Island Hotels Group Holdings p.l.c. Annual Report & Financial Statements 2014

ISLAND HOTELS

GROUP HOLDINGS PLC

Contents

Chairman's Statement

It is now nearly six years since the Company was listed on the Stock Exchange. The year under review has proved to be an excellent year for our Group. We saw an increase in sales and profitability in all our properties as well as in the catering division. During the year we continued to strive to increase sales and reduce expenditure levels and the result has clearly shown on the bottom line.

The Tourism Industry has also fared very well generally with arrival figures for the year almost reaching the 1.7 million mark, an increase of 6.8% over the previous year. In total we had a figure of 13.5 million nights, although this figure does not only include hotel accommodation. The total spend was of 1.5 billion Euro, an increase of 6% on the previous year. These results are very encouraging and the trend seems to be continuing in 2015.

Last year, that is in the year ended 31 October 2013, we had achieved our aim to return to a position of net profit and this year we continued to build on the momentum that we garnered last year. We achieved a turnover of €36,558,717 against €30,669,121 in 2013, an EBITDA for the year of €8,793,625 against €6,019,935 in 2013 and a profit before tax of €2,446,995 as against a profit of €685,561 last year. Total shareholders' funds at year end amounted to €40,372,697 as against €36,203,216 at year end 2013. These are very satisfactory results.

In the year ahead we will continue to work hard to maintain this level of performance within the Group and, where possible, improve it further. We will continue with our persistent drive to increase sales and to exercise strict control on our costs - in this regard it is worth noting that in 2015 the reductions of 25% in our electricity costs will be a major help.

The results for 2014 speak for themselves and the Directors are very pleased with the performance and results of this past year. 2014 has been very eventful for the Company. During the year, the Directors decided to accept an offer to sell the Coastline Hotel. The decision to sell was made after very careful evaluation of the prospects of the Coastline in its state as against the financial offer of the sale. The year also saw the continued growth of the Costa Coffee Brand, with the opening of further outlets, the most important being the outlet in the Schengen departure lounge at the Malta International Airport. We also started the operation in Spain with the first outlet opening in Barcelona last year and more outlets opening during the current year.

One of the most important events of the year was to be the closing of the Radisson Blu Resort, St Julians for a complete refurbishment as well as the building of two additional floors which would have given us another forty suites. €16 million were earmarked for this project out of the proceeds of a bond which we issued last May for €35 million. In fact the Bond was oversubscribed by nearly €50 million. Just before starting on the project it came to our knowledge that there were various other projects also being planned in the area, including next door to the Resort. In view of the fact that the area generally would be a building site for the next few years, the Directors took what they felt was a responsible decision not to invest such a large amount of money on the full project until there was clarity on the developments in the area, but instead decided to undertake a limited refurbishment immediately. The hotel was closed between November and March of this year and was reopened for business on the target date of 30th March. I must here thank all the people involved in doing an excellent job in such a short time and on budget.

And finally, in October of last year we entered discussions with International Hotel Investments p.l.c. (IHI), around a possible merger of the assets of both Groups. This led to the signing of a conditional agreement whereby the major shareholders committed to the sale of the entire Group to IHI. The Directors believe that through this transaction, whereby IHGH will become a subsidiary of IHI, the combined operations will be placed in a stronger position to achieve further growth in an important segment of the Maltese economy. On this, the CEO will go into more detail in his report.

The Directors are very satisfied with the results for the past financial year as well as with the offer IHI has presented to the shareholders.

I take this opportunity, to congratulate and thank the Directors, the CEO, the Executive Team, Managers and Staff, for the work they put in during the past year to make it a successful year. And last but not least, I thank our shareholders for their continued trust and support.

Winston V. Zahra

Chairman, IHGH plc

Chief Executive's Review

Performance Review

The past financial year has been quite a significant one for the Group. Apart from achieving record results in as far as our financial performance is concerned we also took the bold decision to divest from the four star market through the sale of the Coastline Hotel. However the most important event that marked the year was our decision to consolidate our Group with International Hotel Investments plc., a decision which will see our Group evolving into a much larger and stronger entity in the years ahead. I will expand on each of these items later on in my report.

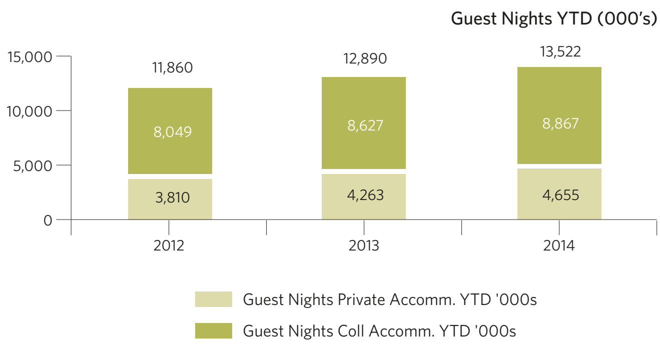
Tourism Industry as a whole

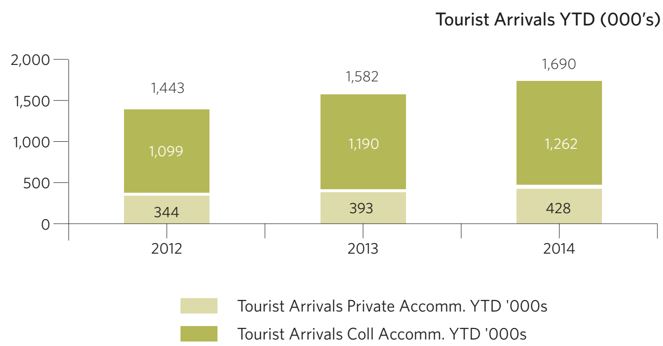
2014 was yet another record year for the tourism industry with tourist arrivals reaching an all time high of just under 1.7 million visitors. NSO statistics show that tourist arrivals in 2014 increased by 6.8% over 2013, this following an increase of just under 10% the previous year. These are substantial increases in numbers with an increase of just under 250,000 visitors in a two year period, and the question now being asked is how sustainable are such annual growth rates going forward. The key focus in my opinion needs to be on smoothening out the seasonality graph by attracting more visitors in our traditional low and shoulder season while also focusing on improving the product that we offer across all sectors of the industry so as to begin to attract more discerning visitors who are able to spend more on their leisure time.

Following last year's growth in guest nights of 8.7%, this year guests nights increased by a further 4.9%. It would be pertinent to point out, however, that guests nights in collective accommodation (hotels, apart-hotels, guest houses, hostels and tourist villages) increased by 2.8% while guest nights in private accommodation (holiday furnished premises, host families, private residences) increased by a much more substantial 9.2%. This clearly shows that the trend that I have outlined a number of times in previous years has continued with guest nights in collective accommodation slipping from 67% of total arrivals in 2012 to 65.5% of total arrivals in 2014. In real terms, while total guest nights increased by 1,662,000 (14%) between 2012 and 2014, the growth in guest nights that pertain to collective accommodation only increased by 818,000 (10%) over the same period. This is not a trend that can or should be ignored.

The positive trend also ensued in as far as tourist expenditure is concerned with year on year growth of 6.1%. Moreover, when one analyses the trend over the past five years between 2009 and 2014 tourist expenditure has increased from just under a billion Euro to €1.52 billion with the relative positive effect on our national economy. These increases of more or less 100 million Euro per year are even more significant when one looks at them against the backdrop of the European financial crises on one side and the Arab Spring on the other.

The only negative number amongst the key performance indicators of the industry was once again the average length of stay, mirroring international trends. Following a slip of 0.8% between 2012 and 2013, this past year saw a more significant drop in the average length of stay of 1.8%. The length of stay in collective accommodation dropped by 3.1% while that in private accommodation remained at a similar level to last year. In real terms the length of stay in collective accommodation has dropped from 7.32 nights in 2012 to 7.03 nights in 2014. By comparison the length of stay in private accommodation is much higher with a length of stay of 11.06 nights in 2012 dropping to 10.87 in 2014.





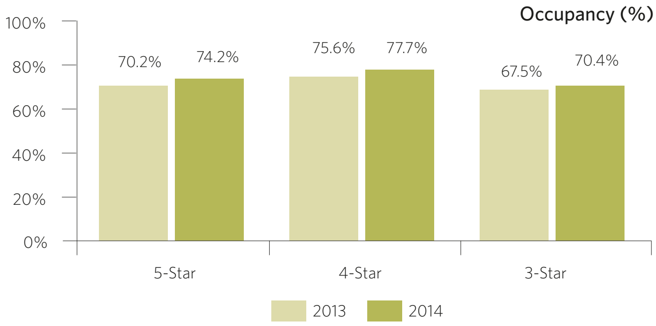
As with previous years the strongest source markets to the Island remain the UK and Italy, with Germany and France in 3rd and 4th place and Scandinavia in 5th. With a growth of 7.3% over 2013, the UK market accounted for 28.8% of visitors to the Island. The Italian market grew by a healthy 12.3% on the previous year and made up 15.5% of visitors while the German market shrunk by 2.8% to come in at 8.4% of the total number. French and Scandinavia visitors grew by 7.7% and 3.4% year on year to collectively account for a further 13.8% of visitors. Of note is that our top five feeder markets account for 66.5% of our visitor numbers.

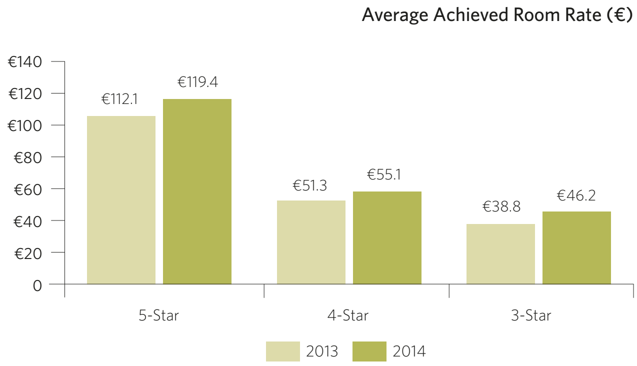
As our tourism numbers remain positive it is critically important that we do not lose sight of what has driven the success achieved over the past five years. Five record years in a row do not happen by accident. A great amount of work has been carried out by the various stakeholders in the industry and it is important that as numbers are strong we do not take our eye off the ball. The recently published tourism policy is a step in the right direction and aptly addresses the management of visitor numbers, raising quality across the industry and reducing seasonality. However a written policy alone is not enough and it will take a constant effort from all involved to ensure that we continue to drive our industry forward, especially where the quality level of what we deliver is concerned. As a Group we aim to be at the forefront of this drive to increase the quality and value of what we offer to the visitors to our island in the years ahead.

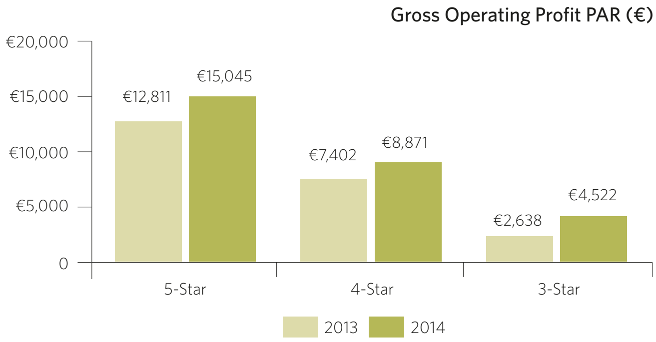
The hotel sector

As explained in previous years, in order to better understand the performance of the Group in the context of the national tourism statistics, one has to carefully analyse the real effect of growth in arrivals, compounded by the reduction in average length of stay, on room occupancy and achieved room rate.

As explained above, the increases in arrivals did not mirror increases in hotel guest nights (Arrivals +6.8%, Collective accommodation guest nights +2.8%). The five star hotel sector saw the best occupancy growth in the hotel industry with increases in occupancy year on year of 5.7%. Occupancy moved upwards to 74.2% from the previous year's 70.2%. Four star hotel occupancy rates increased by a more modest 2.8% from 75.6% to 77.7% occupancy.







Concurrently the increase in average achieved room rates in the five star hotel market was of 6.6% while that of the four star market was of 7.5%. The average achieved room rate in the five star market in 2014 was of €119.40, up from €112.10 in 2013 while the four star market saw the average rate grow to €55.10 from €51.30 last year.

The achieved results on Gross Operating Profits (GOP) per available room are shown in the graph opposite. Five star hotels saw operating profits increase from an average of €12,811 per available room in 2013 to €15,045 in 2014. The GOP margin in the five star segment increased by 7.3% from 27.5% to 29.5%. The four star segment saw an increase in GOP from €7,402 per available room to €8,871 per available room in the same period with the GOP margin growing by 10.3% from 30.6% to 33.8%.

Group results

As stated at the beginning of my report, our Group's performance during the past financial year was a record one and above our initial expectations. Every company within the Group performed well with the majority performing at record levels.

Total Group revenue grew by €5.8 million to reach €36,558,717, a year on year growth of over 19%. Every company across the Group registered healthy growth in revenues with the growth being split in similar amounts between the five star hotels, vacation ownership revenues and catering revenues.

As in the previous year this revenue growth was achieved with less than proportionate increases in expenditure. While increasing in real terms by €858,000 to €12.14 million, staff costs for the year are down in percentage terms from 36.7% to 33.2% of revenue, a drop of just under 10%. This is a result of increased efficiencies due to the fixed element of staff costs being better absorbed into the cost base as a result of the higher rates and resultant revenues achieved. Food and beverage costs are down from 12.0% to 10.9% of total revenue, a drop of 9.1%. This is mainly a result of higher revenues being generated in the Costa Coffee part of the business which has a lower cost of sale element within its model when compared to the hotel food and drink operations. Other operating costs are at a similar level to last year just above 31.5% of revenue. This cost item is typically made up of variable costs which move proportionately to revenues. The stable percentage is a clear sign of strong controls and processes in place on this aspect of the cost base.

The growth in revenue and containment of our cost base ultimately led to an EBITDA for the year of €8,793,625, a growth of €2,773,690 (46%) over the previous year. Net profit before tax from continued operations came in at €2,466,995 as compared to €685,766 the previous year. After a tax charge of €936,924, the net profit for the year from continuing operations is €1,530,071, to which one has to add the profit from discontinued operations of €1,202,385, leaving a profit for the year of €2,732,456.

Of note is also the change in the statement of financial position of the Group which is much stronger at the end of the financial year than it was at the end of the 2013 financial year. The significant reduction in the current liability position of the Group and the strengthening of the current asset position as a result of the decisions taken has led to this healthier position. The total equity position has also increased from €36.2 million on the 31st of October 2013 to €40.3 million at the end of this financial year.

The cash flow position of the Group was also significantly better than when we closed the previous financial year with a deficit of €10.4 million being turned into a surplus of just under €18 million at the end of this financial year.

Of course one has to keep in mind the issuance of the €35 million bond by the Group last year. The bond was very well received by the market with an over subscription of close to €50 million.

One of the non-financial achievements that we are also very proud to have achieved during the year is that of being chosen as the National Employer of the Year. This is an award which gives us a great deal of satisfaction as it is recognition for the efforts we put in to ensure that we create employment opportunities and a place of work that is seen to be fair and amongst the very best on the Island. I thank all the team for helping to create and nurture this type of environment within the Group.

Hotel Performance

As with all the reports being published at year end, the results this year exclude the Coastline hotel in order to be able to compare like for like. The Coastline numbers feature in the results for discontinued operations in the statement of profit and loss for the Group and need to be looked at separately.

In as far as our two Radisson Blu properties are concerned our average Gross Operating Profit (GOP) per available room was €23,219. This compares favourably to the market when one considers the average five star hotel GOP per available room for the year was €15,045. Clearly the top performer within the Group was the Radisson Blu at Golden Sands which performed at more than double the average of the market, a result fuelled by the success of the vacation ownership model used within the resort.

The Radisson Blu Resort, St. Julians experienced strong year on year growth with GOP improving by 28% as compared to a market growth of 17.4%. Despite outperforming the market the GOP per room achieved is still below the average achieved in the five star hotel market. As announced to the market at the end of last year, the decision to close the resort for an eight month period during which it was planned to fully refurbish the resort and add two new floors as well as a new conference centre were shelved. This decision was taken by the directors following information that various projects were about to take place in the St. George's Bay area that would have impacted the feasibility of such an extensive project. A decision was instead taken to undergo a soft refurbishment program at the resort between November 2014 and March 2015. The Resort reopened for business on the scheduled date of the 30th of March following a closure of four months which saw the Resort being given a fresh facelift that is expected to make a difference to the experience of our guests as well as to the rates achieved for the property. It should also be noted that the work carried out was finished on time and on budget as a result of the hard work of the management and team within the resort who worked very hard to ensure that the targets are reached. Business at the Resort for the months ahead looks very healthy and the summer of 2015 is expected to yield stronger results than the same period in 2014.

The Radisson Blu Resort & Spa Golden Sands had another excellent year and once again enjoyed the strongest results across the industry in as far as gross operating profit per available room. The Resort has once again achieved results which are more than double that of the industry average in this most important performance indicator. 2015 has also started with very strong sales numbers and all indications are that the current year will yield similar results to 2014.

The Oasis at Golden Sands is a project that still remains within the plans of the Group in future. Naturally, now that a conditional agreement has been reached with International Hotel Investments p.l.c. (IHI) the timing of the project needs to be revisited.

Non hotel Catering

Our non hotel catering revenues have grown by a further 25% over 2013 revenues taking our share of non hotel catering revenues above the €10.3 million mark. As explained in previous years, our focus on this part of the business has been to maintain our market leadership position in the event catering market with the Island Caterers brand, growing the retail catering side of the business through the Costa Coffee Brand and developing MonteKristo Estate into a leading venue on the Island for a variety of events including fairs and exhibitions.

Island Caterers experienced a very good year in 2014 with a growth in revenues of 28% and a very healthy growth in EBITDA. The focus of the Island Caterers team continues to be on delivering a quality product and good value to our clients across the wedding, corporate and private markets. In addition to this the team has encompassed the catering operation within the Coastline hotel following the sale of the property in May last year. 2014 also saw the team cater for the largest event ever catered for on the Island – a reception for over 7,000 people held at the Valletta Waterfront.

As explained last year, our joint venture at Montekristo Estates was not without challenges and we eventually decided to change the nature of this joint venture to a simple venue agreement which suited the Group more.

As reported last year, our partnership with Buttigieg Holdings continues to go from strength to strength. During the financial year we opened another three Costa Coffee stores bringing the total number of stores open on the Island to eight. Apart from the stores in the MIA Schengen departure lounge and the Valletta stores announced in last year's report we also opened a further outlet at the Bay Street shopping complex. Sales in all outlets are doing very well with revenues from this part of the business expected to top the €5 million mark during this financial year, two years ahead of our initial targets.

Last year we also announced that we had signed a development agreement with Costa International Limited for the development and roll out of the Costa Coffee outlets in the East Coast of Spain, the Balearic Islands and the Canary Islands. To date we have opened two stores in Barcelona and we have signed up a further six stores which will all open prior to July 2015. We have an aggressive roll out plan for the years ahead and we are excited about the prospects of the brand in Spain. Of course, the investment is very significant, however the returns in the long run are expected to be good.

The other areas of this part of the business including the concession at Mater Dei and Papillon event catering have maintained a stable performance and no immediate change is expected.

Vacation Ownership

The turnaround experienced during 2013 was built on significantly during 2014. The strengthening UK economy, the Sterling / Euro exchange rate and the restructured cost base of this part of the company all contributed significantly to the results achieved. Revenues from vacation ownership saw a 24.5% year on year growth while EBIDTA improved by just over 63%, clearly showing the positive result of the adjustments made to the business model.

2015 is expected to yield the same results with the year starting on similar levels to last year. New products are also being developed to ensure that the momentum is retained.

The dependence of the model on the UK market and the volatility that this brings with it due to the UK's economic situation as well as potential exchange rate fluctuations makes it difficult to forecast the results of this part of the business too far into the future.

Prospect for 2015

The financial year November 2014 to October 2015 has started on a positive note. The re shaped company without the Coastline Hotel and with a freshly refurbished Radisson Blu Resort in St. Julians is currently performing to expectations. Current indications for the rest of the year are good and early indications for the summer months are that numbers should be similar to last year. One needs to keep in mind that in 2015 results we have to take into consideration the closure of the Radisson Blu Resort, St. Julians for the first four months of the year which will have an impact on results. In addition to this, the year will be one in which start up costs for the Costa Coffee Spain operation will need to be absorbed.

Concurrently we are working to conclude the transaction with IHI within the weeks ahead. Once this transaction is completed there will be a focus on merging the assets and operations of both groups to ensure that the synergies expected are brought to fruition in the shortest time possible. In the medium term the redevelopment of the St. George's Bay hotels will be undertaken so as to create a project that will re define the quality standards that are to be offered within our industry on our island.

The Executive Team

Due to the changes in the Group the past year has seen the executive team reduce in size slightly. Malcolm Buhagiar, previously the General Manager of the Coastline Hotel remained with the property when it was sold by the Group. Additionally, Raphael Cauchi, who last year was appointed country manager and CEO of the company set up to develop the Costa Coffee franchise in Spain, tendered his resignation and no longer forms part of the team. The executive team also saw the addition of Tonio Aquilina who was appointed General Manager of Island Caterers.

The focus of the executive team throughout the year was to deliver results across all key performance indicators of the Group, not least those of Group profitability. The team continues to meet weekly to discuss issues of a strategic and operational nature.

Wrap Up

2014 was a year wherein our objectives were surpassed. It is a year during which the whole team excelled and delivered a strong set of results which are the best that the Group has had in its 27 year history.

The fact that every part of the business delivered revenues and profits in excess of both budgets and the previous year is testimony to the hard work put in by the various individuals across the Group.

The restructuring of the Group through the divestment of the Coastline Hotel and the focus on the four key areas of the business has started to yield the desired results and going forward this focus will remain. We will continue to drive results in the five star hotel segment, vacation ownership, event catering and the Costa Coffee brand.

Without a doubt 2015 will involve a great deal of work on the commencement of our new relationship with our colleagues at IHI. Once the deal is concluded our Group will become a subsidiary of IHI and a consolidation process which will yield better overall results for both groups will commence. This is an evolution of the Group that will bring with it exciting opportunities for everyone involved.

The chemistry between ourselves and the Corinthia Group is excellent. Apart from having known Mr. Alfred Pisani and the rest of the Corinthia family for many years, we share the same family values and have the same vision for the country. Both Groups are also both great believers in the delivery of top quality products and service to our guests. Our approach to doing business is very similar. The fact that two of our physical hotel assets sit next to each other in St Julians just adds to the attractiveness of the whole transaction. In the years ahead, as we forge the resources of both Groups together and create new dynamic products, I have no doubt that we will lead the way in driving up the quality of the overall experience of visitors to our islands. We will attract the more discerning visitors and ensure that they leave the Island with their expectations more than surpassed and eager to return.

Of course, once again there was a great deal of emotion tied to this decision. However this was the optimum time to make this move. It was the perfect opportunity to bring two fantastic sets of assets together, as well as two strong management teams and staff complements. As we move forward it will become very clear to everyone what we can achieve together, both locally and internationally. Today we are united in our vision and are determined to reach our objectives and that is something that should excite everyone who forms part of the Group.

This move has also accelerated the Island Hotels Group growth path by 10 to 15 years. It would have taken us that long to step into the international hotel market. We have already gone international with Costa Coffee, but it would have been completely different with the hotels because the investment is so much more substantial.

I would like to thank every single member of the Island Hotels Group team who work very hard on a daily basis to deliver the best possible results across the Group, particularly for achieving a record result in 2014. It was the relentless focus and determination of the whole team that ensured that these results were delivered.

I would also like to thank the board of directors who have been of constant great support and guidance to the executive team and to thank all our shareholders for their trust and confidence.

We look forward to the year ahead with a renewed sense of excitement and a great deal of motivation to ensure that we continue to drive the business forward.

Winston J. Zahra

Chief Executive Officer, IHGH plc

The Group Executive Team

The executive team meet as a group on a weekly basis to discuss overall strategic direction, results and action plans. In turn the CEO typically meets with each individual member of the executive team on a weekly basis to follow up on specific business plans drawn up for each respective area. Each executive team member holds regular meetings with his respective team to ensure that the strategy is implemented through the individual units. The CEO is responsible for the overall operation of the Group and the implementation of policies devised by the board. The CEO reports directly to the board of directors of the company.

Winston J. Zahra
Chief Executive Officer

Kenneth Abela
Group Chief Finance Officer
and Company Secretary

Ernest Barry
Chief Operating Officer
Radisson Blu Resort & Spa, Golden Sands
and Hal Ferh Development

Adrian Attard
General Manager
Radisson Blu Resort, St Julian's

Tonio Aquilina
General Manager
Island Caterers

John Dandria
Group Director of Sales and Marketing

Christina Galea
Group Director
of Human Resources

Ing. Marthese Vella
Group Director
of Information Technology

Mario Caruana
Group Executive Chef

The Board of Directors

Winston V. Zahra M.O.M
Chairman

Winston V. Zahra was co founder of the Group and occupied the post of Managing Director up until the 31 July 2009. Winston V. Zahra was responsible for the development of the Group throughout its initial twenty two years. He has a wealth of experience serving on boards and committees related to the tourism industry, including the National Tourism Organisation and later the Malta Tourism Authority and the Malta Hotel and Restaurants Association.

John Bonello
Non-Executive Director

John Bonello is a member of the Institute of Chartered Accountants in England and Wales. He was formerly the Chairman and Senior Partner of PricewaterhouseCoopers in Malta from where he retired on 31 December 2009, having reached the firm's statutory retirement age. He had been a partner at PWC since 1976. He now holds a number of advisory and board positions in various companies.

Kenneth Abela
Group Chief Finance Officer
and Company Secretary

Kenneth Abela is a member of the Malta Institute of Accountants. He joined the group in 1992 and in 2009 was appointed Chief Financial Officer. He overseas all company accounting practices and also directs the group's financial strategy, planning and forecasts and supervises investment appraisal and the raising of funds for business. In addition to the role of CFO, Kenneth is also the Company Secretary of all the companies within the Group.

Winston J. Zahra
Chief Executive Officer

Winston J. Zahra joined the Group in 1991. In June 2001 Mr Zahra was appointed Director of Operations, Sales and Marketing and appointed CEO in August 2009. Winston is a Fellow of the Institute of Hospitality, a Lifelong Honorary Member of the Malta Institute of Management and a member of the Young Presidents Organisation. Over the years he has also occupied various posts on national boards within the tourism industry.

William Hancock
Non-Executive Director

William Hancock is today the Managing Partner of Resolute Asset Management LLP. Prior to setting up this company he was a senior director at JER, a private equity firm based in the US. William was a member on the European, North American and Global Investment Committees of the company. Before joining JER, William was a director in the Real Estate Investment Banking team at Credit Suisse First Boston for 11 years with primary responsibility for corporate finance and capital raising activities in Continental Europe.

Trevor E. Zahra
Non-Executive Director

Trevor E. Zahra joined the Island Hotels Group in 1988 at the Bugibba Holiday Complex. Having worked his way up through the company to group director of leisure sales, Trevor resigned from the executive team of the Group in November 2009 in order to set up his own business. Focusing on travel management, cultural and entertainment events, Trevor is Director of Sales, Marketing and Operations for Culture3sixty.

Michael Bonello
Non-Executive Director

Michael Bonello was Governor of the Central Bank of Malta between 1999 and 2011. Whilst Governor, Mr Bonello was a member of the Governing and General Councils of the European Central Bank and of the European Systemic Risk Board. He also formed part of the Board of Governors of the Malta Financial Service Authority. Between 1983 and 1999 Mr Bonello was a senior official of the United Nations Conference on Trade and Development.

Gary Alexander Neville
Non-Executive Director

Gary Alexander Neville is best know for his footballing achievements with Manchester United. He has also played for the English National football team 85 times and captained the side on two occasions. He was also on the Professional Footballers Association management committee for 11 years. Having retired from the game in 2011, he took up the role of Ambassador for Manchester United and is also a Sky Sports commentator. Gary is a partner in a renewables company and a director of Signature Developments.

Reports & Financial Statements

Contents

Directors, officer and other information

Directors:	Winston V. Zahra (Chairman)
	Winston J. Zahra (Chief Executive Officer)
	John L. Bonello
	Michael C. Bonello
	Willam Hancock
	Gary Alexander Neville
	Trevor E. Zahra
Secretary:	Kenneth Abela
Registered office:	Radisson Blu Resort St. Julians Louis V. Farrugia Street St. George's Bay St. Julians Malta
Telephone number:	+ 356 2137 4894
Country of incorporation:	Malta
Company registration number:	C 44855
Auditor:	Deloitte Audit Limited, Deloitte Place, Mriehel Bypass, Mriehel, Malta.
Bankers:	Bank of Valletta p.l.c., 58, Zachary Street, Valletta, Malta.
	HSBC Bank Malta p.l.c., 233, Republic Street, Valletta, Malta.
	Banif Bank (Malta) p.l.c., 203, Level 2, Rue D'Argens, Gzira, Malta.
Lawyers:	Camilleri Preziosi Advocates Level 3, Valletta Buildings, South Street, Valletta, Malta.

Directors' report

Year ended 31 October 2014

The directors present their report and the audited financial statements of the group and the holding company for the year ended 31 October 2014.

Principal activities

The group's business comprises the ownership and operation of hotels in Malta and the provision of accommodation, catering and related services. The group is made up of a holding company that acts as an investment company, together with its subsidiaries and jointly controlled entities as detailed in note 17 to these financial statements.

Review of business

The results of the group represent the results of the holding company together with those of its subsidiaries and its share of jointly controlled entities for the year ended 31 October 2014.

The group reported a turnover from continuing operations of €36,558,717 (2013 - *€30,669,121*), an increase of 19% over the previous year, and Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) of €8,793,625 (2013 - *€6,019,935*) representing an increase of 46%. After taking into consideration depreciation, investment income and finance costs, the group reported a profit before tax of €2,466,995 (2013 – *€685,561*). The profit after the current and deferred tax charge for the year from continuing operations amounted to €1,530,071 (2013 – *€695,766*). A further net gain of €1,202,385 (2013 – *loss €141,047*) from discontinued operations was recorded, resulting in a profit for the year of €2,732,456 (*2013 - €554,719*). The group also reported exchange gains of €1,437,025 (2013 - *losses of €820,440*) arising almost entirely from the year-end translation of a goodwill balance on foreign operations. Total shareholders' funds at the year-end amounted to €40,372,697 (2013 - *€36,203,216*).

The net profit before tax from continuing operations of €2,466,995 reflected the group's sustained efforts to achieve a profit in all areas of its operations. Despite difficult market conditions continuing to prevail in many of the group's source markets, tourist arrivals in Malta in 2014 were buoyant and reached record levels. This, together with the group's own marketing efforts resulted in slightly higher occupancy levels and significantly better rates in its hotels and thus higher profits. The group also experienced a higher level of Vacation Ownership sales and this, coupled with the efforts initiated in previous years to reduce the cost base of this part of the business, resulted in significantly higher profits. An increased volume of activity in the event catering area of the business was also registered, whilst the Costa Coffee outlets in Malta also began to realise the potential expected from this investment. Focus on that area of the business will now also include Spain. Through its investment in Buttigieg Holdings Limited, after the year end, the group opened its first Costa Coffee outlet in Barcelona with a further 7 outlets contracted to open in the forthcoming months.

On 16 January 2015, the directors issued a statement whereby the major shareholders of the group had reached an agreement in principle for the sale of the entire shareholding of the group to International Hotel Investments p.l.c. (IHI). This transaction is subject to the satisfaction of various conditions, including but not limited to the usual due diligence processes, and is expected to be concluded during the course of the current financial year. The conclusion of this deal will lead to Island Hotels Group Holdings p.l.c. (IHGH) becoming a subsidiary of IHI and, in the process, will be placed in a position to leverage the strength of the IHGH operations with those of IHI. The directors believe that through this transaction the combined operations will be placed in a stronger position to achieve further growth in an important segment of the Maltese economy.

Results and dividends

The results for the year ended 31 October 2014 are shown in the statements of profit or loss on page 27.

The profit for the year after taxation from continuing operations for the group amounted to €1,530,071, (2013 –*€695,766*) whereas the holding company registered a profit after tax of €129,491 (2013 –*€436,693*).

On 2 May 2014, the group disposed of its 100% equity interest in Coastline Hotel Limited, a company which owned and operated the Coastline Hotel, a four star hotel located at Salina Bay. The proceeds from the sale exceeded the carrying amount of the related net assets and as described in the notes to the accounts, this transaction resulted in an overall profit on disposal of €1,975,400. Furthermore, losses from discontinued operations relating to the operational losses from both Coastline Hotel Ltd as well as MKIC Limited amounted to €773,015. In total therefore, profit for the year from discontinued operations amounted to €1,202,385 (2013 – loss €141,047) and the profit for the year from discontinued and continuing operations amounted to €2,732,456 (2013- € 554,719).

In view of the transaction with IHI referred to above, the directors do not propose the payment of a dividend for the year ending 31 October 2014 (2013 – *Nil*). It is pertinent to point out that the value of the company for the purposes of the transaction is based on the financials up to 31 October 2014 and hence the price agreed takes into account the profits registered during the financial year under review.

Directors' report (continued)

Year ended 31 October 2014

Directors

The directors of the holding company who served during the period were:

Winston V. Zahra (Chairman)

Winston J. Zahra (Chief Executive Officer)

John L. Bonello

Michael C. Bonello

William Hancock

Gary Alexander Neville

Trevor E. Zahra

In accordance with article 55.1 of the company's article of association, the directors of the company shall be appointed by the shareholders during the forthcoming annual general meeting.

Directors' responsibilities

The directors are required by the Companies Act (Cap. 386) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU which give a true and fair view of the state of affairs of the company and its group at the end of each financial period and of the profit or loss of the company and its group for the period then ended. In preparing the financial statements, the directors should:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and the group and which enable the directors to ensure that the financial statements comply with the Companies Act (Cap. 386). This responsibility includes designing, implementing and maintaining such internal controls as the directors determine are necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for safeguarding the assets of the company and the group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to reappoint Deloitte Audit Limited will be proposed at the forthcoming annual general meeting.

Going concern

As required by Listing Rule 5.62 and after making the necessary enquiries and after reviewing the group's plan for the coming financial periods, the directors are satisfied that at the time of approving the financial statements, the company and the group have adequate resources to continue operating for the foreseeable future.

For this reason, the directors consider it is appropriate to adopt the going concern basis in preparing these financial statements.

Directors' report (continued)

Year ended 31 October 2014

Information required by Malta Financial Services Authority Listing Rule 5.64

To the extent known to the company, the following persons are the persons that hold direct and indirect shareholdings in the company in excess of 5% of the equity share capital:

	% of shareholding As at 31 October 2014
Shareholder	
TMC Limited	48.20
Double You Limited	12.05
T Limited	12.05

Share capital structure

The company's authorised share capital is *€40,000,000* and its issued share capital is *€36,583,660* divided into *36,583,660* ordinary shares of *€1* per share. All of the issued shares of the company form part of one class of ordinary shares in the company, which shares are listed on the Malta Stock Exchange. All shares in the company have the same rights and entitlements and rank *pari passu* between themselves. The following are highlights of the rights attaching to the shares:

Dividends: The shares carry the right to participate in any distribution of dividend declared by the company;

Voting rights: Each share shall be entitled to one vote at meetings of shareholders;

Pre-emption rights: Subject to the limitations contained in the memorandum and articles of association, shareholders in the company shall be entitled, in accordance with the provisions of the company's memorandum and articles of association, to be offered any new shares to be issued by the company a right to subscribe for such shares in proportion to their then current shareholding, before such shares are offered to the public or to any person not being a shareholder;

Capital distributions: The shares carry the right for the holders thereof to participate in any distribution of capital made whether on a winding up or otherwise;

Transferability: The shares are freely transferable in accordance with the rules and regulations of the Malta Stock Exchange, applicable from time to time;

Other: The shares are not redeemable and not convertible into any other form of security;

Mandatory takeover bids: Chapter 11 of the Listing Rules, implementing the relevant Squeeze-Out and Sell-Out Rules provisions of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004, regulates the acquisition by a person or persons acting in concert of the control of a company and provides specific rules on takeover bids, squeeze-out rules and sell-out rules. The shareholders of the company may be protected by the said Listing Rules in the event that the company is subject to a Takeover Bid (as defined therein). The Listing Rules may be viewed on the official website of the Listing Authority - www.mfsa.com.mt

Directors' report (continued)

Year ended 31 October 2014

Appointment and replacement of directors

In terms of the memorandum and articles of association of the company, the directors of the company shall be appointed by the shareholders in the annual general meeting as follows:

a) Any shareholder/s who in the aggregate holds not less than *100,000* shares having voting rights in the company shall be entitled to nominate a fit and proper person for appointment as a director of the company. The directors themselves or a committee appointed for that purpose may make recommendations and nominations to the shareholders for the appointment of directors at the next following annual general meeting.

b) The shareholders are granted a period of 14 days to nominate candidates for the appointment as directors. Such notice may be given by the publication of an advertisement in at least two (2) daily newspapers. All such nominations, including the candidates acceptance to be nominated as director, shall on pain of nullity, be made on the form to be prescribed by the directors from time to time and shall reach the registered office (or such other place determined by the directors) not later than fourteen (14) days after the publication of the said notice (the "**Submission Date**"). Provided that the submission date shall not be less than fourteen (14) days prior to the date of the meeting appointed for such election. Nominations to be made by the directors or any sub-committee of the directors appointed for that purpose shall also be made by not later than the date established for the closure of nominations to shareholders.

c) In the event that there are either less nominations than there are vacancies on the board or if there are as many nominations made as there are vacancies on the board, then each person so nominated shall be automatically appointed a director.

d) In the event that there are more nominations made, then an election shall take place. After the date established as the closing date for nominations to be received by the company for persons to be appointed directors, the directors shall draw the names of each candidate by lot and place each name in a list in the order in which they were drawn. The list shall be signed by the chairman and the company secretary for verification purposes.

e) On the notice calling the annual general meeting at which an election of directors is to take place there shall be proposed one resolution for the appointment of each candidate in the order in which the names were drawn, so that there shall be as many resolutions as there are candidates. The directors shall further ensure that any member may vote for each candidate by proxy.

f) At the general meeting at which the election of directors is to take place the chairman shall propose the name of each candidate as a separate resolution and the shareholders shall take a separate vote for each candidate. The shareholders shall first be asked to vote by a show of hands and if a poll is validly called in accordance with the provisions of these Articles a poll shall be conducted. Each shareholder shall be entitled, in the event of a poll, to use all or part only of his votes on a particular candidate.

g) Upon a resolution being carried, whether by a show of hands or by a poll, the candidate proposed by virtue of that resolution shall be considered elected and appointed a director. No further voting shall take place once enough resolutions have been passed to ensure that all vacancies on the board have been filled, even if there are still candidates with respect to whom a resolution has not yet been called.

h) Shareholders may vote in favour or against the resolution for the appointment of a director in any election, and a resolution shall be considered carried if it receives the assent of more than fifty per cent (50%) of the shareholders present and voting at the meeting.

i) Subject to the above, any vacancy among the directors may be filled by the co-option of another person to fill such vacancy. Such co-option shall be made by the board of directors and shall be valid until the conclusion of the next annual general meeting.

Further details on the appointment of directors may be found in the memorandum and articles of association of the company.

Directors' report (continued)

Year ended 31 October 2014

Amendment of the articles of association

In terms of the Companies Act, Cap 386 of the laws of Malta, the company may by extraordinary resolution at a general meeting alter or add to its memorandum or articles of association. An extraordinary resolution is one where:

(a) it has been taken at a general meeting of which notice specifying the intention to propose the text of the resolution as an extraordinary resolution and the principle purpose thereof has been duly given;

(b) it has been passed by a shareholder or shareholders having the right to attend and vote at the meeting holding in the aggregate not less than seventy five per cent (75%) in nominal value of the shares issued by the company represented and entitled to vote at the meeting and at least fifty one per cent (51%) in nominal value of all the shares issued by the company and entitled to vote at the meeting.

Provided that, if one of the aforesaid majorities is obtained but not both, another meeting shall be convened within thirty (30) days in accordance with the provisions for the calling of meetings to take a fresh vote on the proposed resolution. At the second meeting the resolution may be passed by a shareholder or shareholders having the right to attend and vote at the meeting holding in the aggregate not less than seventy five per cent (75%) in nominal value of the shares issued by the company represented and entitled to vote at the meeting. However, if more than half in nominal value of all the shares issued by the company having the right to vote at the meeting is represented at that meeting, a simple majority in nominal value of such shares so represented shall suffice.

Board member powers

The directors are vested with the management of the company, and their powers of management and administration emanate directly from the memorandum and articles of association and the law. The directors are empowered to act on behalf of the company and in this respect have the authority to enter into contracts, sue and be sued in representation of the company. In terms of the memorandum and articles of association they may do all such things that are not by the memorandum and articles of association reserved for the company in general meeting.

In particular, the directors are authorised to issue shares in the company with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the directors may from time to time determine, as long as such issue of equity securities falls within the authorised share capital of the company. Unless the shareholders otherwise approve in a general meeting, the company shall not in issuing and allotting new shares:

(a) allot any of them on any terms to any person unless an offer has first been made to each existing shareholder to allot to him at least on the same terms, a proportion of the new shares which is as nearly as practicable equal to the proportion in nominal value held by him of the aggregate shares in issue in the company immediately prior to the new issue of shares; and

(b) allot any of them to any person upon the expiration of any offer made to existing shareholders in terms of (a) above. Any such shares not subscribed for by the existing shareholders may be offered for subscription to the general public under the same or other conditions which however cannot be more favourable to the public than the offer made under (a).

Furthermore, the company may, subject to such restrictions, limitations and conditions contained in the Companies Act, Cap 386 of the laws of Malta, acquire its own shares.

Save as otherwise disclosed herein, the provisions of Listing Rules 5.64.4 to 5.64.7, 5.64.10 and 5.64.11 are not applicable to the company.

Directors' report (continued)

Year ended 31 October 2014

Disclosures pursuant to Listing Rule 5.70.1

The service agreement between the company and Winston J. Zahra, originally signed on 1 September 2009, pursuant to which the latter's role within the company as chief executive officer was regulated, expired on 1 September 2014, and consequently the company entered into an extension of this agreement for one year or such earlier period if Winston J. Zahra no longer continues to occupy the post of chief executive officer.

Statement by directors pursuant to Listing Rule 5.68

We, the undersigned, on behalf of the board of directors, declare that to the best of our knowledge:

1. The consolidated financial statements give a true and fair view of the financial position of the company and its group as at 31 October 2014, and of their financial performance and their cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the E.U.

2. The directors' report and the consolidated financial statements include a fair review of the information required in terms of Listing Rule 5.68 together with a description of the principal risks and uncertainties that they face.

Approved by the board of directors and signed on its behalf on 24 February 2015 by:

Winston V. Zahra
Chairman

Winston J. Zahra
Chief Executive Officer

Corporate Governance Statement of Compliance

A Introduction

Island Hotels Group Holdings p.l.c. (the company) is required to include a statement of compliance with the "Code of the Principles of Good Corporate Governance" (the "**Code**") contained in appendix 5.1 of the Listing Rules issued by the Listing Authority of the Malta Financial Services Authority.

These principles are designed to enhance the legal, institutional and regulatory framework for good corporate governance of companies whose equity securities are admitted to listing on a regulated market. This statement is made in terms of Listing Rules 5.94 and 5.97.

The board of directors is satisfied that the company has entrenched a sound culture of good corporate governance throughout the group in accordance with the requirements of the Code. Where the company is not in compliance with any of the provisions of the code, this is explained in the section titled "non-compliance with the Code".

The group's Corporate Governance Structure as well as the Code to which it aims to comply, have not changed materially during the year. What follows is a statement on the extent of compliance with each relevant principle of the Code, and an explanation thereof.

B Compliance With The Code

Principle 1: The board

The board is composed of a chairman and six directors, five of whom are non-executive. The company has a corporate decision-making and supervisory structure that is tailored to suit its specific requirements and designed to ensure the existence of adequate checks and balances within the company. The company's memorandum and articles require that the chief executive officer (CEO) is an *ex officio* director of the company. This ensures that the board of directors will always be composed of, *inter alia,* one executive director. The presence of the executive director on the board is designed to ensure that all the members of the board have direct access at meetings of directors to the individuals having the prime responsibility for the day to day operations and executive management of the group and the implementation of polices that allows effective discussion and the availability of all the information necessary to carry out their functions in the best possible manner. Each director is provided with the information and explanations as may be required by any particular agenda item. The CEO reports on the business affairs of the group including all commercial, economic and other risks that the business faces. In order to carry out his functions adequately, the CEO meets the Group Executive Team (GET) on a weekly basis to discuss overall strategy, direction and results. Each member of the GET is a senior executive with experience of the group's business and a high level of professional ability within his/her jurisdiction. The CEO meets with each individual member of the GET on a regular basis to follow up on specific business plans drawn up for each area of the business. In turn, each GET member holds meetings with his/her respective team to ensure that the strategy is being implemented throughout the individual units.

Each subsidiary/joint venture within the group is governed by a separate board of directors. The group's representatives on these boards of directors include at least one member within the group's board as well as individuals within the GET. On average ten meetings are held every year and each company has its own management structure and accounting systems and internal controls. This ensures that there is an efficient delegation of authority to assist effective decision making, reporting and control.

The board delegates specific responsibilities to two committees, the Audit Committee, and the Remuneration and Nominations (REMNOM) Committee. Further details pertaining to these two committees are contained within the headings Principles 4, 5 and 8 below.

Principle 2: Chairman and Chief Executive Officer

There is a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. The positions of chairman of the board and that of the CEO are completely separate from one another. Mr. Winston V. Zahra occupies the position of chairman of the board whilst Mr. Winston J. Zahra occupies the position of CEO.

The chairman is responsible to lead the board and to set its agenda. He is also responsible for the proper conduct of board meetings which includes inclusive discussion of sufficient depth and detail based on adequate and timely information. The chairman ensures that the CEO articulates the strategy which is approved by the board. The chairman also ensures that there is effective communication with the shareholders.

Corporate governance statement of compliance (continued)

Principle 3: Composition of the board

The board considers that the number of directors on the board is sufficient and that the balance of skills and experience is appropriate for the requirements of the business.

As stated above, the board is composed of a chairman and six directors, five of whom are non-executive, four of whom are deemed to be independent non-executive directors. In determining the independence or otherwise of its directors, the board has considered, amongst others, the principles relating to independence contained in the Code, the company's own practice as well as general good practice principles.

Principle 4 and 5: The responsibilities of the board and board meetings

The board of directors of the company met thirteen times during the year. In addition, certain individual directors participated in other ad-hoc meetings during the year, including sub-committees specifically formed to assist in the decision making process and to enhance good corporate governance. Moreover, the board of each subsidiary/joint venture company met on average ten times during the year.

The company's board reviews and evaluates corporate strategy, major operational and financial plans, and their implementation. Early in the financial year members of the board attend a presentation of the detailed financial plans of each of the parts of the group's business by the respective senior management representative.

Members	**No of Meetings held: 13**
	Attended
Winston V. Zahra (chairman)	13
Winston J. Zahra (chief executive officer)	13
John L. Bonello (independent non-executive director)	13
Michael C. Bonello (independent non-executive director)	12
William Hancock (independent non-executive director)	9
Gary Alexander Neville (independent non-executive director)	7
Trevor E. Zahra (non-executive director)	12

Corporate governance statement of compliance (continued)

Board committees

As stated above, the board delegates specific responsibilities to Committees, namely the Audit Committee and the REMNOM Committee.

Audit Committee

The primary objective of the Audit Committee is to assist the board in a number of matters set out in the Listing Rules, including the measuring and monitoring of group adopted policies relative to effective internal control systems and procedures, effectiveness of financial reporting processes, compliance with regulatory and legal requirements, as well as to give general advice to the board that the management of financial and other risks are in line with accepted practice. The audit committee has the primary responsibility to manage the company's relationship with the external auditors.

Members	**No of Meetings held: 7**
	Attended
John L. Bonello (chairman of audit committee)	7
Michael C. Bonello	5
William Hancock	2

In terms of Listing Rule 5.118, Mr. John L. Bonello F.C.A., C.P.A., FIA. is the director whom the board considers as competent in accounting. John Bonello is an independent non-executive director and is considered independent because he is free from any business, family or other relationship with the company or its management that may create a conflict of interest such as to impair his judgement.

The audit committee met formally seven times during the year. The chairman of the company, CEO, chief financial officer (CFO), the group internal auditor and representatives of the external auditors were invited to attend relevant parts of such meetings. The chairman of the audit committee met the CEO and the CFO a further three times, to discuss audit and accounting issues. Two of these meetings were attended also by the external auditors. In addition to the formal meetings, the chairman of the audit committee updated the full board at every board meeting on any audit committee business. During the year, the chairman of the audit committee met regularly with the group internal auditor to approve internal audit work plan and review any internal audit work.

The REMNOM committee is dealt with in principle 8 below.

Principle 6: Information and Professional Development

The board appoints the CEO who continues to enjoy its full support and confidence. Appointments and changes to senior management are approved by the board and a succession plan is in place in respect of all senior management positions. The board actively considers the professional and technical development of all senior management. Board meetings are set well in advance of their due date and each director is provided with detailed board papers relating to each agenda item. The CEO prepares a detailed review for each board meeting covering all aspects of the company's business.

The board is regularly reminded of its duties, of the company's operations and plans, of the skills and competence of senior management, and of the general business environment of the group.

Principle 7: Evaluation of the board's performance

Under the direction of the chairman of the REMNOM Committee, the board carried out an evaluation of its own performance, that of the chairman and that of the CEO. The evaluation was conducted through a board effectiveness questionnaire, the results of which were discussed between the chairman of the REMNOM committee and the chairman of the board.

Corporate governance statement of compliance (continued)

Principle 8: Committees

The **REMNOM** committee is composed of the group's chairman and 3 independent non-executive directors as follows:

Members	**No of Meetings Held: 2**
	Attended
William Hancock (chairman of REMNOM committee)	1
John L. Bonello	2
Gary Alexander Neville	1
Winston V. Zahra	2

The REMNOM committee's terms of reference are established within the REMNOM committee charter that had been approved by the board of directors. Amongst other things, the main role of this committee is to ensure that the group attracts and retains high quality directors and senior executives, and in doing so recommend their remuneration and terms of conditions. The committee is also required to evaluate, recommend and report on any proposals made by the CEO relating to executive management remuneration and conditions of service. Moreover, the REMNOM committee is responsible for the evaluation of the performance of each individual board member of the company as required by the Code, and recommending any changes to the structure of the board, including proposing candidates for appointment to the board, having regard to the balance of skills and experience for the board. The REMNOM committee serves the purpose of the establishment of a remuneration, nomination and evaluation committee.

The Chief Executive Officer and the Company Secretary attend REMNOM Committee meetings where appropriate.

The REMNOM committee's terms of reference are established within the REMNOM committee charter that had been approved by the board of directors. Amongst other things, the main role of this committee is to ensure that the group attracts and retains high quality directors and senior executives, and in doing so recommend their remuneration and terms of conditions. The committee is also required to evaluate, recommend and report on any proposals made by the CEO relating to executive management remuneration and conditions of service. Moreover, the REMNOM committee is responsible for the evaluation of the performance of each individual board member of the company as required by the Code, and recommending any changes to the structure of the board, including proposing candidates for appointment to the board, having regard to the balance of skills and experience for the board. The REMNOM committee serves the purpose of the establishment of a remuneration, nomination and evaluation committee.

The Chief Executive Officer and the Company Secretary attend REMNOM Committee meetings where appropriate.

Remuneration Statement

Remuneration Policy – Group Executive Team

The board of directors determines the framework of the overall remuneration policy for the Group Executive Team based on recommendations from the REMNOM Committee. The Committee establishes the individual remuneration arrangements of the Group's Executive Team and makes proposals to the board accordingly. In establishing these remuneration packages for the Group's Executive Team, the committee has access to independent external advice, and the Committee considers that these remuneration packages reflect market conditions and are designed to attract appropriate quality executives to ensure the efficient management of the group. During the current year under review there have been no significant changes in the group's remuneration policy and no significant changes are intended to be effected thereto in the year ahead. The terms and conditions of employment of each individual within the Group Executive Team are set out in their respective indefinite contracts of employment with the group. None of these contracts contain provisions for termination payments and other payments linked to early termination. Moreover, share options and profit sharing are currently not part of the Company's remuneration policy.

Remuneration Policy – Directors

The board of directors determines the framework of the remuneration policy for the members of the board as a whole, this following the submission of recommendations by the REMNOM Committee. The maximum annual aggregate emoluments that may be paid to the directors is approved by the shareholders in General Meeting. This amount was fixed at an aggregate sum of *€700,000* per annum at the first Annual General Meeting of the company held on the 19 May 2010. The financial statements disclose an aggregate figure in respect of the directors' remuneration which with respect to the year under review amounted to *€473,064.* Directors' emoluments are designed to reflect the time committed by directors to the company's affairs, including the different board committees of which directors are members, and their responsibilities on such committees.

Corporate governance statement of compliance (continued)

Principle 9 and 10: Relations with Shareholders and with the Market, and Institutional Shareholders

The board gives due importance to keeping the market informed to ensure that its strategies and performance are well understood. At the same time, relations with shareholders, be they individual shareholders or institutional ones, are given due importance ensuring that the shareholders understand the company properly, its issues and results.

Within seven months of the end of the financial year, the annual general meeting of the shareholders is convened to consider the annual consolidated financial statements, the directors' and auditors' reports for the year, to decide on any dividends recommended by the board, to elect directors and appoint auditors. A presentation is given by the CEO of the group showing how the group operated in the light of prevailing economic and market conditions, and an assessment on future prospects is given. Moreover, as required of a public limited company, the group publishes its financial results every six months and issues company announcements that may be of general or of material importance to the shareholders and the market in general. The group financial results are available in the shareholder's area on the group's website www.islandhotels.com.

Once a year, a detailed presentation is given by the CEO to stockbrokers and financial intermediaries.

Principle 11: Conflicts of Interest

The directors are aware that their primary responsibility is always to act in the interest of the company and its shareholders as a whole, irrespective of who appointed them to the board. The directors are also aware that acting in the interest of the company includes an obligation to avoid conflicts of interest.

No conflicts of interest were known to have arisen during the period under review.

Principle 12: Corporate Social Responsibility

The group recognises its obligations towards society in general and has continued to adopt a highly ethical approach to ensure that its commitments are satisfied and that rules of good practice are enforced. The company is committed to enhance the quality of life of all its employees as well as all stakeholders. Various initiatives and activities have been organised by the group throughout the period within the context of the group-wide strategy.

C Non-Compliance With The Code

Principle 9 (Code Provision 9.3):

The company does not have a formal mechanism in place as required by Code provision 9.3 to resolve conflicts between minority shareholders and controlling shareholders. No such conflicts have arisen.

D Internal Controls

The board is ultimately responsible for the company's systems of internal controls and for reviewing their effectiveness. Internal control systems are designed to manage rather than eliminate risk, and can provide only reasonable and not absolute assurance against normal business risks. The key features of the group's system of internal control are as follows:

Organisation

The group operates through boards of directors of subsidiaries and jointly controlled entities with clear reporting lines and delegation of powers. The company's chairman is also the chairman of the boards of directors of all the company's subsidiaries.

Control environment

The group is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Group policies and employee procedures are in place for the reporting and resolution of fraudulent activities. The group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve group objectives. Lines of responsibility and delegation of authority are documented. The group and the individual companies comprising it have implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties and reviews by management, internal audit and the external auditors.

Risk identification

Group management is responsible together with each company's management, for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis.

Corporate governance statement of compliance (continued)

Information and communication

Group companies participate in periodic strategic reviews which include consideration of long-term financial projections and the evaluation of business alternatives. Regular budgets are prepared and performance against these plans is actively monitored and reported to the board.

E General meetings and shareholders' rights

Conduct of general meetings

It is only shareholders whose details are entered into the register of members on the record date that are entitled to participate in the general meeting and to exercise their voting rights. In terms of the Listing Rules, the record date falls 30 days immediately preceding the date set for the general meeting to which it relates. The establishment of a record date and the entitlement to attend and vote at general meeting does not, however, prevent trading in the shares after the said date.

In order for business to be transacted at a general meeting, a quorum must be present. In terms of the articles of association, 51% of the nominal value of the issued equity securities entitled to attend and vote at the meeting constitutes a quorum. If within half an hour, a quorum is not present, the meeting shall stand adjourned to the same day in the next week, at the same time and place or to such other day and at such other time and place as the directors may determine. In any event, the adjourned meeting must be held at least ten days after the final convocation is issued and no new item must be put on the agenda of such adjourned meeting. If at the adjourned meeting a quorum is not yet present within half an hour from the time appointed for the meeting, the member or members present shall constitute a quorum. Generally, the chairman of the board of directors presides as chairman at every general meeting of the company. At the commencement of any general meeting, the chairman may, subject to applicable law, set the procedure which shall be adopted for the proceedings of that meeting. Such procedure is binding on the members.

If the meeting consents or requires, the chairman shall adjourn a quorate meeting to discuss the business left unattended or unfinished. If a meeting is adjourned for 30 days or more, notice of the quorate meeting must be given as in the case of an original meeting. Otherwise, it is not necessary to give any notice of an adjourned meeting or of the business to be transacted at such quorate meeting.

At any general meeting a resolution put to the vote shall be determined and decided by a show of hands, unless a poll is demanded before or on the declaration of the result of a show of hands by;

(i) the chairman of the meeting; or

(ii) by at least three (3) members present in person or by proxy; or

(iii) any member or members present in person or by proxy and representing not less than one tenth of the total voting power of all members having the right to vote at that meeting; or

(iv) a member or members present in person or by proxy holding equity securities conferring a right to vote at the meeting, being equity securities on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the equity securities conferring that right.

Unless a poll is so demanded, a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost together with an entry to that effect in the minute book, shall constitute conclusive evidence of the fact without need for further proof. If a resolution requires a particular majority in value, in order for the resolution to pass by a show of hands, there must be present at that meeting a member or members holding in the aggregate at least the required majority. A poll demanded on the election of the chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at the discretion of the chairman. In the case of equality of votes, whether on a show of hands or on a poll, the chairman has a second or casting vote. On a show of hands every member present in person shall have one vote, and on a poll every member shall have one vote for each equity security carrying voting rights of which he is the holder provided that all calls or other sums presently payable by him in respect of equity securities have been paid.

Corporate governance statement of compliance (continued)

Proxy

Every member is entitled to appoint one person to act as proxy holder to attend and vote at a general meeting instead of him/her. The proxy holder shall enjoy the same rights to participate in the general meeting as those to which the member thus represented would be entitled. If a member is holding shares for and on behalf of third parties, such member shall be entitled to grant a proxy to each of his clients or to any third party designated by a client and the said member is entitled to cast votes attaching to some of the shares differently from the others. In the case of voting by a show of hands, a proxy who has been mandated by several members and instructed to vote by some shareholders in favour of a resolution and by others against the same resolution shall have one vote for and one vote against the resolution.

The instrument appointing a proxy must be deposited at the office or by electronic mail at the address specified in the notice convening the meeting not less than forty-eight (48) hours before the time for holding the meeting or, in the case of a poll, not less than forty-eight (48) hours before the time appointed for the taking of the poll. The same applies to the revocation of the appointment of a proxy.

A form of instrument of proxy shall be in such form as may be determined by the directors and which would allow a member appointing a proxy to indicate how he would like his proxy to vote in relation to each resolution.

Include items on the agenda

A shareholder or shareholders holding not less than 5% of the issued share capital may include items on the agenda of the general meeting and table draft resolutions for items included on the agenda of a general meeting. Such right must be exercised by the shareholder at least 46 days before the date set for the general meeting to which it relates.

Questions

Shareholders have the right to ask questions which are pertinent and related to the items on the agenda.

Electronic voting

In terms of the articles of association of the company, the directors may establish systems to:

a) allow persons entitled to attend and vote at general meetings of the company to do so by electronic means in accordance with the relevant provisions of the Listing Rules; and

b) allow for votes on a resolution on a poll to be cast in advance.

Where a shareholder requests the company to publish a full account of a poll, the company is required to publish the information on its website not later than 15 days after the general meeting at which the result was obtained.

Further details on the conduct of a general meeting and shareholders' rights are contained in the memorandum and articles of association of the company and in Chapter 12 of the Listing Rules.

Signed on behalf of the board of directors on 24 February 2015 by:

Winston V. Zahra
Chairman

Winston J. Zahra
Chief Executive

Independent auditor's report on Corporate Governance Statement of Compliance to the members of

Island Hotels Group Holdings p.l.c.

Pursuant to Listing Authority Listing Rules 5.94 and 5.97 issued by the Malta Financial Services Authority, the directors are required to include in their annual financial report a Statement of Compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance with these principles.

Our responsibility is laid down by Listing Rule 5.98, which requires us to include a report on the Statement of Compliance.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information included in the Annual Report.

We are not required to perform additional work necessary to, and we do not, express an opinion on the effectiveness of either the company's or the group's system of internal control or its corporate governance procedures.

In our opinion, the Statement of Compliance set out on pages 19 to 25 has been properly prepared in accordance with the requirements of Listing Rules 5.94 and 5.97.

Paul Darmanin as Director
in the name and on behalf of

Deloitte Audit Limited

Registered auditor

24 February 2015

Deloitte Audit Limited is not responsible for the maintenance and integrity of the corporate, financial and non-financial information included on group's website www.islandhotels.com.

Statements of profit or loss and other comprehensive income

Year ended 31 October 2014

	Notes	Group 2014 €	Group 2013 €	Holding 2014 €	Holding 2013 €
Continuing operations					
Revenue	5	**36,558,717**	30,669,121	**-**	-
Staff costs	11	**(12,141,548)**	(11,282,715)	**-**	-
Food and beverage costs		**(3,979,998)**	(3,688,755)	**-**	-
Other operating costs		**(11,643,546)**	(9,677,716)	**(168,484)**	(231,618)
Other operating income		**-**	-	**152,465**	214,355
Earnings/(loss) before interest, taxation, depreciation and amortisation		**8,793,625**	6,019,935	**(16,019)**	(17,263)
Depreciation and amortisation	16	**(3,007,345)**	(2,828,871)	**-**	-
Operating profit/(loss)		**5,786,280**	3,191,064	**(16,019)**	(17,263)
Share of losses of associates		**-**	(25,000)	**-**	-
Investment income	7	**67,217**	60,538	**2,490,714**	2,046,204
Finance costs	8	**(3,386,502)**	(2,541,041)	**(2,277,218)**	(1,526,754)
Profit before tax		**2,466,995**	685,561	**197,477**	502,187
Income tax (expense)/credit	12	**(936,924)**	10,205	**(67,986)**	(65,494)
Profit for the year from continuing operations	9	**1,530,071**	695,766	**129,491**	436,693
Discontinued operations					
Profit/(loss) for the year from discontinued operations	13	**1,202,385**	(141,047)	-	-
Profit for the year attributable to the owners of the holding company		**2,732,456**	554,719	**129,491**	436,693
Other comprehensive income/(expense):					
Exchange differences on translating foreign operations		**1,437,025**	(820,440)	**-**	-
Total comprehensive income/(expense) for the year attributable to the owners of the holding company		**4,169,481**	(265,721)	**129,491**	436,693
Basic/diluted earnings per share from continuing operations	15	***0.042***	0.019		
Basic/diluted earnings per share from continuing and discontinued operations	15	***0.075***	***0.015***		

Statements of financial position

31 October 2014

	Notes	Group 2014 €	Group 2013 €	Holding 2014 €	Holding 2013 €
ASSETS AND LIABILITIES					
Non-current assets					
Goodwill	27	**34,391,243**	33,147,407	**-**	-
Other intangible assets	16	**588,211**	725,684	**-**	-
Property, plant and equipment	16	**71,131,216**	86,010,457	**-**	-
Investments in subsidiaries	17	**-**	-	**52,801,199**	52,801,199
Investment in associates		**150**	150	**-**	-
Investments in jointly controlled entities	17	**-**	-	**17,314,460**	17,314,460
Loans and receivables	17	**8,941,054**	8,970,321	**11,024,760**	3,432,970
Other cash at bank	26	**137,327**	-	**-**	-
		115,189,201	128,854,019	**81,140,419**	73,548,629
Current assets					
Inventories	18	**755,790**	1,224,929	**-**	-
Trade and other receivables	19	**10,709,687**	10,085,145	**5,659,121**	4,239,464
Loans and receivables	17	**26,042**	94,264	**198,272**	1,060,642
Current tax asset		**321,265**	217,734	**242,463**	117,102
Cash and cash equivalents	26	**21,898,444**	664,930	**19,583,881**	22,765
Other cash at bank	26	**211,349**	-	**-**	-
		33,922,577	12,287,002	**25,683,737**	5,439,973
Assets classified as held for sale	14	**651,984**	-	**-**	-
Total assets		**149,763,762**	141,141,021	**106,824,156**	78,988,602
EQUITY AND LIABILITIES					
Equity attributable to the owners of the holding company					
Share capital	25	**36,583,660**	36,583,660	**36,583,660**	36,583,660
Currency translation reserve		**1,522,222**	85,197	**-**	-
Retained earnings / (Accumulated losses)		**2,266,815**	(465,641)	**633,676**	504,185
Total equity		**40,372,697**	36,203,216	**37,217,336**	37,087,845

Statements of financial position (continued)

31 October 2014

	Notes	Group 2014 €	Group 2013 €	Holding 2014 €	Holding 2013 €
Non-current liabilities					
Bank loans	*21*	**15,667,811**	25,222,246	**5,668,392**	9,384,001
Other financial liabilities	*22*	**57,192,619**	25,725,356	**61,967,568**	30,140,386
Trade and other payables	*20*	**2,648,327**	4,738,226	**-**	-
Deferred tax liabilities	*24*	**9,731,882**	11,814,605	**-**	-
		85,240,639	67,500,433	**67,635,960**	39,524,387
Current liabilities					
Trade and other payables	*20*	**14,818,558**	19,199,815	**1,230,077**	428,132
Bank overdrafts and loans	*21*	**7,175,070**	15,772,138	**740,782**	1,450,651
Current tax liabilities		**28,501**	45,489	**-**	-
Other financial liabilities	*22*	**1,207,089**	2,419,930	**-**	497,587
		23,229,218	37,437,372	**1,970,859**	2,376,370
Liabilities directly associated with assets classified as held for sale	*14*	**921,208**	-	**-**	-
Total liabilities		**109,391,065**	104,937,805	**69,606,819**	41,900,757
Total equity and liabilities		**149,763,762**	141,141,021	**106,824,155**	78,988,602

These financial statements were approved by the board of directors, authorised for issue on 24 February 2015 and signed on its behalf by:

Winston V. Zahra
Chairman

Winston J. Zahra
Chief Executive Officer

Statement of changes in equity - Group

Year ended 31 October 2014

Group

	Equity attributable to the owners of the holding company			
	Share capital €	**Currency translation reserve €**	**Retained earnings/ (Accumulated losses) €**	**Total €**
Balance at 31 October 2012	**36,340,160**	**905,637**	**(776,860)**	**36,468,937**
Issue of ordinary shares (note 25)	243,500	-	(243,500)	-
Profit for the year	-	-	554,719	554,719
Other comprehensive expense for the year	-	(820,440)	-	(820,440)
Total comprehensive (expense)/income for the year	-	(820,440)	554,719	(265,721)
Balance at 31 October 2013	**36,583,660**	**85,197**	**(465,641)**	**36,203,216**
Profit for the year	-	-	2,732,456	2,732,456
Other comprehensive income for the year	-	1,437,025	-	1,437,025
Total comprehensive income for the year	-	1,437,025	2,732,456	4,169,481
Balance at 31 October 2014	**36,583,660**	**1,522,222**	**2,266,815**	**40,372,697**

Statement of changes in equity – Holding company

Year ended 31 October 2014

Holding company

	Share capital €	Retained earnings €	Total €
Balance at 31 October 2012	36,340,160	67,492	36,407,652
Issue of ordinary shares (note 25)	243,500	-	243,500
Profit/total comprehensive income for the year	-	436,693	436,693
Balance at 31 October 2013	**36,583,660**	**504,185**	**37,087,845**
Profit/total comprehensive income for the year	-	129,491	129,491
Balance at 31 October 2014	**36,583,660**	**633,676**	**37,217,336**

Statements of cash flows

Year ended 31 October 2014

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Cash flows from operating activities				
Profit before tax from:				
Continuing operations	**2,466,995**	685,561	**197,477**	502,187
Discontinued operations	**672,639**	(240,536)	**-**	-
Profit before tax	**3,139,634**	445,025	**197,477**	502,187
Adjustments for:				
Depreciation and amortisation	**3,252,399**	3,206,896	**-**	-
Movement in provision for bad debts	**351,468**	2,266	**-**	-
Bad debts written off	**126,765**	31,045	**-**	-
Loss on disposal of property, plant and equipment	**68,277**	56,492	**-**	-
Share of losses of associates	**-**	25,000	**-**	-
Gain on disposal of subsidiary	**(1,975,400)**	-	**-**	-
Interest income	**(67,217)**	(60,538)	**(340,330)**	(123,127)
Dividend income	**-**	-	**(2,150,384)**	(1,923,077)
Interest expense	**3,386,502**	2,916,081	**2,277,218**	1,526,754
Operating profit/(loss) before working capital movements	**8,282,428**	6,622,267	**(16,019)**	(17,263)
Movement in inventory	**426,945**	(13,288)	**-**	-
Movement in trade and other receivables	**(1,581,521)**	(1,444,940)	**(1,419,656)**	(1,453,274)
Movement in trade and other payables	**(3,689,954)**	1,860,712	**801,945**	(19,581)
Cash flows from operations	**3,437,898**	7,024,751	**(633,730)**	(1,490,118)
Interest paid	**(3,386,502)**	(2,651,187)	**(2,277,218)**	(1,526,754)
Taxation paid	**(110,819)**	(138,937)	**(193,347)**	(168,421)
Net cash flows from operating activities	**(59,423)**	4,234,627	**(3,104,295)**	(3,185,293)
Cash flows from investing activities				
Purchase of property, plant and equipment	**(3,274,476)**	(4,242,418)	**-**	-
Purchase of intangible assets	**(61,915)**	(105,079)	**-**	-
Proceeds from sale of property, plant and equipment	**82,423**	119,752	**-**	-
Net cash flow on disposal of subsidiary	**5,660,788**	-	**-**	-
Movement in loans and other receivables	**97,489**	(895,444)	**(6,729,420)**	(1,583,875)
Other cash at bank held as guarantee	**(348,676)**	-	-	-
Dividends received	**-**	-	**2,150,384**	1,923,077
Payment for the issued share capital of an associate	**-**	(25,000)	**-**	-
Interest received	**67,217**	60,538	**340,330**	123,127
Net cash flows from investing activities	**2,222,850**	(5,087,651)	**(4,238,706)**	462,329
Cash flows from financing activities				
Movement in bank loans	**(5,216,955)**	(1,087,854)	**(4,425,478)**	1,591,715
Proceeds from issue of bond	**34,298,521**	**-**	**-**	**-**
Movement in related party balances	**(3,450,398)**	1,609,978	**31,329,595**	1,154,014
Movement in obligations under finance lease	**309,513**	215,364	**-**	-
Net cash flows from financing activities	**25,940,681**	737,488	**26,904,117**	2,745,729
Net movement in cash and cash equivalents	**28,104,108**	(115,536)	**19,561,116**	22,765
Cash and cash equivalents at the beginning of the year	**(10,403,284)**	(10,267,390)	**22,765**	-
Effect of foreign exchange rate changes	**234,369**	(20,358)	**-**	-
Cash and cash equivalents at the end of the year (note 26)	**17,935,193**	(10,403,284)	**19,583,881**	22,765

Notes to the financial statements

31 October 2014

1. Basis of preparation

The financial statements have been prepared on the historical cost basis, and in accordance with International Financial Reporting Standards as adopted by the EU. Assets acquired during the current year and the previous financial years, including leasehold land and buildings, are carried on the historical cost basis, which represents their fair values at the effective date of the respective business combinations less, where applicable, accumulated depreciation and accumulated impairment losses.

The significant accounting policies adopted are set out below.

2. Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the holding company and entities controlled by the holding company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (ie reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The consideration is measured at the aggregate of the acquisition-date fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer in exchange for control of the acquiree. An adjustment to the cost of the combination contingent on future events is measured at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration that are the result of additional information obtained after the acquisition date about facts and circumstances that existed at the acquisition date and that qualify as measurement period adjustments are adjusted against the cost of acquisition. The accounting treatment of all other subsequent changes in the fair value of contingent consideration that are not measurement period adjustments depends on whether the contingent consideration is a financial liability or a non-financial liability. Changes in the fair value of contingent consideration classified as equity are not recognised.

Acquisition-related costs are recognised in profit or loss as incurred, except for the costs to issue debt or equity securities.

The acquiree's identifiable assets and liabilities that meet the conditions for recognition are generally recognised at their fair values at the acquisition date, except as stipulated in IFRS 3 "Business Combinations". A contingent liability assumed in a business combination is recognised at the acquisition date if there is a present obligation that arises from past events and its fair value can be measured reliably. Such contingent liabilities are subsequently measured at the higher of the amount that would be recognised in accordance with IAS 37 "Provisions, Contingent liabilities and Contingent assets" and the amount initially recognised less, if appropriate, cumulative amortisation.

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of (a) the aggregate of: (i) the consideration transferred; (ii) the amount of any non-controlling interest in the acquiree; and (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is subsequently measured at cost less any accumulated impairment losses. Any gain on a bargain purchase, after reassessment, is recognised immediately in profit or loss.

Notes to the financial statements

31 October 2014

2. Significant accounting policies (continued)

Business combinations (continued)

Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on an acquisition-by-acquisition basis. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required. After initial recognition, non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since that date. Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the holding company's owners' equity therein. Non-controlling interests in the profit or loss and other comprehensive income of consolidated subsidiaries are also disclosed separately. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Goodwill

For the purposes of impairment testing, goodwill is allocated to each of the group's cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investment in subsidiaries and jointly controlled entities in the holding company's financial statements

Investments in subsidiaries and jointly controlled entities in the holding company's financial statements are accounted for on the basis of the direct equity interest and are stated at cost less any accumulated impairment losses. Dividends from the investments are recognised in profit or loss.

Interests in jointly controlled entities

A joint venture is a contractual arrangement whereby the group entities and other parties undertake an economic activity that is subject to joint control, that is, when the strategic financial and operating decisions relating to the activities require the unanimous consent of the parties sharing control. Joint venture arrangements which involve the establishment of an entity in which each venturer has an interest are referred to as jointly controlled entities.

The group reports its interests in jointly controlled entities using proportionate consolidation from the date that joint control commences until the date that joint control ceases. The group's share of the assets, liabilities, income and expenses of the jointly controlled entity is combined with similar items in the group's financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the group's interest in a jointly controlled entity is accounted for in accordance with the group's accounting policy for goodwill arising in a business combination.

Where the group transacts with its jointly controlled entities, profits and losses resulting from the transactions with the jointly controlled entities are eliminated in the group's consolidated financial statements only to the extent of the group's interests in the jointly controlled entities.

Interests in associated undertakings

An associate is an entity over which the group entities have significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting from the date that significant influence commences until the date that significant influence ceases. Under the equity method, investments in associates are initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of net assets of the associates, less any impairment in the value of individual investments.

Notes to the financial statements

31 October 2014

2. Significant accounting policies (continued)

Interests in associated undertakings (continued)

The group's share of the post-acquisition profit or loss of the associates is recognised in profit or loss and the group's share of the post-acquisition changes in other comprehensive income is recognised in other comprehensive income. Distributions received from an investee reduce the carrying amount of the investment.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is excluded from the carrying amount of the investment and recognised in profit or loss.

Property, plant and equipment

The group's property, plant and equipment are classified into the following classes – freehold and leasehold land and buildings (inclusive of improvement to premises), motor vehicles, plant and machinery and furniture, fittings, and other equipment.

Property, plant and equipment are initially measured at cost. When acquired as part of a business combination cost reflects their fair value at the acquisition date. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

Freehold and leasehold land and buildings are held for use in the supply of services or for administrative purposes. Subsequent to initial recognition, freehold/leasehold land and buildings are stated at fair value at the acquisition date less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Other property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Properties in the course of construction

Properties in the course of construction for production, supply or administrative purposes are classified as property, plant and equipment and are carried at cost, less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the company's accounting policy on borrowing costs. Depreciation of these assets, on the same basis as other property assets, commences when the assets are available for use.

Depreciation

Depreciation commences when the depreciable assets are available for use and is charged to profit or loss so as to write off the cost, less any estimated residual value, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	-	2% - 6.67% per annum
Leasehold land	-	by annual instalments over the remaining term of the lease
Motor vehicles	-	20% per annum
Plant and machinery	-	6% - 20% per annum
Furniture, fittings and other equipment	-	12.5% - 33.3% per annum

The depreciation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

Notes to the financial statements

31 October 2014

2. Significant accounting policies (continued)

Intangible assets

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the group and the cost of the asset can be measured reliably. Intangible assets are initially measured at cost, being the fair value at the acquisition date for intangible assets acquired in a business combination. Expenditure on an intangible asset is recognised as an expense in the period when it is incurred unless it forms part of the cost of the asset that meets the recognition criteria. The useful life of intangible assets is assessed to determine whether it is finite or indefinite. Intangible assets with a finite useful life are amortised. Amortisation is charged to profit or loss so as to write off the cost of intangible assets less any estimated residual value, over their estimated useful lives. Amortisation is recognised on a straight-line basis over their estimated useful lives. The amortisation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

After initial recognition, each class of intangible assets is carried at cost less any accumulated amortisation and any accumulated impairment losses.

The group's intangible assets mainly comprise concessions, computer software, lease premium fee, design fee and other rights.

The following useful lives are used in the calculation of amortisation:

Concessions	-	2 – 10 years
Design fee and other rights	-	5 years from the opening of the retail outlet
Computer software	-	3 years
Lease premium fee	-	by annual instalments over the remaining term of the lease

Other financial instruments

Financial assets and financial liabilities are recognised when the group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at their fair value plus directly attributable transaction costs for all financial assets or financial liabilities not classified at fair value through profit or loss.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the group entity has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities are derecognised when they are extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

Notes to the financial statements

31 October 2014

2. Significant accounting policies (continued)

Other financial Instruments (continued)

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

(i) Trade and other receivables

Trade and other receivables are classified with current assets and are stated at their nominal value unless the effect of discounting is material. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

(ii) Investments

The group's investments other than investments in subsidiaries, associates and jointly controlled entities comprise loans and receivables. The classification of investments depends on the purpose for which the investments were acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that are held for trading or are designated upon initial recognition as at fair value through profit or loss or as available-for-sale financial assets or those for which the group may not recover substantially all of its initial investment other than because of credit deterioration.

After initial recognition, loans and receivables are recognised at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the financial asset is derecognised, or impaired, or through the amortisation process. When applying the effective interest method, the annual amortisation of any discount or premium is aggregated with other investment income receivable over the term of the instrument, if any, so that the revenue recognised in each period represents a constant yield on the investment.

(iii) Bank borrowings

Subsequent to initial recognition, interest-bearing bank loans are measured at amortised cost using the effective interest method. Bank loans are carried at face value due to their market rate of interest.

Subsequent to initial recognition, interest-bearing bank overdrafts are carried at face value in view of their short-term maturities.

(iv) Other financial liabilities

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method unless the effect of discounting is immaterial.

(v) Trade and other payables

Trade and other payables are classified with current and non-current liabilities, as applicable, and are stated at their nominal value, unless the effect of discounting is material, in which case trade payables are measured at amortised cost using the effective interest method.

(vi) Shares issued by the company

Ordinary shares issued by the company are classified as equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average method and comprises expenditure incurred in acquiring the inventories and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the costs to be incurred in marketing, selling and distribution.

Notes to the financial statements

31 October 2014

2. Significant accounting policies (continued)

Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell. An impairment loss is recognised in profit or loss. Non-current assets are not depreciated (or amortised) while they are classified as held for sale or while they are part of a disposal group classified as held for sale.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

Provisions

Provisions are recognised when a group entity has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

Impairment

At the end of each reporting period, the carrying amount of assets, including cash-generating units, is reviewed to determine whether there is any indication or objective evidence of impairment, as appropriate, and if any such indication or objective evidence exists, the recoverable amount of the asset is estimated.

Goodwill is tested for impairment annually and whenever there is an indication of impairment.

In the case of financial assets that are carried at amortised cost, objective evidence of impairment includes observable data about the following loss events – significant financial difficulty of the issuer (or counterparty), or a breach of contract, or it becoming probable that the borrower will enter bankruptcy or other financial reorganisation, or the group entity, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the group entity would not otherwise consider.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

For loans and receivables, if there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

In the case of other assets tested for impairment, the recoverable amount is the higher of fair value (which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date) less costs of disposal and value in use (which is the present value of the future cash flows expected to be derived, discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset). Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated.

Goodwill is allocated to each of the company's cash-generating units expected to benefit from the synergies of the combination. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Where a cash-generating unit to which goodwill has been allocated is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal.

Notes to the financial statements

31 October 2014

2. Significant accounting policies (continued)

Impairment (continued)

Impairment losses are recognised immediately in profit or loss unless the asset is carried at a revalued amount, in which case, the impairment loss is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that asset.

For loans and receivables, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account.

In the case of other assets tested for impairment, an impairment loss recognised in a prior period is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment reversals are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case, the impairment reversal is recognised in other comprehensive income and increases the revaluation surplus for that asset, unless an impairment loss on the same asset was previously recognised in profit or loss.

For a cash-generating unit, the carrying amount is not increased above the lower of its recoverable amount (if determinable) and the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit, except for goodwill.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold and services provided in the normal course of business, net of value added tax and discounts, where applicable. Revenue is recognised to the extent that it is probable that future economic benefits will flow to the group and these can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue from the sale of goods on a retail basis is recognised at point of sale. Revenue from the sale of goods is recognised on the transfer of the risks and rewards of ownership, which generally coincides with the time of delivery, when the costs incurred or to be incurred in respect of the transaction can be measured reliably and when the respective entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(ii) Provision of services

Revenue from the provision of services is recognised in the period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) Vacation ownership arrangements

The group's share of revenue from vacation ownership arrangements is recognised in the period in which the services are rendered, by reference to the stage of completion of the transaction at the end of the reporting period. The recognition criteria for revenue are applied to the separately identifiable components of such transactions in order to reflect the substance of the transactions. To the extent that the upfront fees do not include an identifiable amount for subsequent services and do not relate to the provision of future services, they are recognised as revenue when the service is rendered, at the inception of the arrangement, to the extent that no significant uncertainty as to their collectability exists. The annual fees are recognised in the period to which they relate.

A consistent accounting policy is applied in respect of exchange transactions which result in an upgrade of previously acquired intervals for superior and more expensive intervals. To the extent that the cost differential that is receivable on upgrade does not include an identifiable amount for subsequent services and does not relate to the provisions of future services, it is recognised as revenue when the upgrade is made, to the extent that no significant uncertainty as to its collectability exists. The higher annual fees over the remaining term of the new arrangement are recognised in the period to which they relate.

Notes to the financial statements

31 October 2014

2. Significant accounting policies (continued)

Revenue recognition (continued)

(iv) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

(v) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

Government grants

Government grants are recognised when there is reasonable assurance that all the conditions attaching to them are complied with and the grants will be received.

Government grants related to income are recognised in profit or loss over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Such grants are deducted in reporting the related expense.

Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset. The grant is recognised as income over the life of the depreciable asset by way of a reduced depreciation charge.

Borrowing costs

Borrowing costs include the costs incurred in obtaining external financing.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised from the time that expenditure for these assets and borrowing costs are being incurred and activities that are necessary to prepare these assets for their intended use or sale are in progress. Borrowing costs are capitalised until such time as the assets are substantially ready for their intended use or sale. Borrowing costs are suspended during extended period in which active development is interrupted. All other borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases. Lease classification is made at the inception of the lease, which is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provision of the lease.

Rentals payable under operating leases, less the aggregate benefit of incentives received from the lessor, are recognised as an expense in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. Assets held under finance leases are recognised in the statement of financial position as assets of the company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments and include initial direct costs. Capitalised leased assets are tested for impairment in accordance with the company's accounting policy on impairment and are depreciated in accordance with the company's accounting policy on property, plant and equipment over the shorter of the lease term and their useful life, unless there is reasonable certainty that the company will obtain ownership by the end of the lease term, in which case the assets are depreciated over the period of their useful life. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in profit or loss.

Notes to the financial statements

31 October 2014

2. Significant accounting policies (continued)

Taxation

Current and deferred tax is charged or credited to profit or loss, except when it relates to items recognised in other comprehensive income or directly to equity, in which case the current and deferred tax is also dealt with in other comprehensive income or in equity, as appropriate.

Current tax is based on the taxable result for the period. The taxable result for the period differs from the result as reported in profit or loss because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets, including deferred tax assets for the carry forward of unused tax losses and unused tax credits, are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither accounting profit nor taxable profit.

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

Deferred tax assets are recognised for deductible temporary differences arising on investments in subsidiaries and interests in associates and joint ventures where it is probable that taxable profit will be available against which the temporary difference can be utilised and it is probable that the temporary difference will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current tax assets and liabilities are offset when there is a legally enforceable right to set off the recognised amounts and the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the group intends to settle the tax assets and tax liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Employee benefits

The group contributes towards the state pension in accordance with local legislation. The only obligation of the group is to make the required contributions. Costs are expensed in the period in which they are incurred.

Currency translation

The individual financial statements of each group entity are drawn up in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Euro, which is the functional currency of the holding company and the presentation currency for the separate and the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are re-translated to the functional currency at the exchange rate ruling at year-end.

Notes to the financial statements

31 October 2014

2. Significant accounting policies (continued)

Currency translations (continued)

Exchange differences arising on the settlement and on the re-translation of monetary items are dealt with in profit or loss. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured at fair value are re-translated using the exchange rate ruling on the date the fair value was measured. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured in terms of historical cost are not re-translated. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

Foreign exchange gains and losses are included within operating profit, except in the case of significant exchange differences arising on investing or financing activities, which are classified within investment income, investment losses or finance costs as appropriate.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated to Euro at the exchange rates ruling at the date of the statement of financial position. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. Such differences are reclassified from equity to profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. Bank overdrafts that are repayable on demand and that form an integral part of the group's cash management, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows and are presented in current liabilities on the statement of financial position.

Dividends

Dividends to holders of equity instruments are recognised as liabilities in the period in which they are declared.

Dividends to holders of equity instruments are recognised directly in equity.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the company determines when transfers are deemed to have occurred between Levels in the hierarchy at the end of each reporting period.

Notes to the financial statements

31 October 2014

3 Judgements in applying accounting policies and key sources of estimation uncertainty

In the process of applying the group's accounting policies, management has made the following judgements which can significantly affect the amounts recognised in the financial statements and at the end of the reporting period, there were the following key assumptions concerning the future, and the following key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period:

(i) *Impairment of goodwill*

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating units ("CGUs") that are expected to benefit from that business combination.

The group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The key assumptions for the calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The directors estimate discount rates using rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. Details of the impairment calculation are set out in note 27.

(ii) *Deferred tax liabilities*

The group holds investments in subsidiaries and jointly controlled entities incorporated in foreign jurisdictions. The profits of these foreign entities are taxed once they are remitted to the holding company. Where the group has the ability to control the underlying investee's dividend distribution policy, management has used its judgement for the estimation of the probability of the future dividend distribution levels expected to flow to the group in the foreseeable future. The criteria used by management are based on the past pattern of dividend payments and the group's plan for reinvestment. Where the group does not have control over the entities dividend distribution policy, the group recognises a deferred tax liability arising in relation to all the undistributed profits of that subsidiary or jointly controlled entity.

A change in the assumptions used or in the estimate as to the probability that past undistributed earnings levels will be remitted would have an impact on the income tax charge/credit and on the deferred tax liabilities recognised in the statement of financial position as disclosed in note 24.

Notes to the financial statements

31 October 2014

4. Application of new and revised International Financial Reporting Standards and International Financial Reporting Standards in issue but not yet effective

Application of new and revised International Financial Reporting Standards

In the current year, the group and the holding company have applied the following:

IFRS 13 Fair Value Measurement, applicable for annual periods beginning on or after 1 January 2013 (with earlier application being permitted). IFRS 13 defines fair value, establishes a single source of guidance for fair value measurements and requires disclosures about fair value measurements. IFRS 13 requires prospective application. In accordance with the transitional provisions set out in the Standard, entities need not apply the disclosure requirements in comparative information provided for periods before the initial application of the Standard. Consequently, the company has not made any new disclosures required by IFRS 13 for the 2013 comparative periods.

The application of IFRS 13 in the current year has resulted in these financial statements incorporating the additional disclosures that are required by the Standard for certain financial and / or non-financial items.

International Financial Reporting Standards were in issue but not yet effective

At the date of authorisation of these financial statements, the following International Financial Reporting Standards were in issue but not yet effective:

IFRS 15 – Revenue from Contracts with Customers. The standard is the result of a convergence project between the IASB and the FASB. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 'Revenue', IAS 11 'Construction Contracts' and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions being leases, financial instruments and insurance contracts. The directors have not yet performed a detailed analysis of the impact of the application of this Standard and hence have not yet quantified the extent of the impact.

IFRS 9 – Financial Instruments issued on 24 July 2014, brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single, forward-looking 'expected loss' impairment model that will require more timely recognition of expected credit losses. This Amendment had not as yet been endorsed by the European Union at the date of authorisation of these financial statements. The directors of the company anticipate that the application of IFRS 9 in the future will not have a significant impact on amounts reported in respect of the company's and the group's financial assets and financial liabilities.

Notes to the financial statements

31 October 2014

4. Application of new and revised International Financial Reporting Standards and International Financial Reporting Standards in issue but not yet effective (continued)

On 12 May 2011, the International Accounting Standards Board (IASB) issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. At the same time, the IASB issued a revised version of IAS 27 *Separate Financial Statements* and a revised version of IAS 28 *Investments in Associates and Joint Ventures.* For companies that apply IFRSs as adopted by the EU, the new and revised Standards are applicable for annual periods beginning on or after 1 January 2014, with earlier application being permitted. These Standards have been endorsed by the European Union.

IFRS 10 *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (that is, whether an entity is controlled through voting rights of the investors or otherwise). IFRS 10 supersedes SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

IFRS 11 *Joint Arrangements* classifies joint arrangements on the basis of their substance by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case in terms of IAS 31 *Interests in Joint Ventures*). Under IFRS 11, joint arrangements are classified as joint ventures or as joint operations. Joint ventures are accounted for using the equity method of consolidation since the use of proportionate consolidation for such arrangements has been eliminated. Joint operations are accounted for in a manner that is similar to the current accounting treatment applicable for jointly controlled assets and jointly controlled operations. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

On 6 May 2014 the IASB issued an Amendment to IFRS 11 Joint Arrangement. These amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. This amendment had not as yet been endorsed by the European Union at the date of authorisation of these financial statements.

IFRS 12 *Disclosure of Interests in Other Entities* addresses disclosure requirements for certain interests in other entities, including joint arrangements, associates, subsidiaries and unconsolidated structured entities. The objective of IFRS 12 is to require an entity to disclose information that enables users of its financial statements to evaluate (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows.

Notes to the financial statements

31 October 2014

4. Application of new and revised International Financial Reporting Standards and International Financial Reporting Standards in issue but not yet effective (continued)

On 28 June 2012, the IASB issued Amendments to IFRS 10, IFRS 11 and IFRS 12 – Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance. The Amendments clarify the transition guidance in IFRS 10 and provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

On 29 May 2013, the IASB issued Amendments to IAS36 – Recoverable Amount Disclosures for Non-Financial Assets. These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. Earlier application is permitted for periods when the entity has already applied IFRS 13.

The directors anticipate that the application of these standards will have a significant impact on amounts reported in the consolidated financial statements. The application of IFRS 11 will change the classification and subsequent accounting of all of the group's investments in jointly controlled entities, which are currently being classified as jointly controlled entities under IAS 31 and accounted for using the proportionate consolidation method. Under IFRS 11, all these investments will be classified as a joint venture and accounted for using the equity method, resulting in the aggregation of the group's proportionate share of the net assets and items of profit or loss and other comprehensive income of these entities into a single line item which will be presented in the consolidated statement of financial position and in the consolidated statement of profit or loss and other comprehensive income as 'investment in joint venture' and 'share of profits/(losses) of joint ventures' respectively.

5. Revenue

Revenue for the group represents the amount receivable for services from continuing operations rendered during the year, net of sales rebates and any indirect taxes.

	Group		**Holding**	
	2014	2013	**2014**	2013
	€	€	**€**	€
Accommodation, catering and ancillary services	**36,403,603**	30,521,774	**-**	-
Interest income	**155,114**	147,347	**-**	-
	36,558,717	30,669,121	**-**	-

6. Business and geographical segments

For management purposes, the group is organised into one major operating division which includes ownership, development and operations of hotels and other leisure facilities, as well as the provision of catering services. Up to the year ended 31 October 2014, the group only operated in Malta. Hence disclosure of separate business and geographical segment information is not applicable to the group.

Notes to the financial statements

31 October 2014

7. Investment income from continuing operations

	Group 2014 €	Group 2013 €	Holding 2014 €	Holding 2013 €
Dividends received from subsidiaires and jointly controlled entities	**-**	-	**2,150,384**	1,923,077
Interest income on bank deposits	**1,854**	950	**1,475**	-
Interest income on loans and receivables from group undertakings	**-**	-	**289,530**	115,497
Interest income on loans and receivables from jointly controlled entities	**43,245**	51,958	**-**	-
Interest income on loans and receivables from related parties	**22,118**	7,630	**49,325**	7,630
	67,217	60,538	**2,490,714**	2,046,204

8. Finance costs from continuing operations

	Group 2014 €	Group 2013 €	Holding 2014 €	Holding 2013 €
This is charged:				
On debt securities	**1,738,333**	910,000	**1,738,333**	910,000
On bank loans and overdrafts	**1,448,732**	1,479,573	**441,490**	501,056
Amortisation of bond expenses	**30,500**	-	**30,500**	-
On amounts due to group undertakings	**-**	-	**37,133**	97,304
On amounts due to shareholders	**84,918**	88,241	**29,762**	18,394
On amounts due to related parties	**29,006**	28,637	**-**	-
On obligations under finance lease	**12,331**	9,899	**-**	-
Other finance charges	**42,682**	24,691	**-**	-
	3,386,502	2,541,041	**2,277,218**	1,526,754

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9. Profit for the year from continuing operations

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
This is stated after charging:				
Depreciation and amortisation	**3,007,345**	2,828,871	**-**	-
Movement in provision for bad and doubtful trade receivables	**351,468**	2,266	**-**	-
Net exchange differences	**(24,068)**	255,138	**-**	-

The analysis of amounts that are payable to the auditors in relation to the year presented is as follows:

	Group		Holding	
	2014	**2013**	**2014**	**2013**
	€	**€**	**€**	**€**
Annual statutory audit:				
- *Group auditors*	**40,550**	33,100	**11,000**	10,000
Other assurance services	**250**	958	**-**	-
Tax advisory services	**19,630**	4,260	**-**	-
Other non-audit services	**88,003**	72,198	**41,885**	8,210
	148,433	110,516	**52,885**	18,210

10. Key management personnel compensation

	Group and Holding	
	2014	2013
	€	€
Key management personnel compensation		
Short-term benefits	**692,058**	628,756

Included in the above are emoluments paid in respect of the current year to the company's directors amounted to *€473,064* (2013 - *€424,659*).

11. Staff costs and employee information from continuing operations

	Group	
	2014	2013
	€	€
Staff costs:		
Wages and salaries	**8,738,358**	8,284,041
Social security costs	**633,609**	607,943
	9,371,967	8,891,984
Sub-contracted labour	**2,881,056**	2,620,623
Capitalised labour costs	**(111,475)**	(229,892)
	12,141,548	11,282,715

The average number of persons employed by the group during the year, including executive directors, was made up as follows:

	Group	
	2014	2013
	Number	Number
Administration	**94**	87
Operations	**354**	352
	448	439

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12. Income tax expense/(credit) in profit or loss from continuing operations

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Tax charge/(credit) for the year:				
Current tax (credit)/expense	**(9,699)**	(10,264)	**67,986**	65,494
Deferred tax expense (note 24)	**946,623**	59	**-**	-
	936,924	(10,205)	**67,986**	65,494

Tax applying the statutory domestic income tax rate and the income tax expense/(credit) for the year are reconciled as follows:

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Profit before tax	**2,466,995**	685,561	**197,477**	502,187
Tax at the applicable rate of 35%	**863,448**	239,946	**69,117**	175,765
Tax effect of:				
Depreciation of non-eligible asset	**25,188**	25,943	**-**	-
Net differences on intra-group dividends eliminated on consolidation	**(176,806)**	(107,164)	**-**	-
Income taxed at different rates	**-**	-	**(249,271)**	(241,238)
Disallowable expenses	**348,453**	100,695	**248,140**	130,967
Investment tax credit absorbed	**(161,751)**	(306,342)	**-**	-
Other differences	**38,392**	36,717	**-**	-
	936,924	(10,205)	**67,986**	65,494

13. Discontinued operations

Disposal of 100% equity interest in Coastline Hotel Limited

On 19 February 2014 the group entered into a promise of sale agreement for the disposal of its 100% equity interest in Coastline Hotel Limited, a subsidiary which owns and operates the Coastline Hotel, a four star hotel located at Salina Bay. The sale of this asset from the portfolio of the group is in line with the company's current strategy to focus on the five star segment of the local hotel industry. The sale was completed on 2 May 2014, on which date control of the Coastline Hotel passed to the acquirer. Details of the assets and liabilities disposed of, and the calculation of profit on disposal, are disclosed in note 28.

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13. Discontinued operations (continued)

Termination of joint venture with MKIC Limited

On 31 October 2014 MKIC Limited ceased operations and the group started the process of transferring its 50% equity shareholding in the company. MKIC Limited was principally engaged in the business of catering, organiser, manager and operator of venues for receptions and similar events, restaurants and leisure facilities (note 14).

Profit/(loss) for the year from discontinued operations

The combined results of the discontinued operations relating to the Coastline Hotel Limited and MKIC Limited included in the profit and loss for the year are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued for the current year.

	2014	2013
	€	€
Revenue	**2,049,275**	4,610,482
Expenses	**(3,352,036)**	(4,851,018)
Loss before tax	**(1,302,761)**	(240,536)
Tax credit	**529,746**	99,489
	(773,015)	(141,047)
Gain on disposal of operation (note 28)	**1,975,400**	-
Profit/(loss) for the year from discontinued operation	**1,202,385**	(141,047)

Cash flows from discontinued operation

	2014	2013
	€	€
Net cash flows from operating activities	**(222,125)**	591,495
Net cash flows from investing activities	**(624,188)**	(416,603)
Net cash flows from financing activities	**475,354**	(293,358)
Net cash flows from discontinued operations	**(370,959)**	(118,466)

14. Assets classified as held for sale

	2014	**2013**
	€	**€**
Assets classified as held for sale	**651,984**	**-**
Liability directly associated with assets classified as held for sale	**(921,208)**	**-**
	(269,224)	**-**

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14. Assets classified as held for sale (continued)

As described in note 13, the group intends to dispose of its 50% interest in MKIC Limited within the next twelve months after absorbing its 50% share of net liabilities. The directors estimate the carrying value of assets and liabilities of the company to be equivalent to the value attributed upon disposal and therefore no impairment loss was recognised upon reclassification of the assets and liabilities as held for sale. The major classes of assets and liabilities of MKIC Limited at the end of the reporting period are as follows:

	2014
	€
Assets classified as held for sale	
Property, plant and equipment	**228,465**
Deferred tax asset	**171,081**
Inventories	**34,272**
Trade receivables	**214,817**
Cash and cash equivalents	**3,349**
	651,984
Liabilities directly associated with assets classified as held for sale	
Trade and other payables	**(826,555)**
Bank overdraft	**(94,653)**
	(921,208)

15. Earnings per share

	Group	
	2014	2013
	€	€
Basic/diluted earnings per share		
From continuing operations	**0.042**	0.019
From discontinued operations	**0.033**	(0.004)
Total basic/diluted earnings per share	**0.075**	0.015

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	Group	
	2014	2013
	€	€
Earnings:		
From continuing operations	**1,530,071**	695,766
From discontinued operations	**1,202,385**	(141,047)
Total basic/diluted earnings per share	**2,732,456**	554,719
Weighted average number of shares	**36,583,660**	36,424,885

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16. Property, plant and equipment and intangible assets

Property, plant and equipment

Group

	Freehold/ leasehold land and buildings €	Motor vehicles €	Plant and machinery €	Furniture fittings and other equipment €	Total €
Cost					
At 31.10.2012	75,981,597	375,769	15,664,606	22,457,772	114,479,744
Additions	1,296,386	35,829	800,960	2,109,243	4,242,418
Disposals	(24)	(53,693)	(463,392)	(234,440)	(751,549)
Effect of foreign currency exchange differences	-	(242)	(2,234)	(17,953)	(20,429)
At 31.10.2013	77,277,959	357,663	15,999,940	24,314,622	117,950,184
Additions	812,938	33,325	439,027	1,989,186	3,274,476
Disposals	(14,581)	(82,974)	(394,654)	(408,328)	(900,537)
Derecognised on disposal of subsidiary	(17,140,070)	(41,929)	(1,995,690)	(3,719,296)	(22,896,985)
Transfer to held for sale	-	-	(9,216)	(271,478)	(280,694)
Effect of foreign currency exchange differences	-	375	3,565	29,655	33,595
At 31.10.2014	60,936,246	266,460	14,042,972	21,934,361	97,180,039
Accumulated depreciation					
At 31.10.2012	5,964,327	321,087	9,581,837	13,587,728	29,454,979
Provision for the year	1,043,502	28,442	845,350	1,161,209	3,078,503
Eliminated on disposal	-	(53,694)	(455,139)	(66,473)	(575,306)
Effect of foreign currency exchange differences	-	(30)	(1,878)	(16,541)	(18,449)
At 31.10.2013	7,007,829	295,805	9,970,170	14,665,923	31,939,727
Provision for the year	916,229	29,881	929,309	1,174,870	3,050,289
Eliminated on disposal	(3,376)	(73,538)	(374,487)	(298,444)	(749,845)
Derecognised on disposal of subsidiary	(3,798,066)	(41,929)	(1,585,731)	(2,746,356)	(8,172,082)
Transfer to held for sale	-	-	(1,382)	(50,842)	(52,224)
Effect of foreign currency exchange differences	-	148	3,384	29,426	32,958
At 31.10.2014	4,122,616	210,367	8,941,263	12,774,577	26,048,823
Carrying amount					
At 31.10.2013	70,270,130	61,858	6,029,770	9,648,699	86,010,457
At 31.10.2014	**56,813,630**	**56,093**	**5,101,709**	**9,159,784**	**71,131,216**

Notes to the financial statements

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16. Property, plant and equipment and intangible assets (continued)

Property, plant and equipment (continued)

Included in the figure of cost are assets amounting to *€9,246,982* (2013 – *€8,464,240)* representing assets in the course of construction and have therefore not been depreciated. No interest on borrowings undertaken to finance these assets has been capitalised during the year (2013 - *€347,121).*

The carrying amount of the group's plant and machinery and furniture, fittings and other equipment includes *€507,844* (2013 - *€211,394*) in respect of assets held under finance leases.

Intangible assets

Group

	Concessions €	Computer software €	Design fee and other rights €	Lease premium fee €	Total €
At 31.10.2012	657,000	211,402	83,976	-	952,378
Additions	-	238	12,341	92,500	105,079
At 31.10.2013	657,000	211,640	96,317	92,500	1,057,457
Additions	-	3,526	61,915	-	65,441
At 31.10.2014	657,000	215,166	158,232	92,500	1,122,898
Accumulated amortisation					
At 31.10.2012	172,654	30,345	560	-	203,559
Amortisation expense	88,272	30,468	6,974	2,500	128,214
At 31.10.2013	260,926	60,813	7,534	2,500	331,773
Amortisation expense	87,778	93,616	15,520	6,000	202,914
At 31.10.2014	348,704	154,429	23,054	8,500	534,687
Carrying amount					
At 31.10.2013	396,074	150,827	88,783	90,000	725,684
At 31.10.2014	**308,296**	**60,737**	**135,178**	**84,000**	**588,211**

The amortisation expense has been included in the line item 'Depreciation and amortisation expense' in the statement of profit or loss.

Notes to the financial statements

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17. Financial assets

(i) *Investment in subsidiaries and jointly controlled entities*

These are stated at cost in the separate financial statements and comprise:

	Investment in subsidiaries €	Investment in jointly controlled entities €	Total €
Carrying amount			
At 31.10.2012	52,801,199	17,070,960	69,872,159
Additions	-	243,500	243,500
At 31.10.2013/**31.10.2014**	**52,801,199**	**17,314,460**	**70,115,659**

During the financial year ending 31 October 2013, as a result of the successful extension of one of the catering concessions by Buttigieg Holdings Limited, Island Hotels Group Holdings p.l.c. issued an additional 243,500 ordinary shares at a nominal value of €1 each to the former shareholders of Buttigieg Holdings Limited. In return, the holding company received additional 84,700 ordinary shares of €5 each in the jointly controlled entity. The equity holding before and after the issue of shares by the jointly controlled entity remained at the same percentage of 50%.

The group consolidates the results and financial position of the following subsidiaries and jointly controlled entities:

	Proportion of ownership interest 2014 %	Proportion of ownership interest 2013 %
Subsidiary undertakings:		
Island Hotels Group Limited Radisson Blu Resort, St Julians, Louis V. Farrugia Street, St George's Bay, St Julians, Malta.	**100**	**100**
Bay Point Hotel Limited Radisson Blu Resort, St Julians, Louis V. Farrugia Street, St George's Bay, St Julians, Malta.	**100**	**100**
Coastline Hotel Limited Radisson Blu Resort, St Julians, Louis V. Farrugia Street, St George's Bay, St Julians, Malta.	**-**	**100**
Island Caterers Limited Radisson Blu Resort, St Julians, Louis V. Farrugia Street, St George's Bay, St Julians, Malta.	**100**	**100**
Bay Point Properties Limited Radisson Blu Resort, St Julians, Louis V. Farrugia Street, St George's Bay, St Julians, Malta.	**100**	**100**
Island Resorts International Limited Akara Building, 24 De Castro Street, Wickham's Cay 1, Road Town, Tortola, British Virgin Islands.	**100**	**100**
Bay Point Collection Limited Akara Building, 24 De Castro Street, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands	**100**	**100**

Notes to the financial statements

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17. Financial assets (continued)

(i) *Investment in subsidiaries and jointly controlled entities (continued)*

	Proportion of ownership interest 2014 %	Proportion of ownership interest 2013 %
Jointly controlled entities of Island Hotels Group Limited:		
Golden Sands Resort Limited The Radisson Blu Resort & Spa, Golden Sands Golden Bay, l/o Mellieha, Malta	**50**	50
Azure Services Limited Suite 1, Level 2, TG Complex Brewery Street, Mriehel, Malta	**50**	**50**
The Heavenly Collection Limited The Radisson Blu Resort & Spa, Golden Sands Golden Bay, l/o Mellieha, Malta	**50**	**50**
Jointly controlled entities of Island Resorts International Limited:		
Vacation Financial Limited 325 Waterfront Drive, Omar Hodge Building 2nd Floor Wickham's Cay Road Town, Tortola, British Virgin Islands	**50**	**50**
Heathfield Overseas Limited 325 Waterfront Drive, Omar Hodge Building 2nd Floor Wickham's Cay Road Town, Tortola, British Virgin Islands	**50**	**50**
Azure Resorts Limited 325 Waterfront Drive, Omar Hodge Building 2nd Floor Wickham's Cay Road Town, Tortola, British Virgin Islands	**50**	**50**
Brooksfield Overseas Limited 325 Waterfront Drive, Omar Hodge Building 2nd Floor Wickham's Cay Road Town, Tortola, British Virgin Islands	**50**	**50**
Medi International Limited 325 Waterfront Drive, Omar Hodge Building 2nd Floor Wickham's Cay Road Town, Tortola, British Virgin Islands	**50**	**50**
Jointly controlled entities of Island Hotels Group Holdings p.l.c. (directly/indirectly):		
Buttigieg Holdings Limited The Penthouse, Papillon Court A, Birbal Street, Balzan, Malta	**50**	**50**
R.J.C. Caterers Limited The Penthouse, Papillon Court A, Birbal Street, Balzan, Malta	**50**	**50**
The Coffee Company Malta Limited The Penthouse, Papillon Court A, Birbal Street, Balzan, Malta	**50**	**50**
The Coffee Company Spain S.L. Calle Floridablanca 98 Planta Ent, Puerta 2, 08015 Barcelona, Spain	**50**	**-**
MKIC Limited Montekristo Estates, Hal Farrug Road, Luqa, Malta	**50**	**50**

The company has the option to acquire at fair value in cash, during a specified period the remaining shares in Buttigieg Holdings Limited.

Notes to the financial statements

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17. Financial assets (continued)

(i) *Investment in subsidiaries and jointly controlled entities (continued)*

The following amounts are included in the group financial statements as a result of the proportionate consolidation of the jointly controlled entities:

	2014 €	2013 €
Current assets	**8,118,963**	6,183,743
Non-current assets	**52,073,394**	53,174,061
Current liabilities	**10,964,743**	12,880,618
Non-current liabilities	**18,166,034**	17,949,785
Income	**20,759,517**	17,487,215
Expenses	**17,610,641**	16,200,802

Notes to the financial statements

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17. Financial assets (continued)

(ii) *Loans and receivables*

Group

	Jointly controlled entities €	Other loans €	Other financial assets €	Related parties €	Total €
Amortised cost					
At 31.10.2013	8,559,970	18,552	23,000	463,063	9,064,585
Less:					
Amounts expected to be settled within 12 months (shown under current assets)	-	-	-	(94,264)	(94,264)
Amount expected to be settled after 12 months	8,559,970	18,552	23,000	368,799	8,970,321
At 31.10.2014	**8,227,589**	**18,552**	**510,059**	**210,896**	**8,967,096**
Less:					
Amounts expected to be settled within 12 months (shown under current assets)	**-**	**-**	**-**	**(26,042)**	**(26,042)**
Amount expected to be settled after 12 months	**8,227,589**	**18,552**	**510,059**	**184,854**	**8,941,054**

Holding

	Subsidiaries €	Other financial assets €	Related parties €	Total €
Amortised cost				
At 31.10.2013	4,007,549	23,000	463,063	4,493,612
Less:				
Amounts expected to be settled within 12 months (shown under current assets)	(966,378)	-	(94,264)	(1,060,642)
Amount expected to be settled after 12 months	3,041,171	23,000	368,799	3,432,970
At 31.10.2014	**10,708,613**	**510,059**	**4,360**	**11,223,032**
Less: amounts expected to be settled within 12 months (shown under current assets)	**(193,912)**	**-**	**(4,360)**	**(198,272)**
Amount expected to be settled after 12 months	**10,514,701**	**510,059**	**-**	**11,024,760**

Notes to the financial statements

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17. Financial assets (continued)

(ii) *Loans and receivables (continued)*

All the amounts owed by subsidiaries are unsecured. The other terms and conditions are as follows:

- *€10,514,700* (2013 – *nil*) bears a fixed interest rate of 6.25% per annum. This amount is repayable on demand with twelve months' notice to be given by the holding company; and
- *€193,192* (2013 – *€562,882*) is interest-free and repayable on demand.

During the financial year ending 31 October 2014, subsidiaries of the holding company settled in full advances amounting to *€3,444,211*. These loans had the following terms and conditions as of 31 October 2013:

- *€1,982,135* which bore a floating interest rates which at the end of the reporting period amounted to 5.2% per annum.
- *€1,016,838* which bore a floating interest rate which as at the end of the reporting period amounted to 4.95% per annum.
- *€445,693*, interest-free and repayable on demand with twelve months' notice to be given by the holding company.

Except for *€1,455,859* (2013 - *€1,455,859*) of the amounts due from jointly controlled entities at the end of the reporting period, which bear interest at the fixed rate of *6.75%* per annum (2013 - *6.75%* per annum), and *€150,000* (2013 – *€150,000*) which bear interest at the fixed rate of *6%* per annum (2013 – *6%* per annum), the remaining amounts due to the group are interest-free. All amounts due from jointly controlled entities are unsecured and are repayable on demand with twelve months' notice.

The amounts owed by related parties of the group are unsecured, bear interest at 5% per annum and are repayable in monthly installments over a period of 9 years. The amounts owed by the related parties of the group and the company in 2013 carried a floating interest rate averaging at 5.2% per annum.

(i) *Other financial assets*

These financial assets represent a cash reserve amounting to *€510,059* (2013 – *€23,000*) deposited with a trustee for the benefit of the holders of the debt securities as disclosed in note 22, in line with the Combined Securities note dated 28 August 2009 for the company to build a sinking fund. The company engaged Bank of Valletta p.l.c., a trustee authorised in terms of the Trusts and Trustee Act (Cap 331 of the Laws of Malta), to provide the services required by the company in connection with this fund. By redemption date, the value of the sinking fund is expected to amount to 50% of the value of the issued bonds. This sinking fund is expected to create a cash reserve from the company's annual surpluses to meet part of the redemption proceeds on the redemption date.

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18. Inventories

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Food, beverage, consumables and maintenance stocks	**755,790**	1,224,929	**-**	-

19. Trade and other receivables

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Trade receivables	**8,262,766**	7,144,106	**-**	-
Amounts owed by group undertakings	**-**	-	**5,499,556**	4,197,024
Amounts owed by jointly controlled entities	**447,177**	378,134	**-**	12,440
Amounts owed by associated undertakings	**2,139**	11,416	**-**	-
Amounts owed by related undertakings	**154,083**	330,142	**-**	30,000
Other receivables	**1,344,247**	1,351,707	**-**	-
Prepayments and accrued income	**499,275**	869,640	**159,565**	-
	10,709,687	10,085,145	**5,659,121**	4,239,464

Interest amounting to *€155,114* (2013 - *€168,912*) was charged on certain trade and other receivables. Amounts owed by group undertakings, jointly controlled entities and related parties are unsecured, interest-free and repayable on demand.

20. Trade and other payables

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Trade payables	**7,442,900**	14,375,714	**30,638**	54,340
Advance deposits	**445,248**	748,906	**-**	-
Other payables	**2,765,250**	2,979,631	**-**	-
Accruals and deferred income	**6,813,487**	5,833,790	**1,199,439**	373,792
	17,466,885	23,938,041	**1,230,077**	428,132
Less: Amounts due for settlement within 12 months (shown under current liabilities)	**(14,818,558)**	(19,199,815)	**(1,230,077)**	(428,132)
Amounts due for settlement after 12 months	**2,648,327**	4,738,226	**-**	-

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21. Bank overdrafts and loans

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Bank overdrafts and overdrawn bank balances (note 26)	**3,871,947**	11,068,214	**-**	-
Bank loans	**18,970,934**	29,926,170	**6,409,174**	10,834,652
	22,842,881	40,994,384	**6,409,174**	10,834,652
Less: amounts due for settlement within 12 months (shown under current liabilities)	**(7,175,070)**	(15,772,138)	**(740,782)**	(1,450,651)
Amounts due for settlement after 12 months	**15,667,811**	25,222,246	**5,668,392**	9,384,001

The bank loans and overdrafts of the group bear floating interest rates averaging between 4.65% - 7.5% (2013 - 4.95% to 7.5%) per annum. The bank loans of the holding company bear a floating interest rate at 4.65% (2013 – between 4.95% and 5.2%) per annum. These are secured by general and special hypothecs on the group's assets, privileges on certain assets and guarantees given by related parties, as well as pledges over the shares in subsidiaries and jointly controlled entities.

22. Other financial liabilities

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Amounts owed to shareholders	**639,793**	2,318,618	**-**	956,708
Amounts owed to group undertakings	**-**	-	**13,669,047**	15,478,308
Amounts owed to related undertakings	**697,469**	3,051,334	**-**	202,957
Amounts owed to associates	**11,459**	-	**-**	-
Debt securities	**48,298,521**	14,000,000	**48,298,521**	14,000,000
Loans and advances from joint venturer	**8,227,589**	8,559,970	**-**	-
Obligations under finance lease	**524,877**	215,364	**-**	-
	58,399,708	28,145,286	**61,967,568**	30,637,973
Less: amounts due for settlement within 12 months (shown under current liabilities)	**(1,207,089)**	(2,419,930)	**-**	(497,587)
Amounts due for settlement after 12 months	**57,192,619**	25,725,356	**61,967,568**	30,140,386

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22. Other financial liabilities (continued)

The amount owed to shareholders of *€639,793* (2013 – *€1,348,294*) is unsecured, bears interest at a fixed rate of *5%* (2013 - *5%*) per annum and is repayable at *€218,000* semi-annually, inclusive of interest.

€956,708 owed to shareholders by the group and holding company in 2013 bore interest at the floating interest rates averaging at 5.2%.

The amounts owed to the related undertakings and associates are interest-free, unsecured and have no fixed date for repayment.

Except for *€1,455,859* (2013 - *€1,455,859*) of the loans and advances payable to the joint venturer by the group at the end of the reporting period, which bears interest at the rate of *6.75%* per annum (2013 – *6.75%* per annum) and an amount of *€150,000* (2013 – *€150,000*) which bears interest at the rate of *6%* (2013 – *6%*) per annum, the remaining amounts due to the joint venturer are interest-free. All loans and advances payable to the joint venturer are unsecured and are repayable on demand with twelve months notice.

The amounts owed to group undertakings by the holding company are interest-free, unsecured and repayable on demand with twelve months notice.

Debt securities comprise 140,000 unsecured bonds bearing interest at 6.5% per annum of €100 each, which are repayable between 2017 and 2019 and which are listed on the Malta Stock Exchange. The market value of these debt securities on the last trading day before the end of the reporting period was of *€104.01* (2013 - *€103.40*). As further disclosed in note 17, in line with the Combined Securities note dated 28 August 2009, the company is required to build a sinking fund, the value of which will, by the redemption date of the bonds, be equivalent to 50% of the value of such bonds.

On 6 May 2014, the company issued a further 350,000 unsecured bonds bearing interest at 6% per annum of €100 each, which are repayable in 2024, and which are listed on the Malta Stock Exchange. The market value of these debt securities on the last trading day before the end of the reporting period was of *€104.01*.

23. Obligations under finance lease

	Minimum lease payments		**Present value of minimum lease payments**	
	2014 €	2013 €	**2014 €**	2013 €
Amounts payable under finance leases:				
Within one year	**110,819**	41,395	**84,733**	30,735
Between two and five years	**436,297**	165,579	**376,282**	138,923
After five years	**67,023**	48,295	**63,863**	45,707
	614,139	255,269	**524,878**	215,365
Less: future finance charges	**(89,262)**	(39,905)	-	-
Present value of lease obligations	**524,877**	215,364	**524,878**	215,365
Less: amounts included in current liabilities			**(84,740)**	(30,735)
Amounts included in non-current liabilities			**440,138**	184,630

It is the group's policy to lease certain plant and machinery, fixtures, fittings and other equipment under finance leases. The average lease term is between 5 and 7 years. For the year ended 31 October 2014 the average effective borrowing rate ranged between 4.95% and 5.25% (2013 – 4.95%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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24. Deferred taxation

Group

	Opening balance €	Recognised in profit or loss €	Recognised in other comprehensive income €	Disposal of subsidiary €	Transferred to assets held for sale €	Closing balance €
2013						
Arising on:						
Temporary differences						
Property, plant and equipment	(14,590,034)	(66,724)	-	-	-	(14,656,758)
Unabsorbed capital allowances	3,426,123	(150,263)	-	-	-	3,275,860
Other temporary differences	(848,390)	(75,915)	4,139	-	-	(920,166)
	(12,012,301)	(292,902)	4,139	-	-	(12,301,064)
Arising on:						
Unused tax losses	94,126	25,976	-	-	-	120,102
Unused tax credits	-	366,357	-	-	-	366,357
	94,126	392,333	-	-	-	486,459
	(11,918,175)	99,431	4,139	-	-	(11,814,605)
2014						
Arising on:						
Temporary differences						
Property, plant and equipment	**(14,656,758)**	**(64,595)**	**-**	**3,217,853**	**(2,488)**	**(11,505,988)**
Unabsorbed capital allowances	**3,275,860**	**(448,321)**	**-**	**(29,495)**	**-**	**2,798,044**
Other temporary differences	**(920,166)**	**(595,447)**	**(44,541)**	**(294)**	**-**	**(1,560,448)**
	(12,301,064)	**(1,108,363)**	**(44,541)**	**3,188,064**	**(2,488)**	**(10,268,392)**
Arising on:						
Unused tax losses	**120,102**	**529,746**	**-**	**(412,826)**	**(168,593)**	**68,429**
Unused tax credits	**366,357**	**161,740**	**-**	**(60,015)**	**-**	**468,082**
	486,459	**691,486**	**-**	**(472,841)**	**(168,593)**	**536,511**
	(11,814,605)	**(416,877)**	**(44,541)**	**2,715,223**	**(171,081)**	**(9,731,881)**

Deferred tax assets and liabilities are principally expected to be realised or crystallised after more than twelve months after the date of the statement of financial position.

At 31 October, a subsidiary of the parent had a deferred tax asset of *€387,310* (2013 - *€386,769*) emanating from unabsorbed capital losses. The crystallisation of this asset remains doubtful given the expected pattern of the subsidiary company's income in the future years and has therefore not been recognised.

The aggregate deferred tax liabilities on temporary differences associated with investments in subsidiaries for which no deferred tax liability has been recognised amounts to *€143,601* (2013 - *€476,813*).

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25. Share capital

	No of shares and share capital (€)	
	Ordinary shares	**Total**
Authorised:-		
As at 31.10.2013/**31.10.2014**	**40,000,000**	**40,000,000**
Issued and fully paid up:-		
As at 31.10.2013/**31.10.2014**	**36,583,660**	**36,583,660**

The authorised share capital of the company amounts to *€40,000,000* divided into 40,000,000 ordinary shares having a nominal value of *€1* each.

By virtue of a resolution of the directors dated 18 July 2013, the company issued 243,500 ordinary shares of €1 each fully paid up by way of the capitalisation of amounts due by the company to the previous shareholders of Buttigieg Holdings Limited.

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

26. Cash and cash equivalents and other cash at bank

(i) *Cash and cash equivalents*

Cash and cash equivalents included in the statements of cash flows comprise the following amounts in the statement of financial position:

	Group		**Holding**	
	2014	2013	**2014**	2013
	€	€	**€**	€
Cash at bank and on hand	**21,898,444**	664,930	**19,583,881**	22,765
Bank overdrafts (note 21)	**(3,871,947)**	(11,068,214)	**-**	-
	18,026,947	(10,403,284)	**19,583,881**	22,765
Cash and cash balances included in disposal group held for sale	**(91,304)**	-	**-**	-
Cash and cash equivalents in the statements of cash flows	**17,935,193**	(10,403,284)	**19,583,881**	22,765

Included in cash and cash equivalents is an amount of *€16 million* which was earmarked for a major refurbishment project at the Radisson Blu Resort St. Julians, in line with the Combined Securities note of the company dated 6 May 2014. On 25 September 2014, the directors announced that the project was postponed until more information on other hotel and real estate developments in St. George's Bay and the surrounding area were available. In this respect a bondholders' meeting will be called by the directors of the company during which they will provide more information on this project and the utilisation of funds.

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26. Cash and cash equivalents and other cash at bank (continued)

(ii) *Other cash at bank*

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Other cash at bank	**348,676**	-	**-**	-
Within 12 months (shown under current assets)	**(211,349)**	-	**-**	-
	137,327	-	**-**	-

Other cash at bank represents funds held with a local credit institution which have been pledged as security towards a guarantee facility provided by the same credit institution. These funds will be released over a 4 year period in accordance with the third party security arrangement.

27. Goodwill

	€
Carrying amount	
At 31.10.2012	33,949,830
Effect of foreign currency exchange differences	(802,423)
At 31.10.2013	33,147,407
Effect of foreign currency exchange differences	1,243,836
At 31.10.2014	**34,391,243**

Goodwill is allocated to the group's cash-generating units (CGUs), as follows:

	2014	2013
	€	€
Hotels and vacation ownership	**26,881,421**	25,637,585
Catering	**7,509,822**	7,509,822
	34,391,243	33,147,407

Hotel and vacation ownership

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period and a pre-tax discount rate ranging between 9.5% and 11.2% (2013 – ranging between 9.25% and 10%). The cash flows beyond that five year period have been extrapolated using a 2% growth rate (2013 – 3%). The discount rates are based on the group's weighted average cost of capital adjusted for specific industry risks and the group's optimal desired debt-to-equity ratio. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

Catering

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period and a pre-tax discount rate ranging between 11.2% and 17% (2013 - 11.1% and 14.2%). The cash flows beyond that five year period have been extrapolated using a 2% growth rate (2013 - 3%) according to the term of the relevant concession. The discount rates are based on the group's weighted average cost of capital adjusted for specific industry risks and the group's optimal desired debt-to-equity ratio. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

Based on the above assessment the directors expect the carrying amount of the CGUs including goodwill to be recoverable.

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28. Disposal of subsidiary

On 2 May 2014, the group disposed of its 100% equity interest in Coastline Hotel Limited, a company which owned and operated the Coastline Hotel, a four star hotel located at Salina Bay.

(i) *Consideration received*

	2 May 2014
	€
Proceeds	4,903,333

(ii) *Analysis of assets and liabilities over which control was lost*

	2014
	€
Assets:	
Property, plant and equipment	14,724,902
Inventories	7,922
Trade and other receivables	263,929
Cash and bank	32,035
	15,028,788
Liabilities:	
Trade and other payables	(1,954,647)
Other financial liabilities	(903,214)
Bank overdraft	(914,413)
Bank loans	(5,738,281)
	(9,510,555)
Deferred tax liabilities	(2,715,223)
	(12,225,778)
Net assets disposed of	**2,803,010**

(iii) *Gain on disposal of subsidiary*

	2 May 2014
	€
Proceeds	4,903,333
Carrying value of assets disposed of	(2,803,010)
Other expenses	(124,923)
	1,975,400

(iv) *Net cash flow on disposal of subsidiary*

	€
Consideration received	4,903,333
Other expenses	(124,923)
Bank overdraft assumed by acquirer on disposal net of cash at bank	882,378
	5,660,788

Notes to the financial statements

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29. Related party transactions

Island Hotels Group Holdings p.l.c. is the parent company of the subsidiary undertakings highlighted in note 17.

During the course of the current and the prior year, the group and the holding company entered into transactions with related parties, as set out below.

Group

	2014			2013		
	Related party activity €	**Total activity €**	**%**	Related party activity €	Total activity €	%
Staff costs:						
Related party transactions with:						
Key management personnel	**692,058**			628,756		
Other related party	**2,567,826**			2,349,545		
	3,259,884	**12,141,548**	**27**	2,978,301	11,282,715	26
Other operating expenses:						
Related party transactions with:						
Other related parties	**115,000**	**11,643,546**	**1**	115,000	9,677,716	1
Investment income:						
Related party transactions with:						
Joint venture	**43,245**			51,958		
Other related parties	**22,118**			7,630		
	65,363	**67,217**	**97**	59,588	60,538	98
Finance costs:						
Related party transactions with:						
Shareholders	**84,918**			88,241		
Other related parties	**29,006**			44,057		
	113,924	**3,386,502**	**3**	132,298	2,541,041	5

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29. Related party transactions (continued)

Holding

	2014			2013		
	Related party activity €	**Total activity €**	**%**	Related party activity €	Total activity €	%
Other operating income:						
Related party transactions with:						
Subsidiaries	**152,465**	**152,465**	**100**	214,355	214,355	100
Investment income:						
Related party transactions with:						
Subsidiaries	**2,439,914**			2,038,574		
Other related parties	**18,825**			7,630		
	2,458,739	**2,490,714**	**99**	2,046,204	2,046,204	100
Finance costs:						
Related party transactions with:						
Subsidiaries	**37,133**			97,304		
Shareholders	**29,762**			18,394		
	66,895	**2,277,218**	**3**	115,698	1,526,754	8

No expense has been recognised by the group and the holding company during the period arising from bad and doubtful debts in respect of amounts due from related parties and there are no provisions for doubtful debts in respect of outstanding amounts due by related parties.

The amounts due from/to related parties at the end of the reporting period are disclosed in notes 17, 19 and 22. Other than as disclosed in the respective notes, no guarantees have been given or received.

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30. Operating leases

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Minimum lease payments under operating leases	**753,243**	716,358	**-**	-
Contingents rents recognised as an expense for the year	**437,042**	320,476	**-**	-
	1,190,285	1,036,834	**-**	-

The group is a party to several operating lease agreements for the lease of land on which the hotels are situated. The group is committed to pay periodic payments to the lessor. The group also leases certain catering establishments with rental payments based on a percentage of turnover with minimum guaranteed payments or a fixed amount per annum with specified increases. The group does not have an option to purchase the leased land or catering establishment at the expiry of the lease periods.

At the end of the reporting period, the group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Within one year	**1,081,169**	707,881	**-**	-
Between two to five years	**3,318,904**	1,871,864	**-**	-
Over five years	**10,881,947**	8,528,721	**-**	-
	15,282,020	11,108,466	**-**	-

31. Capital commitments

The commitments for capital expenditure that have not been provided for in these financial statements are as follows:

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Commitments for the acquisition of property, plant and equipment				
Contracted but not provided for:	**-**	766,329	**-**	-
Authorised but not contracted for	**1,000,000**	101,061	**-**	-
	1,000,000	867,390	**-**	-

Notes to the financial statements

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31. Capital commitments (continued)

The group's share of the capital commitments of its jointly controlled entities is as follows:

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Commitments for the acquisition of property, plant and equipment:				
Contracted but not provided for	**93,572**	115,678	**-**	-
Authorised but not contracted for	**2,000,000**	-	**-**	-
	2,093,572	115,678	**-**	-

32. Fair value of financial assets and financial liabilities

At 31 October 2014 and 2013, the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively approximate their fair values due to the short-term maturities of these assets and liabilities.

The fair values of other non-current financial assets and non-current financial liabilities that are not measured at fair value, other than debt securities, investments in subsidiaries and interests in associates and jointly controlled entities, are not materially different from their carrying amounts.

The following tables provide an analysis of the group and the holding company's financial instruments that are not measured subsequent to initial recognition at fair value, other than investments in subsidiaries, associates and jointly controlled entities and those with carrying amounts that are reasonable approximations of fair value, grouped into Levels 1 to 3.

Group

	Level 1	**Level 2**	**Level 3**	**Total**	**Carrying amount**
	€	**€**	**€**	**€**	**€**
2014					
Financial assets					
Loans and receivables					
Loans to jointly controlled entities	**-**	**8,227,589**	**-**	**8,227,589**	**8,227,589**
Other loans	**-**	**18,552**	**-**	**18,552**	**18,552**
Other financial assets	**-**	**510,059**	**-**	**510,059**	**510,059**
Loans to related parties	**-**	**210,896**	**-**	**210,896**	**210,896**
Other cash at bank	**-**	**348,676**	**-**	**348,676**	**348,676**
Total	**-**	**9,315,772**	**-**	**9,315,772**	**9,315,772**

Notes to the financial statements

31 October 2014

32. Fair value of financial assets and financial liabilities (continued)

	Level 1 €	Level 2 €	Level 3 €	Total €	Carrying amount €
2014					
Financial liabilities					
Financial liabilities at amortised cost					
Bank overdrafts and loans	-	22,842,881	-	22,842,881	22,842,881
Shareholders' loans	-	639,793	-	639,793	639,793
Related party loans	-	8,936,517	-	8,936,517	8,936,517
Debt securities	50,964,900	-	-	50,964,900	48,298,521
Finance lease Obligations	-	524,877	-	524,877	524,877
Total	50,964,900	32,944,068	-	83,908,968	81,242,589

Holding

	Level 1 €	Level 2 €	Level 3 €	Total €	Carrying amount €
2014					
Financial assets					
Loans and receivables					
Loans to group undertakings	-	10,708,613	-	10,708,613	10,708,613
Other financial assets	-	510,059	-	510,059	510,059
Loans to related parties	-	4,360	-	4,360	4,360
Total	-	11,223,032	-	11,223,032	11,223,032
Financial liabilities					
Financial liabilities at amortised cost					
Bank overdrafts and loans	-	6,409,174	-	6,409,174	6,409,174
Group companies' loans	-	13,669,047	-	13,669,047	13,669,047
Debt securities	50,964,900	-	-	50,964,900	48,298,521
Total	50,964,900	20,078,221	-	71,043,121	68,376,742

Notes to the financial statements

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33. Financial risk management

The exposures to risk and the way risks arise, together with the group's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below.

The objectives, policies and processes for managing financial risks and the methods used to measure such risks are subject to continual improvement and development. The board provides principles for overall group risk management as well as policies covering the risks referred to below. These policies are implemented and monitored by the group's executive team.

Where applicable, any significant changes in the group's exposure to financial risks or the manner in which the group manages and measures these risks are disclosed below.

Where possible, the group aims to reduce and control risk concentrations. Concentrations of financial risk arise when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of the risk exposure associated with financial instruments sharing similar characteristics is disclosed below.

There has been no change to the group's exposure to financial risks, other than as disclosed below, or the manner in which these risks are managed and measured.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss for the group or the company.

Financial assets which potentially subject the group and the company to credit risk consist principally of loans and receivables, trade receivables and cash at bank.

Allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Other than as disclosed in note 34, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's and the company's maximum exposure to credit risk.

The group does not hold any collateral as security in this respect.

Credit risk with respect to cash and cash equivalents, other cash at bank and sinking fund cash reserves is limited due to the fact that the group banks only with local financial institutions with high quality standing.

Credit risk with respect to trade receivables is limited due to credit control procedures and the group's large customer base. The group assesses the credit quality of its debtor balances taking into account financial position, past experience and other factors. It has policies in place to ensure that the provision of services is affected to customers with an appropriate credit history. The group monitors the performance of these financial assets on a regular basis to identify incurred collection losses which are inherent in the group's receivables taking into account historical experience in collection of accounts receivable. Management does not expect any losses from non-performance by the counterparty. The group's trade receivables, which are not impaired assets, are principally debts in respect of transactions with customers for whom there is no recent history of default.

Loans and receivables together with other receivables mainly comprise amounts due from related parties (notes 17 and 19). The group's and the company's concentration to credit risk arising from these receivables is considered limited as there were no indications that these counter parties are unable to meet their obligations.

Included in the group's trade receivables are amounts which have been due for more than 90 days which amounted to *€851,036* (2013 - *€665,417*). Management has not identified any major concerns in relation to concentration of credit risk with respect to past due debts.

Notes to the financial statements

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33. Financial risk management (continued)

Credit risk (continued)

Movements in the allowance for doubtful trade receivables are as follows:

	Group		Holding	
	2014	2013	**2014**	2013
	€	€	**€**	€
Opening balance	**678,979**	676,713	**-**	-
Net movement for the year	**351,468**	2,266	**-**	-
Balance at the end of the year	**1,030,447**	678,979	**-**	-

The individually impaired trade receivables mainly relate to a number of independent customers who are in unexpectedly difficult economic situations.

Foreign currency risk

Foreign currency transactions arise when the group buys or sells services whose price is denominated in a foreign currency, borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency, or acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency. Foreign currency transactions mainly comprise transactions in GBP.

The translation of the group's foreign operation with a GBP functional currency into Euro affects the consolidated statement of comprehensive income. The foreign currency risk is managed by regular monitoring of the relevant exchange rates and managements' reaction to material movements thereto.

Interest rate risk

The group and the company have taken out bank and other facilities to finance their operations as disclosed in notes 21 and 22 to the financial statements. The interest rates thereon and the terms of such borrowings are disclosed accordingly in those notes. The interest rates on loans and receivables are disclosed in note 17.

The group and the company are exposed to cash flow interest rate risk on borrowings and debt instruments carrying a floating interest rate and to fair value interest rate risk on borrowings and debt instruments carrying a fixed interest rate to the extent that these instruments are measured at fair value. Investments in equity instruments do not expose the group and the company to interest rate risk.

Management monitors the movement in interest rates and, where possible, reacts to material movements in such rates by restructuring its financing structure.

For financial instruments held or issued, the group has used a sensitivity analysis technique that measures the change in the cash flows of the group's financial instruments at the end of the reporting period for hypothetical changes in the relevant market risk variables. The sensitivity due to changes in the relevant risk variables is set out below. The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. The sensitivity analysis is for illustrative purposes only, as in practice market rates rarely change in isolation and are likely to be interdependent.

At year-end, if interest rates on bank borrowings had been 0.5% higher/lower with all other variables held constant, pre-tax profit for the year would have been *€114,214* (2013 - *€204,972*) lower/higher.

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33. Financial risk management (continued)

Interest rate risk (continued)

The group's floating rate instruments comprise bank borrowings, certain liabilities included with other financial liabilities, certain loans and receivables and balances with banks. The group's fixed rate instruments consist of certain liabilities included with other financial liabilities together with certain loans and receivables, which are measured at amortised cost.

Liquidity risk

The group and the company are exposed to liquidity risk in relation to meeting future obligations associated with their financial liabilities, which comprise principally trade and other payables and borrowings as disclosed in notes 20, 21 and 22.

The group and the company monitor and manage their risk to a shortage of funds by matching the maturity of both their financial assets and financial liabilities as far as possible and by monitoring the availability of credit lines to meet their obligations. Funds are transferred within the group as and when the need arises. Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period, which is adjusted monthly and monitored on a daily basis, to ensure that any additional financing requirements are addressed in a timely and strategic manner. Management has reviewed cash flow projections that have been prepared for the next 5 years, based largely on current levels of activity.

As at 31 October 2014, the group had additional undrawn bank facilities amounting to €6,979,222 (2013 – *766,613*).

As further disclosed in note 17, in terms of the Combined Securities Note dated 28 August 2009, the company is required to build a sinking fund, the value of which will, by the redemption date of the bonds, be equivalent to 50% of the value of the bonds.

The following maturity analysis for financial liabilities shows the remaining contractual maturities using the contractual undiscounted cash flows on the basis of the earliest date on which the group or the company are expected to pay. The analysis includes both interest and principal cash flows.

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33. Financial risk management (continued)

Liquidity risk (continued)

Group

	Carrying Amount €	Contractual cash flows €	On demand or within 1 year €	2 - 5 years €	over 5 years €
2014					
Bank borrowings	**22,842,881**	**26,177,951**	**7,983,771**	**11,361,014**	**6,833,166**
Trade and other payables	**17,466,887**	**16,493,155**	**13,882,278**	**2,603,377**	**7,500**
Other financial liabilities	**58,399,708**	**84,575,266**	**4,373,018**	**34,635,225**	**45,567,023**
	98,709,476	**127,246,372**	**26,239,067**	**48,599,616**	**52,407,689**
2013					
Bank borrowings	40,994,385	46,303,287	17,143,207	20,566,408	8,593,672
Trade and other payables	23,938,041	23,193,072	18,438,876	4,744,196	10,000
Other financial liabilities	28,145,286	33,699,635	3,644,166	15,400,508	14,654,961
	93,077,712	103,195,994	39,226,249	40,711,112	23,258,633

Holding

	Carrying Amount €	Contractual cash flows €	On demand or within 1 year €	2 - 5 years €	over 5 years €
2014					
Bank borrowings	**6,409,174**	**7,768,077**	**1,002,000**	**3,633,000**	**3,133,077**
Trade and other payables	**1,230,079**	**1,230,079**	**1,230,079**	**-**	**-**
Other financial liabilities	**62,669,047**	**87,916,214**	**3,010,000**	**39,405,714**	**45,500,500**
	70,308,300	**96,914,370**	**5,242,079**	**43,038,714**	**48,633,577**
2013					
Bank borrowings	10,834,652	13,205,828	1,945,963	7,201,415	4,058,450
Trade and other payables	428,132	428,132	428,132	-	-
Other financial liabilities	30,637,973	39,449,074	1,640,913	17,363,326	20,444,835
	41,900,757	53,083,034	4,015,008	24,564,741	24,503,285

Notes to the financial statements

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33. Financial risk management (continued)

Capital risk management

The objectives when managing capital are to safeguard the group's and the company's ability to continue as a going concern and to maximise the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure consists of debt instruments as disclosed in notes 21 and 22 and shareholders' equity.

The holding company's directors manage the capital structure and make necessary adjustments to it, in light of changes in economic conditions. The capital structure is reviewed on an ongoing basis. Based on recommendations of the directors, the group and the company balance their overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

34. Contingent liabilities

Group

The group issued general and special hypothecs and guarantees in relation to bank facilities granted to related undertakings. As at the end of the reporting period, the related undertakings' borrowings were €Nil (2013 - *€540,292*).

In addition, the group entities, in their capacity as joint ventures, issued hypothecs and guarantees in relation to bank facilities granted to the group's jointly controlled entities and other related parties. The borrowings to the group's jointly controlled entities which are covered by the said hypothecs and guarantees and which are not recognised in the consolidated financial statements amounted to €0.6million at the end of the reporting period (2013 - *€2.3million*).

The group through its jointly controlled entities also issued hypothecs and guarantees in relation to bank facilities granted to the group's associates. At the end of the reporting period, the group's share of the borrowings of these associated undertakings amounted to €58,235 (2013 - *€120,735*).

Holding company

The company issued general and special hypothecs and guarantees in relation to bank facilities granted to group and jointly controlled entities, which borrowings amounted to *€13.1 million* as at the end of the reporting period (2013 - *€21.2million*).

Notes to the financial statements

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35. Events after the reporting period

Utilisation of proceeds from bond issue.

As disclosed in note 26 the company will be calling a bondholder's meeting in order to provide more information on the utilisation of funds earmarked for the redevelopment of the Radisson Blu Resort, St. Julians.

Refurbishment of Radisson Blu Resort St. Julians

On 1 November 2014 the Radisson Blu Resort St. Julians was closed for maintenance and other refurbishment works. The project which includes the refurbishment of the facade and common areas of the property is estimated to take 5 months to complete and the hotel is expected to re-open its doors to hotel guests on 28 March 2015.

Costa Coffee operations in Spain

Subsequent to the year end, The Coffee Company Spain S.L. opened its first retail catering outlet under the Costa Coffee franchise at Palau de Mar, Barcelona on 21 November 2014.

Conditional agreement with International Hotel Investments Limited

On 16 January 2015 the board of directors were notified by a majority of the company's shareholders that they had been in negotiations with International Hotel Investments p.l.c. (IHI) with a view to merging all of the company's assets and operations with those of IHI through an acquisition of the company and that a conditional agreement had been reached regulating how this objective could be achieved.

The agreement is subject to the satisfaction of various conditions over the coming months, including but not limited to, compliance with regulatory requirements as well as, among other terms and conditions, conducting a satisfactory due diligence on the company.

An extra-ordinary meeting of the shareholders held on 20 February 2015 authorised the board of directors to make available information subject to the relevant non disclosure and confidentiality undertakings, including unpublished information, as may be necessary for such due diligence to be completed by IHI.

36. Comparative figures

Certain comparative figures have been reclassified in order to comply with the current year's presentation of the financial statements. These primarily relate to discontinued operations as disclosed in note 13 in line with IFRS 5.

Independent auditor's report

to the members of

Island Hotels Group Holdings p.l.c.

We have audited the accompanying financial statements of Island Hotels Group Holdings p.l.c and its group set out on pages 27 to 76 which comprise the statements of financial position of the company and the group as at 31 October 2014, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the company and the group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As explained more fully in the directors' report on pages 13 to 18, the directors of the company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the company and the group. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Island Hotels Group Holdings p.l.c. and its group as at 31 October 2014 and of the company's and its group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386).

Paul Darmanin as Director
in the name and on behalf of

Deloitte Audit Limited

Registered auditor

24 February 2015

Deloitte Audit Limited is not responsible for the maintenance and integrity of the corporate, financial and non-financial information included on group's website www.islandhotels.com.

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