



ISLAND HOTELS

GROUP HOLDINGS PLC

BONDHOLDERS' EXPLANATORY NOTE

DATED 30 APRIL 2015

This explanatory note is being issued by Island Hotels Group Holdings p.l.c. (C 44855) with registered office at Radisson® Blu Resort St. Julians, Louis V. Farrugia Street, St. George's Bay, St. Julians STJ 3391, Malta (the "**Company**") pursuant to the requirements of the provisions of Chapter 5 of the Listing Rules in connection with the business being proposed at the meeting of the Bondholders of the €35,000,000 6% Bonds 2024 (the "**Bonds**") of the Company (the "**Bondholders**") scheduled for the 20 May 2015.

IMPORTANT INFORMATION

THIS IS AN IMPORTANT DOCUMENT.

BONDHOLDERS SHALL BE REQUESTED TO VOTE ON THE ISSUES AND MATTERS DESCRIBED HEREIN AT THE MEETING OF BONDHOLDERS. IN THE EVENT THAT BONDHOLDERS RECEIVING THIS DOCUMENT ARE IN ANY DOUBT AS TO THE IMPORT OF THIS DOCUMENT OR AS TO ANY ACTION REQUIRED OF THEM THEY ARE URGED TO CONSULT THEIR INDEPENDENT PROFESSIONAL ADVISERS.

This explanatory note contains information about the resolution that is being proposed for adoption at the forthcoming meeting of Bondholders scheduled for 20 May 2015. It is being dispatched to all Bondholders as at 20 April 2015 (the "**Cut-Off Date**") being entitled to attend and vote at that meeting to enable them to understand better the nature of the resolution that is to be considered at the meeting of Bondholders and to provide the necessary information about the resolution to assist Bondholders to make a properly informed decision.

This explanatory note is being dispatched in compliance with the Listing Rules of the Listing Authority and briefly explains to Bondholders of the Company the proposed resolution as the business of the meeting of Bondholders.

The updated financial analysis summary (April 2015) prepared by Curmi & Partners Ltd. has been prepared on the assumption that the resolution being submitted to the vote of the Bondholders be approved. In this respect, Bondholders are urged to consult with their independent professional advisers on the effect of the proposed resolution as set out in the financial analysis summary.

The Directors are recommending the adoption of the resolution contained in the Notice convening the meeting of Bondholders. Accordingly, the Directors make their unqualified recommendation to Bondholders to vote in favour of the proposal and of the resolution being submitted to their vote, and in their opinion the transactions described in this document are in the best interests of the Company.

All the Directors of the Company, whose names appear on page 4, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

INTRODUCTION

This explanatory note is intended to explain to Bondholders the import of the business that is required to be addressed at the meeting of Bondholders and to provide them with sufficient explanation to enable them to make an informed decision.

For the duration of fourteen (14) days from the issuance of this explanatory note, the Memorandum and Articles of Association of the Company; the financial analysis summary prepared by Curmi & Partners Ltd. as updated in April 2015 and the authorisation by Curmi & Partners Ltd. to display the latest version of the financial analysis summary; and the annual financial report of the Company are available for inspection at the Company's registered office.

THE RESOLUTION

At the forthcoming meeting, Bondholders are being requested by the Directors to consider the following resolution for approval:

Business of the BM

That the Company be and is hereby authorised and empowered to use approximately €14,000,000 of the proceeds from the Bonds, previously earmarked for the purpose of carrying out the refurbishment and construction works at the Radisson[®] Blu Resort St. Julians, as indicated in Section 6.2 (Reasons for the Issue and Use of Proceeds) of the securities note issued by the Issuer dated 6 May 2014 (the "Securities Note"), for the following purposes:

- (i) approximately €10,000,000 of the proceeds be used for the early repayment of certain bank loans; and***
- (ii) the remaining balance of €4,000,000 be used for general corporate funding purposes of the Group.***

EXPLANATION OF THE RESOLUTION

Background

The Company is requesting Bondholder approval for the re-designation of part of the proceeds of the Bonds. The Company is proposing that the amount designated for the refurbishment of the Radisson® Blu Resort St. Julians, in terms of Section 6.2(a)(i) of the Securities Note, be partially re-designated to the early repayment of certain bank borrowings, and towards general corporate funding purposes.

As announced on the 25 September 2014 (Company Announcement 61/2014), following the issue of the €35,000,000 6% Bonds due 2024 the Company, through reports in the local media, became aware that there are several major developments planned in the St. George's Bay and surrounding area in both the hotel sector and other real-estate that would have a material impact on the area. In the announcement, the Directors had mentioned that at that point in time, it was in the best commercial interests of the Company to postpone the major refurbishment project until more information on these other projects becomes available.

The Directors have kept the situation under review and sought to obtain more concrete information on the evolving situation prior to determining whether to go ahead with the proposed refurbishment. To date uncertainty about the proposed developments in the area still remains.

The Company had initially allocated €16,000,000 of the Bond proceeds towards the complete refurbishment of the Radisson® Blu Resort St. Julians and the construction and finishing works of two additional storeys and a conference centre at the Radisson® Blu Resort St. Julians. Were the Company to commence a complete renovation as proposed in the Prospectus, it is likely that on completion of said renovation the hotel would be less appealing to prospective guests due to it being situated amidst an array of construction sites on the peninsula and surrounding areas. Notwithstanding the aforesaid, certain works were required to maintain, upgrade and modernise the Radisson® Blu Resort St. Julians.

In the meantime, as announced on 16 January 2015 (Company Announcement 62/2015) a majority of the shareholders of the Company have entered into a conditional agreement with International Hotel Investments plc (IHI) with a view to merging all Company assets and operations within those of IHI through an acquisition of the Company by IHI. The consolidation of the operations of the Company and IHI will result in significant operational synergies across the board and additional development opportunities that will arise as a result of an amalgamation of the Company's hotel operation in St George's Bay with that of IHI's own neighbouring hotels (see also IHI Company Announcement 176/2015).

In view of the above, the Directors after having reviewed developments consider that it is in the best interest of the Company to partially re-allocate the proceeds intended for the refurbishment of the Radisson® Blu Resort St. Julians by allocating €14,000,000 out of the said proceeds to the: repayment of certain bank borrowings; and the financing of general corporate funding purposes of the Group.

The re-allocation of €14,000,000 Bond Proceeds

The Issuer had initially intended to carry out a complete refurbishment of the Radisson® Blu Resort St. Julians and the construction and finishing work of two additional storeys and a conference centre at the Radisson® Blu Resort St. Julians, which works were postponed on the basis of the events set out above. Rather than undertake a full refurbishment and the construction and finishing of two additional storeys and conference centre at the Radisson® Blu Resort St. Julians, the Issuer, between November 2014 and March 2015, carried out works to maintain, upgrade and modernise the aforesaid property. The upgrade and modernisation required an investment of circa €2,000,000.

The Directors are of the view that as a result of the completion of the maintenance, upgrade and modernisation works, the Radisson® Blu Resort St. Julians will be able to provide a better product than its previous offering, albeit the positive impact will be more moderate compared to that of the previously planned large scale refurbishment and construction works. The scaled down refurbishment at the Radisson® Blu Resort St. Julians is also expected to allow for improved room rates by circa nine per cent (9%) when compared to previous years, although the expected improved room rates are below the room rates which had been projected had a full refurbishment and construction as aforesaid been undertaken at the Radisson® Blu Resort St. Julians.

The Company will benefit from annual savings on interest costs of circa €465,000 as a result of the reduction of bank debt. The redirection of proceeds for general funding purposes of the Group would also have positive benefits on the Group.

The Listing Policies issued by the Listing Authority require that the financial analysis report be updated on an annual basis, not later than two months after the publication of the annual accounts and further require that said report be posted thereafter on the Company's website. The financial analysis summary has been updated as at April 2015 and has been prepared on the assumption that the resolution being submitted to the vote of the Bondholders be approved. Should Bondholders decide not to resolve in favour of the proposed resolution it will be necessary to amend the financial analysis summary accordingly to provide for the outcome of such resolution in addition to the updating of certain information.

The Directors are accordingly proposing this resolution to the Bondholders, for them to determine whether to authorise the re-designation of part of the use of proceeds of the Bonds.

What is expected of Bondholders?

Bondholders are expected to vote on the resolution and therefore on whether they are of the view that the Directors should enable the re-designation of part of the use of proceeds of the Bonds as indicated in the preceding sections of this explanatory note. The consequence of the proposed resolution being carried is simply that the Directors will be authorised to use said Bond Issue proceeds towards the purposes indicated in the section titled "The Resolution" above.

In accordance with the provisions regulating Meetings of Bondholders, contained in section 7.13 of the Securities Note, a quorum of at least two Bondholders present, in person or by proxy, representing not less than 50% in nominal value of the Bonds then outstanding, is required to constitute a quorum in order for the BM to validly and properly proceed to business. If a quorum is not present within 30 minutes from the time scheduled for the commencement of the meeting of Bondholders, it shall stand adjourned to a place, date and time as shall be communicated by the Directors to the Bondholders present at the meeting.

The Company shall be required to publish by way of a company announcement, within two days from 20 May 2015 the date, time and place where the adjourned meeting is to be held. Said adjourned meeting shall be held within seven to fifteen days following the meeting of Bondholders. 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 meeting of Bondholders shall be placed on the agenda of, and shall be discussed at, the adjourned meeting.

Once a quorum is declared present by the chairman of the meeting, the meeting of Bondholders may then proceed to business and address the matters set out in the notice convening the meeting. The Bondholders shall be granted reasonable and adequate time to present their views to the Company and the other Bondholders present at the meeting. The matter as proposed by the Issuer shall then be put 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. The voting process shall be managed by the company secretary under the supervision and scrutiny of the auditors of the Issuer.

The proposal placed by the Company before the meeting of Bondholders shall only be considered approved if a majority 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.

Recommendation of the Directors

It is the Directors' view and recommendation that this resolution is carried and approved by the Bondholders.

The Directors believe that the reallocation of the €14,000,000 of the proceeds from the Bonds, previously entirely earmarked for the purpose of carrying out the refurbishment and construction works at the Radisson® Blu Resort St. Julians, as indicated in Section 6.2 (Reasons for the Issue and Use of Proceeds) of the securities note issued by the Issuer dated 6 May 2014 to the reduction of certain bank debt and for general corporate funding purposes represents an opportunity for the Company's Bondholders through not only the improvement of its margins by enhancing its market standing at the high end of the market but also through the reduction of its bank debt.

The Directors of the Company are:

1. Winston V. Zahra;
2. Winston J. Zahra;
3. Trevor E. Zahra;
4. William Hancock;
5. John Bonello;
6. Michael C. Bonello;
7. Gary Alexander Neville.