



INTERNATIONAL HOTEL INVESTMENTS P.L.C.

FINANCIAL ANALYSIS SUMMARY

10 APRIL 2015



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

10 April 2015

Dear Sirs

IHI p.l.c. Financial Analysis Summary

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

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

- (a) Historical financial data for the six years ended 31 December 2009 to 31 December 2014 has been extracted from audited consolidated financial statements of the Company for the six years in question.
- (b) The forecast data for the years ending 31 December 2015 and 2016 has been provided by management of the Company.
- (c) Our commentary on the results of the Group and on its financial position is based on the explanations provided by IHI.
- (d) The ratios quoted in the Financial Analysis Summary have been computed by us applying the definitions set out in Part 5 of the Analysis.
- (e) The principal relevant market players listed in Part 3 of the document have been identified by management. Relevant financial data in respect of competitors has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or web sites providing financial data.

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

Yours faithfully,



Wilfred Mallia
Director

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PART 1

1. COMPANY'S KEY ACTIVITIES

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

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

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

2. DIRECTORS AND KEY EMPLOYEES

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

Board of Directors

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

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

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

3. MAJOR ASSETS OWNED BY THE ISSUER & OPERATIONAL DEVELOPMENT

3.1 HOTEL PROPERTIES

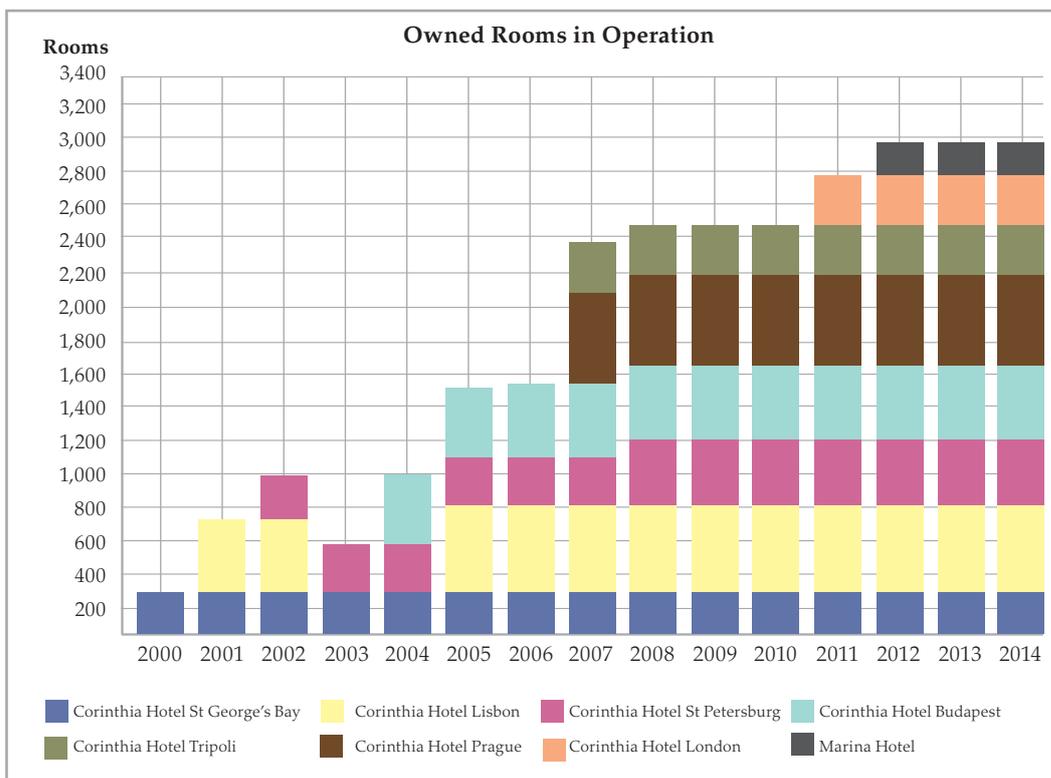
3.1.1 Valuation

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

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

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

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



Source: Management information

3.1.2 Corinthia Hotel Budapest

Introduction

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

Market Overview

i. Economic update

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

ii. Tourism market

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

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

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

Operational Performance

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

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

Source: Management information

In FY2013, the Corinthia Hotel Budapest registered increases in both occupancy (from 71% to 72%) and average room rate (from €100 to €103), which contributed to a 4.2% increase in RevPAR. Gross operating profit before incentive fees remained flat at *circa* €5.5 million. In line with the market, demand from the conference & events segment remained subdued in FY2013. On the other hand, group leisure and groups business performed well in FY2013 and accounted for 37% of total room nights sold. Positive results were achieved in FY2014, in which, the Hotel registered a 15% increase in RevPAR and a growth in revenue of €1.9 million to €20.4 million. This increase resulted in a €0.9 million improvement in gross operating profit. Looking forward, management's revenue strategy

focuses on increasing leisure, corporate and conferences & events segments with a progressive decrease in the volume of low rated sectors such as groups and tour operator business. As such, it is projected that average room rate will grow further by 5% from €114 in FY2014 to €120 in FY2015, and RevPAR will increase by 7% to €91 in FY2015. With a projected improvement in gross operating profit margin to 33%, gross operating profit is expected to increase by €0.5 million to €7.02 million in FY2015 over the corresponding figure in FY2014. In the projected year (FY2016), management anticipates RevPAR to increase from €91 (FY2015) to €93, and gross operating profit is expected to increase by 8.5% to €7.6 million.

Market Positioning

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

Source: Management information

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

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

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

3.1.3 Corinthia Hotel St Petersburg

Introduction

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

Market Overview

i. Economic update

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

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

ii. Tourism market

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

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

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

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

Operational Performance

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

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

Source: Management information

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

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

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

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

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

Market Positioning

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

Source: Management information

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

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

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

Commercial Operations

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

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

Source: Management information

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

3.1.4 Corinthia Hotel Lisbon

Introduction

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

Market Overview

i. Economic update

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

ii. Tourism market

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

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

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

Operational Performance

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

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

Source: Management information

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

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

Market Positioning

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

Source: Management information

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

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

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

3.1.5 Corinthia Hotel Prague

Introduction

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

Market Overview

i. Economic update

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

ii. Tourism market

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

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

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

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

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

Operational Performance

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

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

Source: Management information

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

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

Market Positioning

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

Source: Management information

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

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

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

3.1.6 Corinthia Hotel Tripoli

Introduction

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

Market Overview

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

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

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

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

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

Source: Management information

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

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

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

Market Positioning

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

Commercial Operations

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

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

Source: Management information

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

3.1.7 Corinthia Hotel St George's Bay

Introduction

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

Market Overview

i. Economic update

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

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

ii. Tourism market

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

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

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

Operational Performance

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

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

Source: Management information

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

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

Market Positioning

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

Source: Management information

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

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

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

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

3.1.8 Marina Hotel

Introduction

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

Market Overview

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

Operational Performance

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

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

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

Source: Management information

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

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

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

Market Positioning

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

Source: Management information

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

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

3.1.9 Corinthia Hotel London

Introduction

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

Market Overview

i. Economic update

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

ii. Tourism market

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

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

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

Operational Performance

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

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

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

Source: Management information

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

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

Market Positioning

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

Source: Management information

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

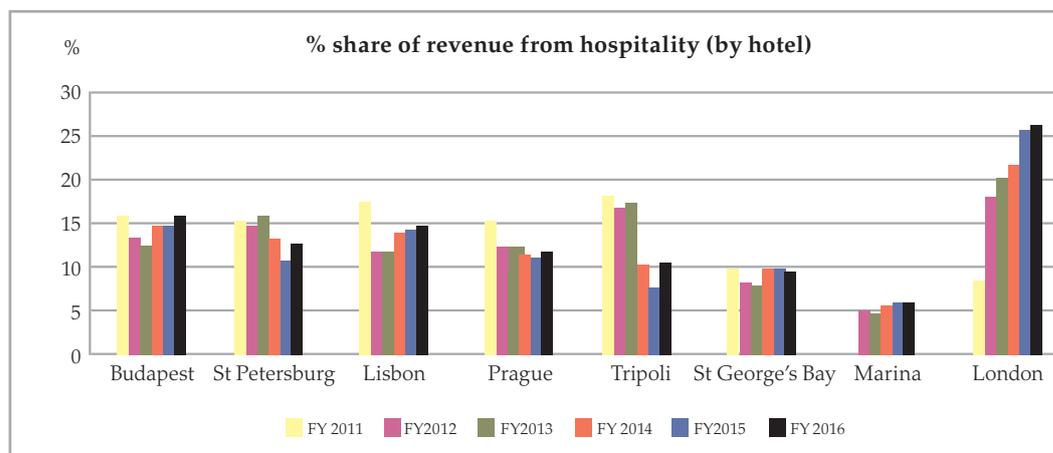
In FY2013, the Hotel continued to gain market share and thus narrow the gap with its competitive set. In its second full year of operations (FY2013), the Hotel achieved an occupancy level of 72% as compared to 77% for its competitive set and derived an average room rate of £407 (competitive set: £509).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

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

3.1.10 Aggregate Hotel Revenue and Operating Profit

Revenue geographic distribution

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



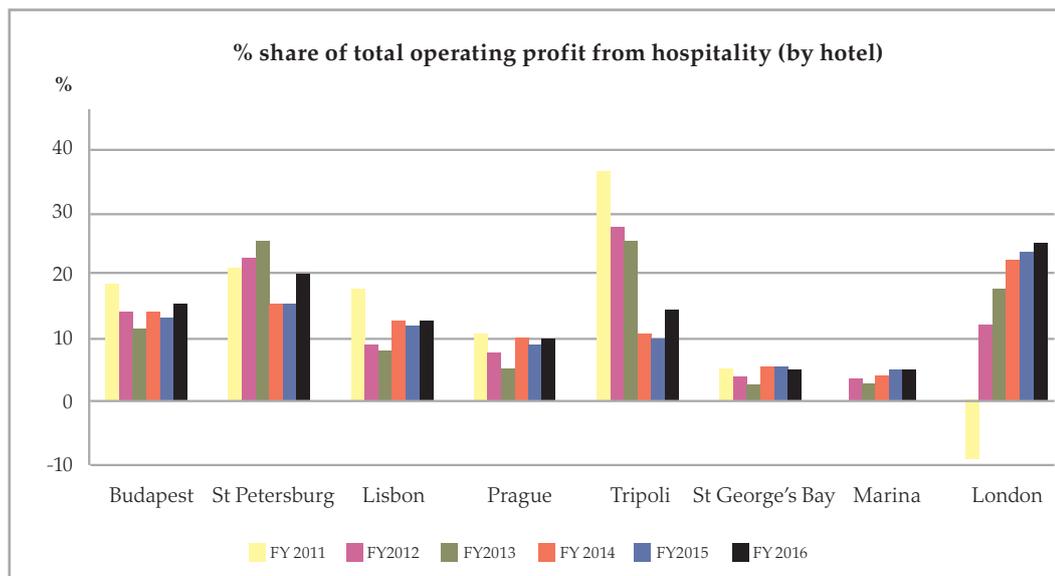
In FY2011, income contributed by each of the following five hotels - Budapest, St Petersburg, Lisbon, Prague and Tripoli – averaged 16% of total revenue, whilst Corinthia Hotel St George's Bay achieved a 10% share. Corinthia Hotel London initiated operations in FY2011 and the Marina Hotel was not part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

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

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

Operating profit geographic distribution

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



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

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

3.2 MANAGEMENT COMPANY

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

Operational Performance

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

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

Source: Management information

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

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

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

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

3.3 OTHER ASSETS

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

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

IHI owns 25% of the share capital of Medina Tower Joint Stock Company, a company set up for the purpose of owning and developing the Medina Tower. IHI has to date injected €13 million in the company as its equity participation. The parcel of land measures *circa* 11,000m² and is situated in Tripoli's main high street. The architectural concept stems from a 4-storey podium that will include a mix of residential, retail, commercial and conference space. A curved tower rises from the 6th level and peaks at the 40th level. The development will comprise a total gross floor area of *circa* 199,000m².

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

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

3.4 PROPOSED ACQUISITION OF THE IHG GROUP

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

The business of the IHG Group largely relates to: the ownership, management and operation of five-star hotels in Malta (namely, the Radisson Blu Resort St Julians and the Radisson Blu Resort & Spa, Golden Sands); the operating of a vacation ownership marketing business for the aforesaid hotels; the operation of retail and event catering business (Island Caterers and Papillion Caterers); and the development and operation of Costa Coffee outlets in Malta, the East Coast of Spain, Canary Islands and the Balearic Islands. The IHG Group also owns a plot of land measuring 83,000m² located next to the Golden Bay, Mellieha with permits to develop this land into a luxury tourist complex. The IHG Group’s revenue and EBITDA for the financial year ended 31 October 2014 amounted to €36.6 million (FY2013: €30.7 million) and €8.8 million (FY2013: €6.0 million) respectively.

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

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

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

PART 2

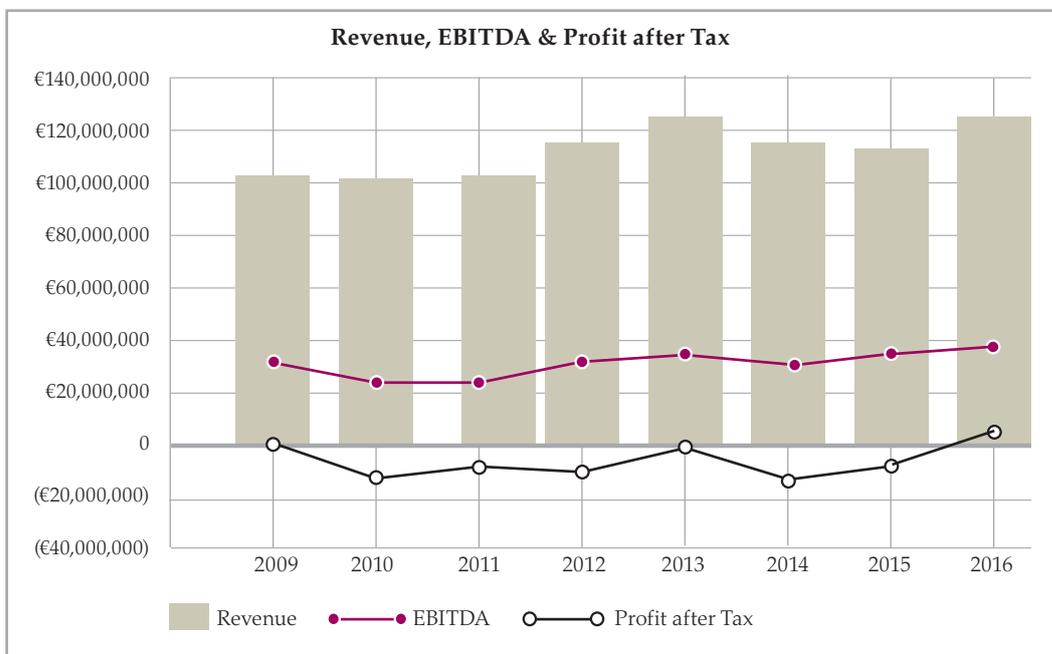
4. GROUP PERFORMANCE REVIEW

4.1 INCOME STATEMENT

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

IHI Group Income Statement (€'000)	FY2016 Projection	FY2015 Forecast	FY2014 Actual	FY2013 Actual	FY2012 Actual	FY2011 Actual
Revenue	123,888	114,971	116,379	123,734	118,567	104,223
Direct costs	(52,969)	(49,997)	(61,147)	(64,152)	(63,554)	(53,863)
Gross profit	70,919	64,974	55,232	59,582	55,013	50,360
Other operating costs	(35,095)	(33,655)	(26,382)	(24,601)	(27,288)	(27,982)
EBITDA¹	35,824	31,319	28,850	34,981	27,725	22,378
Depreciation and amortisation	(18,814)	(18,482)	(18,390)	(23,763)	(24,208)	(24,429)
Movement in fair value of investment property	-	-	(15,391)	571	4,154	5,448
Net impairment of hotel properties	-	-	2,081	5,000	(7,796)	(2,497)
Results from operating activities	17,010	12,837	(2,850)	16,789	(125)	900
Share of (loss) profit from equity accounted investments	(94)	(4,042)	(14,537)	(5,788)	4,970	1,155
Net finance costs	(12,025)	(12,392)	(13,035)	(15,940)	(16,783)	(13,899)
Net fair value loss on interest rate swaps	-	-	1,466	1,789	1,009	432
Movement in reimbursement assets	(880)	(880)	(879)	(883)	(454)	(399)
Profit (loss) before tax	4,011	(4,477)	(29,835)	(4,033)	(11,383)	(11,811)
Taxation	(1,430)	(2,049)	13,549	4,299	950	1,079
Profit (loss) for the year	2,581	(6,526)	(16,286)	266	(10,433)	(10,732)
Non-controlling interest	-	-	20	-	170	334
Profit (loss) attributable to parent company	2,581	(6,526)	(16,266)	266	(10,263)	(10,398)

¹ EBITDA – Earnings before interest, tax, depreciation and amortisation



The key accounting ratios are set out below:

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

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

Source: Charts Investment Management Service Limited

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Analysis of Movements in Property Values

For the year ended 31 December 2014

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

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

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

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

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

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

4.2 CASH FLOW STATEMENT

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

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

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

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

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

4.3 BALANCE SHEET

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

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

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

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

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

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

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

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

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

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

- In view of the prevailing situation in Libya, the lender of the €40 million loan on Corinthia Hotel Tripoli has confirmed its intention to postpone capital repayments due on this loan in 2015; and
- An agreement has been reached for the amount payable as dividend to the institutional shareholders of €5.1 million to be settled after the penthouse apartment in London is sold and paid for.

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

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

The key accounting ratios are set out below:

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

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

Source: Charts Investment Management Service Limited

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

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

4.4 SINKING FUND

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

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

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

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

4.5 RELATED PARTY LISTED DEBT

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

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

Source: Malta Stock Exchange

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

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

Source: Malta Stock Exchange

PART 3

5. GLOBAL HOTEL COMPARABLES

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

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

¹ Market capitalisation as at 27 March 2015.

² The remaining hotels are managed and/or under franchise agreements.

³ EBITDA – profit before interest, tax, depreciation and amortisation.

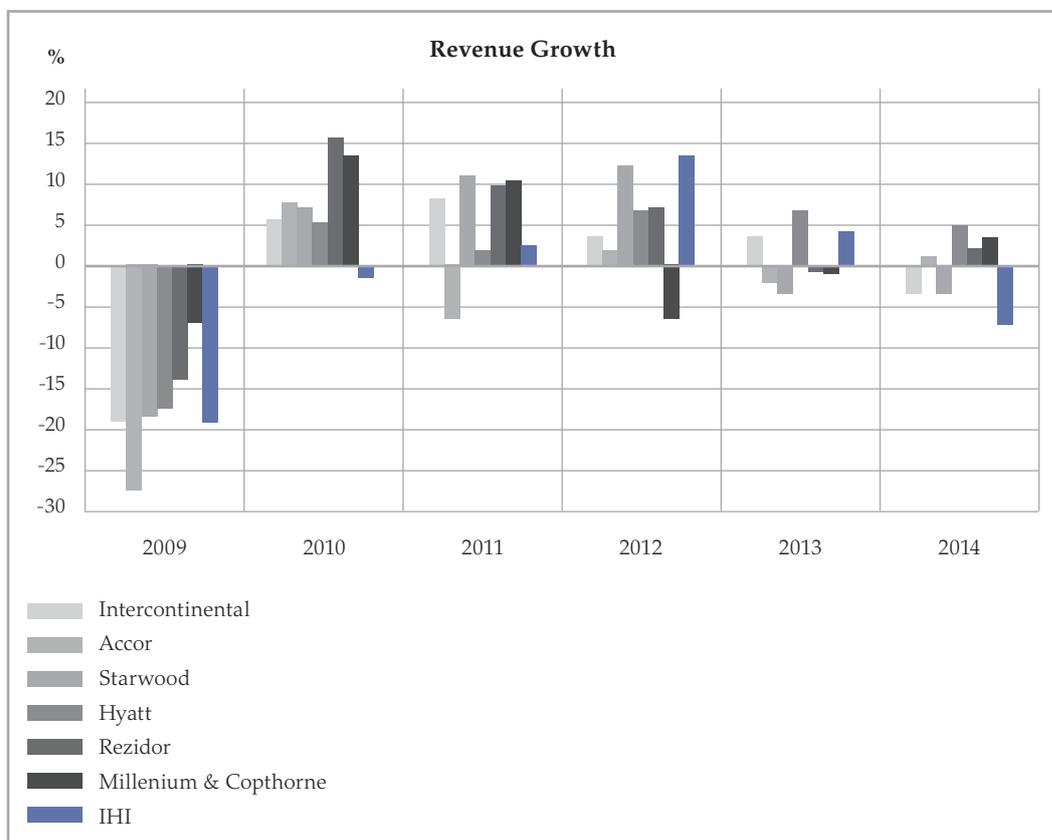
⁴ Equity as at 31 December 2014 amounted to -\$725 million.

⁵ The company had no long term debt as at 31 December 2014.

Source: Reuters Wealth Manager, Company information

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

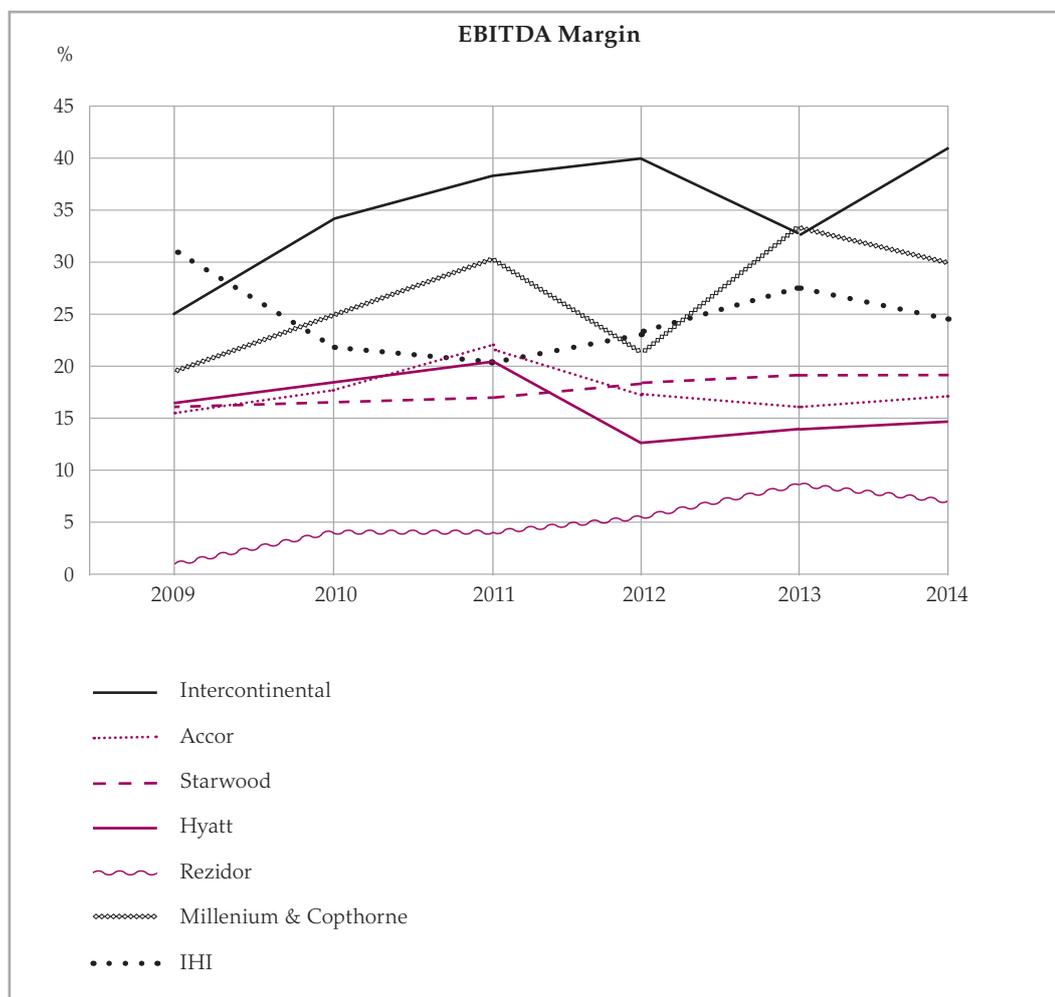
A common business strategy within the peer group emerges from analysing the above data. All the hotel operators own fewer hotels in relation to their respective hotel portfolios, when compared to IHI. It is evident that the peer group is generating higher returns by managing more hotels without actually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



Source: Reuters Wealth Manager, Company information

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

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



Source: Reuters Wealth Manager, Company information

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

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

PART 4

6. THE GROUP'S SIX YEAR SUMMARY

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

6.1 INCOME STATEMENT

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

6.2 CASH FLOW STATEMENT

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

6.3 BALANCE SHEET

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

6.4 OPERATING PERFORMANCE

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

Corinthia Hotel Budapest

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

Corinthia Hotel St Petersburg

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

Corinthia Hotel Lisbon

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

Corinthia Hotel Prague

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

Corinthia Hotel Tripoli

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

Corinthia Hotel St George's Bay

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

Marina Hotel

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

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

Corinthia Hotel London

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

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

6.5 OPERATING PERFORMANCE OF THE MANAGEMENT COMPANY

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

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

PART 5

7. EXPLANATORY DEFINITIONS

Income Statement

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

Key Performance Indicators

Occupancy level	Occupancy level is the percentage of available rooms that were sold during a given period of time. It is calculated by dividing the number of rooms sold by total number of rooms available.
Average room rate	Average room rate is calculated by dividing hotel room revenue by rooms sold. Hotels use this measure to calculate the average price at which they are booking hotel rooms each night.
Revenue per available room (RevPAR)	RevPAR is calculated by multiplying a hotel's average room rate by its occupancy rate. A hotel uses this indicator as a performance measure with other hotels in the same category or market.
Revenue generating index	A revenue generating index measures a hotel's fair market share of its segment's (competitive set, market, etc) revenue per available room. If a hotel is capturing its fair market share, the index will be 1; if capturing less than its fair market share, a hotel's index will be less than 1; and if capturing more than its fair market share, a hotel's index will be greater than 1.

Profitability Ratios

Gross profit margin	Gross profit margin is the difference between revenue and direct costs expressed as a percentage of total revenue.
Operating profit margin	Operating profit margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.

Efficiency Ratios

Return on equity	Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity.
Return on capital employed	Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed.
Return on Assets	Return on assets (ROA) is computed by dividing profit after tax by total assets.

Equity Ratios

Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date.
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Cash Flow Statement

Cash flow from operating activities	Cash generated from the principal revenue-producing activities (room revenue, food & beverage, rental income, hotel services, etc) of the Group.
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Cash flow from investing activities	Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Group.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Group.

Balance Sheet

Non-current assets	Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group allocates the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was purchased. Such assets include intangible assets (goodwill on acquisition, the Corinthia brand, website development costs, etc), investment properties (commercial centres in St Petersburg and Tripoli, apartments in Lisbon, etc), property, plant & equipment (hotel properties), and investments accounted for using the equity method (investment in Corinthia Hotel London, Medina Tower, etc).
Current assets	Current assets are all assets of the Group, which are realisable within one year from the balance sheet date. Such amounts include accounts receivable, inventory (food, beverages, consumables, etc), cash and bank balances.
Current liabilities	All liabilities payable by the Group within a period of one year from the balance sheet date, and include accounts payable and short-term debt, including current portion of bank loans.
Non-current liabilities	The Group's long-term financial obligations that are not due within the present accounting year. The Group's non-current liabilities include long-term borrowings, bonds and long term lease obligations.
Total equity	Total equity includes share capital, reserves & other equity components, retained earnings and minority interest.

Financial Strength Ratios

Liquidity ratio	The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities.
Interest cover	The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expense of the same period.
Debt service cover ratio	The debt service cover ratio measures a company's ability to service its current debts by comparing its net operating income with its total debt service obligations.
Gearing ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's total debt by shareholders' equity.