (€'000) | 13,624 | 11,998 | 11,567 | 10,758 | 9,093 | 9,096 |
| Food & Beverage, and other revenue (€'000) | 6,780 | 6,479 | 6,502 | 6,272 | 6,009 | 6,103 |
| Occupancy level (%) | 75 | 72 | 71 | 69 | 57 | 53 |
| Average room rate (€) | 114 | 104 | 100 | 98 | 99 | 107 |
| Revenue per available room (RevPAR) (€) | 85 | 75 | 71 | 68 | 56 | 56 |
| Gross operating profit before incentive fees (€'000) | 6,500 | 5,572 | 5,503 | 5,350 | 3,987 | 4,801 |
| Gross operating profit margin (%) | 32 | 30 | 30 | 31 | 27 | 32 |

**Corinthia Hotel St Petersburg**

| **Hotel operations** | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual | FY2010 Actual | FY2009 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 14,229 | 18,997 | 17,645 | 15,459 | 13,033 | 9,093 |
| Rooms (€'000) | 10,199 | 13,834 | 12,056 | 10,454 | 8,378 | 5,907 |
| Food & Beverage, and other revenue (€'000) | 4,030 | 5,163 | 5,589 | 5,005 | 4,655 | 3,186 |
| Occupancy level (%) | 52 | 54 | 52 | 41 | 35 | 22 |
| Average room rate (€) | 139 | 180 | 165 | 181 | 168 | 203 |
| Revenue per available room (RevPAR) (€) | 72 | 98 | 86 | 74 | 59 | 45 |
| Gross operating profit before incentive fees (€'000) | 3,007 | 7,619 | 6,775 | 5,400 | 4,376 | 2,698 |
| Gross operating profit margin (%) | 21 | 40 | 38 | 35 | 33 | 30 |
| **Lease of commercial property** | | | | | | |
| Turnover (€'000) | 4,209 | 4,740 | 2,459 | 892 | 200 | 205 |

**Corinthia Hotel Lisbon**

| | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual | FY2010 Actual | FY2009 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 19,597 | 17,769 | 16,187 | 18,727 | 15,813 | 12,197 |
| Rooms (€'000) | 13,167 | 11,751 | 10,764 | 12,240 | 10,212 | 7,684 |
| Food & Beverage, and other revenue (€'000) | 6,430 | 6,018 | 5,423 | 6,487 | 5,601 | 4,513 |
| Occupancy level (%) | 71 | 66 | 63 | 67 | 63 | 41 |
| Average room rate (€) | 98 | 94 | 89 | 97 | 86 | 99 |
| Revenue per available room (RevPAR) (€) | 70 | 62 | 57 | 65 | 54 | 41 |
| Gross operating profit before incentive fees (€'000) | 5,674 | 4,322 | 3,565 | 5,158 | 3,887 | 2,140 |
| Gross operating profit margin (%) | 29 | 24 | 22 | 28 | 25 | 28 |

**Corinthia Hotel Prague**

| | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual | FY2010 Actual | FY2009 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 15,740 | 14,310 | 16,611 | 16,445 | 13,996 | 13,643 |
| Rooms (€'000) | 9,024 | 8,467 | 9,805 | 9,319 | 7,762 | 7,643 |
| Food & Beverage, and other revenue (€'000) | 6,716 | 5,843 | 6,806 | 7,126 | 6,234 | 6,000 |
| Occupancy level (%) | 65 | 60 | 67 | 64 | 60 | 57 |
| Average room rate (€) | 71 | 72 | 75 | 74 | 65 | 69 |
| Revenue per available room (RevPAR) (€) | 46 | 43 | 50 | 47 | 39 | 39 |
| Gross operating profit before incentive fees (€'000) | 4,064 | 2,846 | 3,066 | 3,036 | 1,482 | 1,815 |
| Gross operating profit margin (%) | 26 | 20 | 18 | 18 | 11 | 13 |

**Corinthia Hotel Tripoli**

| **Hotel operations** | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual | FY2010 Actual | FY2009 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 8,345 | 19,705 | 16,526 | 13,372 | 23,873 | 32,399 |
| Rooms (€'000) | 5,105 | 13,357 | 11,137 | 8,968 | 15,042 | 22,402 |
| Food & Beverage, and other revenue (€'000) | 3,240 | 6,348 | 5,389 | 4,404 | 8,831 | 9,997 |
| Occupancy level (%) | 22 | 59 | 48 | 35 | 56 | 69 |
| Average room rate (€) | 212 | 208 | 212 | 229 | 245 | 299 |
| Revenue per available room (RevPAR) (€) | 47 | 122 | 102 | 82 | 137 | 206 |
| Gross operating profit before incentive fees (€'000) | (1,211) | 6,568 | 4,917 | 4,667 | 11,032 | 17,559 |
| Gross operating profit margin (%) | n/a | 33 | 30 | 35 | 46 | 54 |
| **Lease of commercial property** | | | | | | |
| Turnover (€'000) | 5,863 | 5,868 | 6,263 | 5,969 | 6,118 | 6,100 |

**Corinthia Hotel St George's Bay**

| | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual | FY2010 Actual | FY2009 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 13,339 | 11,721 | 11,196 | 10,647 | 9,885 | 9,413 |
| Rooms (€'000) | 8,378 | 6,852 | 6,267 | 6,003 | 5,505 | 4,610 |
| Food & Beverage, and other revenue (€'000) | 4,961 | 4,869 | 4,929 | 4,644 | 4,380 | 4,803 |
| Occupancy level (%) | 79 | 71 | 68 | 70 | 66 | 53 |
| Average room rate (€) | 117 | 107 | 100 | 93 | 91 | 95 |
| Revenue per available room (RevPAR) (€) | 92 | 75 | 69 | 66 | 60 | 50 |
| Gross operating profit before incentive fees (€'000) | 3,049 | 1,501 | 1,518 | 1,413 | 1,381 | 1,487 |
| Gross operating profit margin (%) | 23 | 13 | 14 | 13 | 14 | 16 |

**Marina Hotel**

| | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual | FY2010 Actual | FY2009 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 7,852 | 6,886 | 6,655 | 6,254 | 5,740 | 5,074 |
| Rooms (€'000) | 5,182 | 4,266 | 4,016 | 3,886 | 3,520 | 3,000 |
| Food & Beverage, and other revenue (€'000) | 2,670 | 2,620 | 2,639 | 2,368 | 2,220 | 2,074 |
| Occupancy level (%) | 81 | 76 | 76 | 76 | 72 | 68 |
| Average room rate (€) | 87 | 77 | 72 | 68 | 68 | 61 |
| Revenue per available room (RevPAR) (€) | 71 | 59 | 55 | 53 | 48 | 41 |
| Gross operating profit before incentive fees (€'000) | 1,822 | 1,343 | 1,446 | 1,386 | 1,310 | 1,058 |
| Gross operating profit margin (%) | 23 | 20 | 22 | 22 | 23 | 21 |

*Note: The Marina Hotel was acquired by IHI with effect from 1 January 2012 and therefore the financial information for the years 2009 to 2011 has been included in the table above for comparison purposes only.*

**Corinthia Hotel London**

| | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual |
|---|---|---|---|---|
| Turnover (£'000) | 47,494 | 46,401 | 38,424 | 14,013 |
| Rooms (£'000) | 31,756 | 31,660 | 25,695 | 8,159 |
| Food & Beverage, and other revenue (£'000) | 15,738 | 14,741 | 12,729 | 5,854 |
| Occupancy level (%) | 73 | 72 | 63 | 29 |
| Average room rate (£) | 404 | 407 | 380 | 353 |
| Revenue per available room (RevPAR) (£) | 295 | 293 | 239 | 74 |
| Gross operating profit before incentive fees (£'000) | 14,374 | 14,012 | 7,820 | (4,652) |
| Gross operating profit margin (%) | 30 | 30 | 20 | (33) |

*Note: IHI owns 50% of the Corinthia Hotel London. As such 50% of the net profit or loss from this operation after charging depreciation, property charges and finance costs is included in the consolidated financial statements of IHI under the heading 'Share of profit from equity accounted investments' of the income statement.*

## 6.5 OPERATING PERFORMANCE OF THE MANAGEMENT COMPANY

The following table sets out the turnover of CHI Limited for the years indicated therein:

| | FY2014 Actual | FY2013 Actual | FY2012 Actual | FY2011 Actual | FY2010 Actual | FY2009 Actual |
|---|---|---|---|---|---|---|
| Turnover (€'000) | 11,305 | 10,875 | 8,475 | 6,089 | 4,364 | 5,743 |
| IHI Properties (€'000) | 9,463 | 8,378 | 6,430 | 4,644 | 2,940 | 4,481 |
| Other Properties (€'000) | 1,842 | 2,497 | 2,045 | 1,445 | 1,424 | 1,262 |

PART 5

## 7. EXPLANATORY DEFINITIONS

| Income Statement | |
|---|---|
| Revenue | Total revenue generated by the Group from its business activities during the financial year, including room reservations, food & beverage, rental of commercial space, management of hotel properties and other hotel services. |
| Direct costs | Direct costs include cost of food, beverages, consumables, labour expenses and all other direct expenses. |
| Gross profit | Gross profit is the difference between revenue and direct costs. It refers to the profit made by the Group before deducting depreciation & amortisation, finance costs, impairment provisions, share of profits from associate and affiliate companies and other operating costs. |
| Operating costs | Operating costs include all operating expenses other than direct costs and include selling & marketing and general & administration expenses. |
| EBITDA | EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. |
| Fair value of investment property | Fair value of investment property is an accounting adjustment to change the book value of the Group's investment property to its estimated market value. |
| Impairment of hotel properties | Impairment of hotel properties is an accounting adjustment to change the book value of the Group's hotel properties to their estimated market value. |
| Share of profit from equity accounted investments | IHI owns minority stakes in a number of companies (less than 50% plus investments one share of a company's share capital). The results of such companies are not consolidated with the subsidiaries of the Group, but IHI's share of profit is shown in the profit and loss account under the heading 'share of profit from equity accounted investments'. |
| Fair value on interest rate swaps | An interest rate swap is a derivative instrument in which IHI swaps with another counter party flexible interest rate cash flows with fixed interest rate cash flows or vice versa. The fair value is an accounting adjustment to change the book value of the derivative to its estimated market value. |
| Profit after tax | Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities. |

| | |
|---|---|
| **Key Performance Indicators** | |
| Occupancy level | Occupancy level is the percentage of available rooms that were sold during a given period of time. It is calculated by dividing the number of rooms sold by total number of rooms available. |
| Average room rate | Average room rate is calculated by dividing hotel room revenue by rooms sold. Hotels use this measure to calculate the average price at which they are booking hotel rooms each night. |
| Revenue per available room (RevPAR) | RevPAR is calculated by multiplying a hotel's average room rate by its occupancy rate. A hotel uses this indicator as a performance measure with other hotels in the same category or market. |
| Revenue generating index | A revenue generating index measures a hotel's fair market share of its segment's (competitive set, market, etc) revenue per available room. If a hotel is capturing its fair market share, the index will be 1; if capturing less than its fair market share, a hotel's index will be less than 1; and if capturing more than its fair market share, a hotel's index will be greater than 1. |
| **Profitability Ratios** | |
| Gross profit margin | Gross profit margin is the difference between revenue and direct costs expressed as a percentage of total revenue. |
| Operating profit margin | Operating profit margin is operating income or EBITDA as a percentage of total revenue. |
| Net profit margin | Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue. |
| **Efficiency Ratios** | |
| Return on equity | Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity. |
| Return on capital employed | Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed. |
| Return on Assets | Return on assets (ROA) is computed by dividing profit after tax by total assets. |
| **Equity Ratios** | |
| Earnings per share | Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date. |
| **Cash Flow Statement** | |
| Cash flow from operating activities | Cash generated from the principal revenue-producing activities (room revenue, food & beverage, rental income, hotel services, etc) of the Group. |

| | |
|---|---|
| Cash flow from investing activities | Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Group. |
| Cash flow from financing activities | Cash generated from the activities that result in change in share capital and borrowings of the Group. |
| **Balance Sheet** | |
| Non-current assets | Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group allocates the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was purchased. Such assets include intangible assets (goodwill on acquisition, the Corinthia brand, website development costs, etc), investment properties (commercial centres in St Petersburg and Tripoli, apartments in Lisbon, etc), property, plant & equipment (hotel properties), and investments accounted for using the equity method (investment in Corinthia Hotel London, Medina Tower, etc). |
| Current assets | Current assets are all assets of the Group, which are realisable within one year from the balance sheet date. Such amounts include accounts receivable, inventory (food, beverages, consumables, etc), cash and bank balances. |
| Current liabilities | All liabilities payable by the Group within a period of one year from the balance sheet date, and include accounts payable and short-term debt, including current portion of bank loans. |
| Non-current liabilities | The Group's long-term financial obligations that are not due within the present accounting year. The Group's non-current liabilities include long-term borrowings, bonds and long term lease obligations. |
| Total equity | Total equity includes share capital, reserves & other equity components, retained earnings and minority interest. |
| **Financial Strength Ratios** | |
| Liquidity ratio | The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities. |
| Interest cover | The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expense of the same period. |
| Debt service cover ratio | The debt service cover ratio measures a company's ability to service its current debts by comparing its net operating income with its total debt service obligations. |
| Gearing ratio | The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's total debt by shareholders' equity. |