Island Hotels Group Holdings p.l.c.
C 44855

Report and financial statements

31 October 2012

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Directors, officer and other information

Directors:	Winston V. Zahra (Chairman) Winston J. Zahra (Chief Executive Officer) John L. Bonello Michael C. Bonello William Hancock Gary Alexander Neville Trevor E. Zahra
Secretary:	Kenneth Abela
Registered office:	Coastline Hotel, Salina Bay, Salina, Malta.
Telephone:	+ 356 2157 3781
Country of incorporation:	Malta
Company registration number:	C 44855
Auditor:	Deloitte Audit Limited, Deloitte Place, Mriehel Bypass, Mriehel, Malta.
Bankers:	Bank of Valletta p.l.c., 58, Zachary Street, Valletta, Malta.
	HSBC Bank Malta p.l.c., 233, Republic Street, Valletta, Malta.
	Banif Bank (Malta) p.l.c., 203, Level 2, Rue D'Argens, Gzira, Malta.
Lawyers:	Camilleri Preziosi, Level 3, Valletta Buildings, South Street, Valletta, Malta.

The directors present their report and the audited financial statements of the group and the holding company for the year ended 31 October 2012.

Principal activities
The group's business comprises the ownership and operation of hotels in Malta and the provision of accommodation, catering and related services. The group is made up of a holding company that acts as an investment company, together with its subsidiaries and jointly controlled entities as detailed in note 15 to these financial statements.

Review of business
The results of the group in these financial statements represent the results of the holding company together with those of its subsidiaries and its share of jointly controlled entities for the year ended 31 October 2012.

During the year ended 31 October 2012, the group reported a turnover of *€32,939,071* (2011 - *€30,254,333)* and a gross operating profit of *€5,280,106* (2011 - *€5,504,098)*. After taking into consideration depreciation, investment income and finance costs, the group reported a loss before tax of *€834,156* (2011 - *€597,717*). The loss after the current and deferred tax charge for the year amounted to *€989,272* (2011 - *€242,362*). Exchange gains of *€1,278,859* (2011 - *€134,887*) arising almost entirely from the year-end translation of a goodwill balance on foreign operations resulted in the group's total shareholders' funds at the year-end amounting to *€36,468,937* (2011 - *€36,179,350)*.

The economic environment in which the company operated during the year ended 31 October 2012 was similar to that of the previous year, with better than expected tourist arrivals, but flat hotel occupancy levels and a tighter demand for vacation ownership. Although this is largely down to problems in the major market for our timeshare product, it has led the company to examine the way it sells timeshare and the costs associated with these sales. Once again, in the year under review, there were considerable vacation ownership sales on a trade-in basis, so much so that the number of unsold weeks held by the company at the year-end is the same as it was 24 months ago despite the considerable value of sales written. This is indicative of a high level of satisfaction of current owners who chose to trade in their existing weeks with more expensive ones, and it is relevant to reflect on the fact that only the increased value of the upgraded sale is taken to profit. The directors do not see that there will be an immediate increase in the demand for timeshare, but expect that the changes in the selling structure of this product will lead to improved results.

The company's investment in the event, retail and contract catering business continued during the year through the signing of the COSTA Coffee Franchise, the extension of the existing contracts at the airport and the hospital as well as a new venture at Montekristo Estates. These are expected to further improve performance in the forthcoming years once the initial investments made in these ventures take effect.

A challenge facing the group is that of raising fresh equity to finance new investment, particularly for the Oasis project at Golden Sands, and also to reduce some of the Group's debt and its resultant interest cost.

Review of business (continued)
The hotel operations performed reasonably satisfactorily. Two of the group's properties, the Coastline Hotel as well as the Radisson BLU St. Julian's will benefit from a series of upgrades which are expected to start in the forthcoming financial year. The extent and timing of these upgrades are, to a degree, also dependent on the group's ability to attract fresh equity.

Once again, the business conditions the group faces remain difficult and will continue to present challenges. Apart from the ability to raise fresh equity, the most critical action in the forthcoming year will be that of maintaining a healthy level of timeshare sales at a more efficient profit ratio. Other actions taken to reduce the cost base include the overhaul of certain mechanical and engineering equipment which is expected to reduce the cost of energy to the group significantly.

Results and dividends
The results for the year ended 31 October 2012 are shown in the income statements on page 20. The loss for the year after taxation for the group amounted to *€989,272,* (2011 - *€242,362)* whereas the holding company registered a loss after tax of *€316,580* (2011 - *€ 33,663)*. At the end of the reporting period, the group's total shareholders' funds amounted to *€36,468,937* (2011 - *€36,179,350)*.

The directors do not propose the payment of a dividend for the year ending 31 October 2012 (2011 - *Nil*)

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

Winston V. Zahra (Chairman)
Winston J. Zahra (Chief Executive Officer)
John L. Bonello
Michael C. Bonello
William Hancock
Gary Alexander Neville
Trevor E. Zahra

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

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

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

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

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

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

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

Information required by Malta Financial Services Authority Listing Rule 5.64.3
To the extent known to the company, the following persons are the persons that hold direct and indirect shareholdings in the company in excess of 5% of the equity share capital:

Shareholder	% of shareholding As at 31 October 2012
TMC Limited	48.5
Double You Limited	12.1
T Limited	12.1

Share capital structure
The company's authorised share capital is *€40,000,000* and issued share capital is *€36,340,160* divided into *36,340,160* ordinary shares of *€1* per share. All of the issued shares of the company form part of one class of ordinary shares in the company, which shares are listed on the Malta Stock Exchange. All shares in the company have the same rights and entitlements and rank *pari passu* between themselves. The following are highlights of the rights attaching to the shares:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) allot any of them on any terms to any person unless an offer has first been made to each existing shareholder to allot to him at least on the same terms, a proportion of the new shares which is as nearly as practicable equal to the proportion in nominal value held by him of the aggregate shares in issue in the company immediately prior to the new issue of shares; and
(b) allot any of them to any person upon the expiration of any offer made to existing shareholders in terms of a) above. Any such shares not subscribed for by the existing shareholders may be offered for subscription to the general public under the same or other conditions which however cannot be more favourable to the public than offer made under (a).

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

Disclosures pursuant to Listing Rule 5.70.1
On the 1 September 2009, the company and Winston J. Zahra entered into a service agreement pursuant to which the latter's role within the company as chief executive officer was regulated. The term of such agreement is stated to be for five years or such earlier period if Winston J. Zahra no longer continues to occupy the post of chief executive officer.

Statement by directors pursuant to Listing Rule 5.68
We, the undersigned declare that to the best of our knowledge:

1. The consolidated financial statements give a true and fair view of the financial position of the company and its group as at 31 October 2012, and of their financial performance and their cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the E.U.

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

Approved by the board of directors and signed on its behalf on 22 February 2013 by:

Winston V. Zahra
Chairman

Winston J. Zahra
Chief Executive Officer

A. INTRODUCTION

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

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

The board of directors is aware that it is responsible for the implementation of good corporate governance practices and considers that the company has adopted appropriate structures and measures to achieve an adequate level of good corporate governance in accordance with the Code. Where the company is not in compliance with any of the provisions of the code, this is explained in the section titled "non-compliance with the Code".

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

B. COMPLIANCE WITH THE CODE

Principle 1: The Board

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

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

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

Principle 2: Chairman and Chief Executive Officer

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

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

Principle 3: Composition of the Board

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

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

Principle 4 and 5: The Responsibilities of the Board and Board Meetings

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

The company's Board reviews and evaluates corporate strategy, major operational and financial plans, and their implementation.

Members	**Meetings held: 8**
	Attended
Winston V. Zahra (chairman)	8
Winston J. Zahra (chief executive officer)	8
John L. Bonello (independent non-executive director)	8
Michael C. Bonello (independent non-executive director)	8
William Hancock (independent non-executive director)	7
Gary Alexander Neville (independent non-executive director)	5
Trevor E. Zahra (non-executive director)	7

Board Committees

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

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

Member	**Number of Meetings held 8**
John L. Bonello (chairman of audit committee)	8
Michael C. Bonello	8
William Hancock	5

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

Audit Committee (continued)

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

The REMNOM committee is dealt within principle 8 below.

Principle 6: Information and Professional Development

The Board appoints the CEO who continues to enjoy its full support and confidence. Appointments and changes to senior management are approved by the board and a succession plan is in place in respect of all senior management positions. The Board actively considers the professional and technical development of all senior management. Board meetings are set well in advance of their due date and each director is provided with detailed board papers relating to each agenda item. The CEO prepares a detailed review for each board meeting covering all aspects of the company's business.
On joining the Board, a director is provided with briefings by the Chief Executive Officer on the different activities within the group. The Board organises, from time to time, regular information briefing sessions to ensure that the directors are made aware of their duties, the company's operations and plans, skills and competence of senior management, the general business environment and the Board's expectations.

Principle 7: Evaluation of the Board's Performance

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

Principle 8: Committees

The **REMNOM** committee is composed of the group's chairman and 2 independent non-executive directors as follows:

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

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

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

Remuneration Statement

Remuneration Policy – Group Executive Team

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

Remuneration Policy – Directors

The board of directors determines the framework of the remuneration policy for the members of the Board as a whole, this following the submission of recommendations by the REMNOM Committee. The maximum annual aggregate emoluments that may be paid to the directors is approved by the shareholders in General Meeting. This amount was fixed at an aggregate sum of *€700,000* per annum at the first Annual General Meeting of the company held on the 19 May 2010. The financial statements disclose an aggregate figure in respect of the directors' remuneration which with respect to the period under review amounted to *€415,419.* Directors' emoluments are designed to reflect the time committed by Directors to the Company's affairs, including the different Board committees of which directors are members, and their responsibilities on such committees.

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

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

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

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

Principle 11: Conflicts of Interest

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

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

Principle 12: Corporate Social Responsibility

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

C. NON-COMPLIANCE WITH THE CODE

Principle 9 (Code Provision 9.3):

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

D. INTERNAL CONTROLS

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

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

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

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

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

E. GENERAL MEETINGS AND SHAREHOLDERS' RIGHTS

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

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

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

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

(i) the Chairman of the meeting; or
(ii) by at least three (3) members present in person or by proxy; or
(iii) any member or members present in person or by proxy and representing not less than one tenth of the total voting power of all members having the right to vote at that meeting; or
(iv) a member or members present in person or by proxy holding equity securities conferring a right to vote at the meeting, being equity securities on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the equity securities conferring that right.

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

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

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

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

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

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

Electronic voting
In terms of the articles of association of the company, the directors may establish systems to:
a) allow persons entitled to attend and vote at general meetings of the company to do so by electronic means in accordance with the relevant provisions of the Listing Rules; and
b) allow for votes on a resolution on a poll to be cast in advance.

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

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

Signed on behalf of the board of directors on 22 February 2013 by:

Winston V. Zahra	***Winston J. Zahra***
Chairman	***Chief Executive officer***

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Company Ref No: C51312
VAT Reg No: MT2013 6121
Exemption number: EXO2155

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

Island Hotels Group Holdings p.l.c.

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

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

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

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

In our opinion, the Statement of Compliance set out on pages 10 to 18 has been properly prepared in accordance with the requirements of Listing Rules 5.94 and 5.97.

Bernard Scicluna as Director
in the name and on behalf of
Deloitte Audit Limited
Registered auditor

22 February 2013

Deloitte Audit Limited is not responsible for the maintenance and integrity of the corporate, financial and non-financial information included on this website

Island Hotels Group Holdings p.l.c.

Statements of comprehensive income
Year ended 31 October 2012

	Notes	Group		Holding	
		2012	2011	**2012**	2011
		€	€	**€**	€
Revenue	*5*	**32,939,071**	30,254,333	**-**	-
Staff costs	*11*	**(13,190,090)**	(11,860,954)	**-**	-
Food and beverage costs		**(4,168,836)**	(3,461,992)	**-**	-
Other operating costs		**(10,300,039)**	(9,427,289)	**(251,920)**	(170,981)
Other operating income		**-**	-	**220,745**	113,451
Earnings/(loss) before interest, taxation, depreciation and amortisation		**5,280,106**	5,504,098	**(31,175)**	(57,530)
Depreciation and amortisation	*14*	**(3,330,507)**	(3,211,916)	**-**	-
Operating profit/(loss)		**1,949,599**	2,292,182	**(31,175)**	(57,530)
Share of losses of associates		**(1,393)**	-	**-**	-
Investment income	*7*	**165,166**	151,446	**1,235,593**	1,615,583
Finance costs	*8*	**(2,947,528)**	(3,041,345)	**(1,491,145)**	(1,477,365)
(Loss)/profit before tax		**(834,156)**	(597,717)	**(286,727)**	80,688
Income tax credit/(expense)	*12*	**(155,116)**	355,355	**(29,853)**	(47,025)
(Loss)/profit for the year	*9*	**(989,272)**	(242,362)	**(316,580)**	33,663
Other comprehensive income					
Exchange differences on translating foreign operations		**1,278,859**	134,887	**-**	-
Total comprehensive income/ (expense) for the year		**289,587**	(107,475)	(**316,580)**	33,663
(Loss)/profit for the year attributable to the owners of the holding company		**(989,272)**	(242,362)	**(316,580)**	33,663
Total comprehensive income/ (expense) for the year attributable to the owners of the holding company		**289,587**	(107,475)	**(316,580)**	33,663
Basic/diluted earnings/ (loss) per share	*13*	***(0.027)***	*(0.007)*		

Island Hotels Group Holdings p.l.c.

Statements of financial position

31 October 2012

	Notes	Group 2012 €	Group 2011 €	Holding 2012 €	Holding 2011 €
ASSETS AND LIABILITIES					
Non-current assets					
Goodwill	*25*	**33,949,830**	32,683,204	**-**	-
Other intangible assets	*14*	**748,819**	596,561	**-**	-
Property, plant and equipment	*14*	**85,024,765**	87,038,218	**-**	-
Investments in subsidiaries	*15*	**-**	-	**52,801,199**	52,801,199
Investment in associates		**150**	1,543	**-**	-
Investments in jointly controlled entities	*15*	**-**	-	**17,070,960**	17,070,960
Loans and receivables	*15*	**8,169,141**	8,146,142	**193,695**	403,435
		127,892,705	128,465,668	**70,065,854**	70,275,594
Current assets					
Inventories	*16*	**1,211,641**	1,138,519	**-**	-
Trade and other receivables	*17*	**8,673,516**	8,093,723	**2,786,190**	1,788,091
Current taxation		**25,914**	32,428	**14,175**	32,428
Cash and cash equivalents	*23*	**1,013,711**	903,617	**-**	-
		10,924,782	10,168,287	**2,800,365**	1,820,519
Total assets		**138,817,487**	138,633,955	**72,866,219**	72,096,113
EQUITY AND LIABILITIES					
Equity attributable to the owners of the holding company					
Share capital	*22*	**36,340,160**	36,340,160	**36,340,160**	36,340,160
Currency translation reserve		**905,637**	(204,152)	**-**	-
(Accumulated losses)/ retained earnings		**(776,860)**	43,342	**67,492**	384,072
Total equity		**36,468,937**	36,179,350	**36,407,652**	36,724,232
Non-current liabilities					
Bank loans	*19*	**26,822,688**	23,471,805	**8,303,823**	7,111,710
Other financial liabilities	*20*	**23,554,758**	23,913,197	**26,240,899**	25,405,544
Trade and other payables	*18*	**4,210,634**	1,358,176	**-**	-
Deferred tax liabilities	*21*	**11,918,175**	11,849,802	**-**	-
		66,506,255	60,592,980	**34,544,722**	32,517,254

Island Hotels Group Holdings p.l.c.

Statements of financial position (continued)

31 October 2012

		Group		Holding	
	Notes	**2012**	2011	**2012**	2011
		€	€	**€**	€
Current liabilities					
Trade and other payables	*18*	**17,601,801**	18,327,741	**447,713**	537,582
Bank overdrafts and loans	*19*	**15,472,437**	21,348,218	**939,114**	1,861,020
Current taxation		**2,871**	58,460	**-**	-
Other financial liabilities	*20*	**2,765,186**	2,127,206	**527,018**	456,025
		35,842,295	41,861,625	**1,913,845**	2,854,627
Total liabilities		**102,348,550**	102,454,605	**36,458,567**	35,371,881
Total equity and liabilities		**138,817,487**	138,633,955	**72,866,219**	72,096,113

These financial statements were approved by the board of directors, authorised for issue on 22 February 2013 and signed on its behalf by:

Winston V. Zahra
Chairman

Winston J. Zahra
Chief Executive Officer

Island Hotels Group Holdings p.l.c.

Statement of changes in equity - Group

Year ended 31 October 2012

Group

	Equity attributable to the owners of the holding company			
	Share capital €	**Currency translation reserve €**	**Retained earnings €**	**Total €**
Balance at 31 October 2010	35,269,200	(339,039)	285,704	35,215,865
Issue of ordinary shares	1,070,960	-	-	1,070,960
Loss for the year	-	-	(242,362)	(242,362)
Other comprehensive income for the year	-	134,887	-	134,887
Total comprehensive income/ (expense) for the year	-	134,887	(242,362)	(107,475)
Balance at 31 October 2011	**36,340,160**	**(204,152)**	**43,342**	**36,179,350**
Reclassification of exchange difference		(169,070)	169,070	-
Loss for the year	-	-	(989,272)	(989,272)
Other comprehensive income for the year	-	1,278,859	-	1,278,859
Total comprehensive income/ (expense) for the year	-	1,278,859	(989,272)	289,587
Balance at 31 October 2012	**36,340,160**	**905,637**	**(776,860)**	**36,468,937**

Island Hotels Group Holdings p.l.c.

Statement of changes in equity – Holding company

Year ended 31 October 2012

Holding company

	Share capital €	Retained earnings €	Total €
Balance at 31 October 2010	35,269,200	350,409	35,619,609
Issue of ordinary shares	1,070,960	-	1,070,960
Profit/total comprehensive income for the year	-	33,663	33,663
Balance at 31 October 2011	36,340,160	384,072	36,724,232
Profit/total comprehensive income for the year	-	(316,580)	(316,580)
Balance at 31 October 2012	**36,340,160**	**67,492**	**36,407,652**

Island Hotels Group Holdings p.l.c.

Statements of cash flows

Year ended 31 October 2012

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Cash flows from operating activities				
(Loss)/profit before tax	**(834,156)**	(597,717)	**(286,727)**	80,688
Adjustments for:				
Depreciation and amortisation	**3,330,507**	3,211,916	**-**	-
Movement in provision for bad debts	**(30,972)**	(65,755)	**-**	-
Bad debts written off	**54,037**	148	**-**	-
Loss on disposal of property, plant and equipment	**23,981**	51,219	**-**	-
Share of losses of associates	**1,393**	-	**-**	-
Interest income	**(165,166)**	(151,446)	**(134,564)**	(185,579)
Dividend income	**-**	-	**(1,101,029)**	(1,430,004)
Interest expense	**2,947,528**	3,041,345	**1,491,145**	1,477,365
Operating profit/(loss) before working capital movements	**5,327,152**	5,489,710	**(31,175)**	(57,530)
Movement in inventory	**(73,122)**	(135,813)	**-**	-
Movement in trade and other receivables	**(602,523)**	(1,469,759)	**(998,099)**	(1,583,112)
Movement in trade and other payables	**2,059,162**	2,122,095	**(89,869)**	36,568
Cash flows from operations	**6,710,669**	6,006,233	**(1,119,143)**	(1,604,074)
Interest paid	**(2,880,172)**	(2,955,425)	**(1,491,145)**	(1,477,365)
Taxation paid	**(138,612)**	(401,818)	**(11,600)**	(146,040)
Net cash flows from operating activities	**3,691,885**	2,648,990	**(2,621,888)**	(3,227,479)
Cash flows from investing activities				
Purchase of property, plant and equipment	**(1,418,052)**	(1,529,088)	**-**	-
Purchase of intangible asset	**(295,378)**	-	**-**	-
Proceeds from sale of property, plant and equipment	**129,444**	320,366	**-**	-
Grants receivable in respect of capital expenditure	**93,153**	-	**-**	-
Net cash outflow on acquisition of jointly controlled entities (Note 25)	**-**	(350,352)	**-**	-
Movement in loans and other receivables	**-**	(4,482,934)	**232,740**	1,037,217
Dividends received	**-**	-	**1,101,029**	1,430,004
Interest received	**165,166**	151,446	**134,564**	185,579
Net cash flows from investing activities	**(1,325,667)**	(5,890,562)	**1,468,333**	2,652,800
Cash flows from financing activities				
Movement in bank loans	**(3,224,887)**	(3,409,966)	**830,052**	(611,060)
Transfer to sinking fund reserve	**(23,000)**	-	**(23,000)**	-
Movement in related party balances	**279,541**	4,574,910	**906,348**	617,556
Net cash flows from financing activities	**(2,968,346)**	1,164,944	**1,713,400**	6,496
Net movement in cash and cash equivalents	**(602,128)**	(2,076,628)	**559,845**	(568,183)
Cash and cash equivalents at the beginning of the year	**(9,677,495)**	(7,521,317)	**(559,845)**	8,338
Effect of foreign exchange rate changes	**12,233**	(79,550)	**-**	-
Cash and cash equivalents at the end of the year (Note 23)	**(10,267,390)**	(9,677,495)	**-**	(559,845)

1. Basis of preparation

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

The significant accounting policies adopted are set out below.

2. Significant accounting policies

Basis of consolidation

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

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

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

Business combinations

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

2. Significant accounting policies (continued)

Business combinations (continued)

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

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

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

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

2. Significant accounting policies (continued)

Goodwill

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

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

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

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

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

Interests in jointly controlled entities

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

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

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

2. Significant accounting policies (continued)

Interests in jointly controlled entities (continued)

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

Interests in associated undertakings

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

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting from the date that significant influence commences until the date that significant influence ceases. Under the equity method, investments in associates are initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of net assets of the associates, less any impairment in the value of individual investments. The group's share of the post-acquisition profit or loss of the associates is recognised in profit or loss and the group's share of the post-acquisition changes in other comprehensive income is recognised in other comprehensive income. Distributions received from an investee reduce the carrying amount of the investment.

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

2. Significant accounting policies (continued)

Property, plant and equipment

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

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

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

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

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

Properties in the course of construction

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

2. Significant accounting policies (continued)

Depreciation

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

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

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

Intangible assets

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the group and the cost of the asset can be measured reliably. Intangible assets are initially measured at cost, being the fair value at the acquisition date for intangible assets acquired in a business combination. Expenditure on an intangible asset is recognised as an expense in the period when it is incurred unless it forms part of the cost of the asset that meets the recognition criteria. The useful life of intangible assets is assessed to determine whether it is finite or indefinite. Intangible assets with a finite useful life are amortised. Amortisation is charged to profit or loss so as to write off the cost of intangible assets less any estimated residual value, over their estimated useful lives. Amortisation is recognised on a straight-line basis over their estimated useful lives. The amortisation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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

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

2. Significant accounting policies (continued)

Intangible assets (continued)

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

Concessions	-	2 – 10 years
Design fee and other rights	-	5 years from the opening of the retail outlet
Computer software	-	3 years

Other financial instruments

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

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

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

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

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

(i) Trade and other receivables

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

(ii) Investments

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

2. Significant accounting policies (continued)

Other financial instruments (continued)

(ii) Investments (continued)

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

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

(iii) Bank borrowings

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

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

(iv) Other financial liabilities

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

(v) Trade and other payables

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

(vi) Shares issued by the company

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

2. Significant accounting policies (continued)

Other financial instruments (continued)

Inventories

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

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

Provisions

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

Impairment

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

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

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

2. Significant accounting policies (continued)

Impairment (continued)

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

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

In the case of other assets tested for impairment, the recoverable amount is the higher of fair value less costs to sell (which is the amount obtainable from sale in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal) and value in use (which is the present value of the future cash flows expected to be derived, discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset). Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated.

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

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

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

2. Significant accounting policies (continued)

Impairment (continued)

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

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

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

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

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

Revenue recognition

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

(i) Sale of goods

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

2. Significant accounting policies (continued)

Revenue recognition (continued)

(ii) Provision of services

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

(iii) Vacation ownership arrangements

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

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

(iv) Interest income

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

(v) Dividend income

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

2. Significant accounting policies (continued)

Government grants

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

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

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

Borrowing costs

Borrowing costs include the costs incurred in obtaining external financing.

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

Leases

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

Rentals payable under operating leases, less the aggregate benefit of incentives received from the lessor, are recognised as an expense in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit.

2. Significant accounting policies (continued)

Taxation

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

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

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

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

2. Significant accounting policies (continued)

Taxation (continued)

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

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

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

Employee benefits

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

Currency translation

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

In preparing the financial statements of the individual entities, transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are re-translated to the functional currency at the exchange rate ruling at year-end. Exchange differences arising on the settlement and on the re-translation of monetary items are dealt with in profit or loss.

2. Significant accounting policies (continued)

Currency translation (continued)

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

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

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

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

Cash and cash equivalents

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

2. Significant accounting policies (continued)

Dividends

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

Dividends to holders of equity instruments are debited directly to equity.

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

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

Impairment of goodwill

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

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

The recoverable amount of the catering CGU has been determined using value in use calculations (2011 – value in use). The recoverable amount of the CGU comprising hotels and vacation ownership was determined based on fair value less costs to sell (2011 – fair value less costs to sell) (thus incorporating, among other things, the inflows and outflows generated from the proposed extensions and refurbishments to be carried out on existing hotel properties). An additional test was carried out for this latter CGU based on value in use calculations (thus using estimates of cash flows for the assets in their current condition).

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

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Impairment of goodwill (continued)

The key assumptions for these calculations are long-term growth rates ranging between 2.5% and 3% (2011 - ranging between 2% and 2.5%), a discount rate ranging between 8% and 10% (2011 - ranging between 8.5% and 13%) and use of cash flow projections derived from the most recent financial budgets and forecasts approved by the directors covering a five-year period. Cash flows beyond the five-year period have been extrapolated using stable growth rates based on the directors' local expected economic conditions and do not exceed the long-term average market growth rate. The discount rates are based on the group's weighted average cost of capital adjusted for specific industry risks and the group's optimal desired debt-to-equity ratio.

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

4. International Financial Reporting Standards in issue but not yet effective

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

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

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

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

4. International Financial Reporting Standards in issue but not yet effective (continued)

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

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

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

On 12 May 2011, the IASB issued IFRS 13 *Fair Value Measurement.* This Standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not require fair value measurements in addition to those already required or permitted by other IFRSs. The Standard is applicable for annual periods beginning on or after 1 January 2013, with earlier application being permitted. IFRS 13 has been endorsed by the European Union.

4. International Financial Reporting Standards in issue but not yet effective (continued)

On 16 December 2011, the IASB issued Amendments to IAS 32 and IFRS 7 – Offsetting Financial Assets and Financial Liabilities. These Amendments are applicable for annual periods beginning on or after 1 January 2014 and 1 January 2013 respectively. These Amendments have been endorsed by the European Union. These Amendments are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The disclosure requirements also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received.

The amendments to IAS 1 require items of other comprehensive income to be grouped into the following: (a) items that will not be reclassified subsequently to profit or loss and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012, with earlier application permitted. The Amendments have been endorsed by the European Union.

The Amendment to IAS 16 *(as part of Annual Improvements to IFRSs 2009 – 2011 Cycle)* addresses the classification of servicing and similar equipment. This Amendment addresses a perceived inconsistency in the classification requirements for servicing equipment. The previous version of IAS 16 was unclear on the classification of servicing equipment as inventory or property, plant and equipment. The Amendment clarifies that such items shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory. This Amendment is applicable for annual periods beginning on or after 1 January 2013, with earlier application being permitted. This Amendment had not as yet been endorsed by the European Union at the date of authorisation of these financial statements.

The directors are assessing the impact that the adoption of these International Financial Reporting Standards will have on the financial statements of the group and the holding company in the period of initial application. In particular, the directors are assessing the changes resulting from IFRS 11 *Joint Arrangements*, including the impact on the financial statements resulting from the change in the classification of joint arrangements and the elimination of proportionate consolidation.

5. Revenue

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

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Accommodation, catering and ancillary services	**32,939,071**	30,254,333	**-**	-

6. Business and geographical segments

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

7. Investment income

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Dividends received from group undertakings	**-**	-	**1,101,029**	1,430,004
Interest income on bank deposits	**796**	153	**-**	-
Interest income on loans and receivables from group undertakings	**-**	-	**134,564**	185,579
Interest income on loans and receivables from jointly controlled entities	**17,023**	52,113	**-**	-
Other Interest	**147,347**	99,180	**-**	-
	165,166	151,446	**1,235,593**	1,615,583

8. Finance costs

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
This is charged on:				
Debt securities	**910,000**	910,000	**910,000**	910,000
Bank loans and overdrafts	**1,869,383**	1,894,881	**465,807**	427,714
On amounts due to group undertakings	**-**	-	**115,338**	139,651
On amounts due to jointly controlled entities	**1,322**	-	**-**	-
On amounts due to shareholders	**99,556**	112,120	**-**	-
On amounts due to related parties	**32,729**	38,683	**-**	-
Other finance charges	**34,538**	85,661	**-**	-
	2,947,528	3,041,345	**1,491,145**	1,477,365

9. Loss/(profit) for the year

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
This is stated after charging:				
Depreciation and amortisation	**3,330,507**	3,211,916	**-**	-
Movement in provision for bad and doubtful trade receivables (note 30)	**(30,972)**	(65,755)	**-**	-
Net exchange differences	**71,216**	322,790	**-**	-

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

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Annual statutory audit:				
- *Group auditors*	**39,100**	34,720	**10,000**	10,000
Other assurance services	**2,450**	2,750	**-**	-
Tax advisory services	**725**	5,485	**-**	1,350
Other non-audit services	**62,894**	65,849	**16,200**	12,070
	105,169	108,804	**26,200**	23,420

10. Key management personnel compensation

	Group and Holding 2012 €	2011 €
Key management personnel compensation		
Short-term benefits	**626,419**	619,770

The emoluments paid in respect of the current year to the company's directors amounted to *€415,419* (2011 - *€404,975)*.

11. Staff costs and employee information

	Group 2012 €	2011 €
Staff costs:		
Wages and salaries	**9,853,761**	8,794,475
Social security costs	**711,313**	791,174
	10,565,074	9,585,649
Sub-contracted labour	**2,754,174**	2,360,615
Capitalised labour costs	**(129,158)**	(85,310)
	13,190,090	11,860,954

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

	Group 2012 Number	2011 Number
Administration	**118**	122
Operations	**454**	464
	572	586

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

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Tax (credit)/charge for the year:				
Current tax expense	**89,538**	126,707	**29,853**	47,025
Deferred tax expense/ (credit) (note 21)	**65,578**	(482,062)	**-**	-
	155,116	(355,355)	**29,853**	47,025

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

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
(Loss)/profit before tax	**(834,156)**	(597,717)	**(286,727)**	80,688
Tax at the applicable rate of 35%	**(291,955)**	(209,201)	**(100,354)**	28,241
Tax effect of:				
Depreciation of non-eligible asset	**25,943**	(78,168)	**-**	-
Differential tax rates on intra-group dividends eliminated on consolidation	**114,415**	(313,498)	**-**	-
Income taxed at different rates	**-**	-	**(102,357)**	(190,281)
Disallowable expenses	**259,041**	217,309	**258,416**	209,633
Untaxed dividend income	**-**	-	**(25,852)**	-
Other temporary differences	**47,672**	28,203	**-**	(568)
	155,116	(355,355)	**29,853**	47,025

13. Earnings/(loss) per share

	Group	
	2012	2011
	€	€
Basic/diluted earnings per share	**(0.027)**	(0.007)

The total earnings per ordinary share for the year ended 31 October 2012 has been calculated based on the losses attributable to shareholders of *€989,272* (2011 - *€242,362)* divided by the weighted average number of *36,340,160* (2011 - *35,415,907*) ordinary shares in issue during the period.

14. Property, plant and equipment and intangible assets

Property, plant and equipment

Group

	Leasehold land and buildings €	Motor vehicles €	Plant and machinery €	Furniture fittings and other equipment €	Total €
Cost					
At 31.10.2010	74,279,230	357,667	17,847,172	18,875,983	111,360,052
Additions	542,268	9,114	303,925	673,781	1,529,088
Acquisitions through business combinations	611,984	12,016	172,241	219,200	1,015,441
Disposals	(4,325)	-	(15,446)	(415,281)	(435,052)
Reclassifications	-	-	(1,820,416)	1,820,416	-
Effect of foreign currency exchange differences	-	-	(167)	(1,434)	(1,601)
At 31.10.2011	75,429,157	378,797	16,487,309	21,172,665	113,467,928
Additions	563,952	7,552	190,859	655,689	1,418,052
Disposals	(9,336)	(10,580)	(58,881)	(261,453)	(340,250)
EU grants received	(2,176)	-	(66,164)	(24,813)	(93,153)
Reclassifications	-	-	(891,727)	891,727	-
Effect of foreign currency exchange differences	-	-	3,210	23,957	27,167
At 31.10.2012	75,981,597	375,769	15,664,606	22,457,772	114,479,744
Accumulated depreciation					
At 31.10.2010	3,888,629	264,282	7,975,620	11,214,713	23,343,244
Provision for the year	1,042,351	31,873	865,122	1,212,131	3,151,477
Eliminated on disposal	(898)	-	(15,436)	(47,134)	(63,468)
Reclassifications	-	-	(98,609)	98,609	-
Effect of foreign currency exchange differences	-	-	(138)	(1,405)	(1,543)
At 31.10.2011	4,930,082	296,155	8,726,559	12,476,914	26,429,710
Provision for the year	1,042,839	34,447	887,499	1,222,646	3,187,431
Eliminated on disposal	(8,594)	(9,515)	(34,469)	(134,247)	(186,825)
Effect of foreign currency exchange differences	-	-	2,248	22,415	24,663
At 31.10.2012	5,964,327	321,087	9,581,837	13,587,728	29,454,979
Carrying amount					
At 31.10.2011	70,499,075	82,642	7,760,750	8,695,751	87,038,218
At 31.10.2012	**70,017,270**	**54,682**	**6,082,769**	**8,870,044**	**85,024,765**

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

Property, plant and equipment (continued)

Included in the figure of cost are assets amounting to *€7,177,927* (2011 – *€6,629,215)* representing assets in the course of construction and have therefore not been depreciated. Interest capitalised during the year amounted to *€328,589* (2011 – *€304,568)*, arising from specific borrowings undertaken to finance the assets.

Intangible assets

Group

	Concessions €	Computer software €	Design fee and other rights €	Total €
Cost				
Acquisitions through business combinations	657,000	-	-	657,000
At 31.10.2011	657,000	-	-	657,000
Additions	-	211,402	83,976	295,378
At 31.10.2012	657,000	211,402	83,976	952,378
Accumulated amortisation				
At 31.10.2010/ amortisation expense	60,439	-	-	60,439
At 31.10.2011	60,439	-	-	60,439
Amortisation expense	112,215	30,345	560	143,120
At 31.10.2012	172,654	30,345	560	203,559
Carrying amount				
At 31.10.2011	596,561	-	-	596,561
At 31.10.2012	**484,346**	**181,057**	**83,416**	**748,819**

15. Financial assets

(i) Investment in subsidiaries and jointly controlled entities

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

	Investment in subsidiaries €	Investment in jointly controlled entities €	Total €
Carrying amount			
At 31.10.2011	52,801,199	17,070,960	69,872,159
At 31.10.2012	**52,801,199**	**17,070,960**	**69,872,159**

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

	Proportion of ownership interest 2012 %	Proportion of ownership interest 2011 %
Subsidiary undertakings:		
Island Hotels Group Limited Salina Bay, Salina, Malta.	**100**	100
Bay Point Hotel Limited St. George's Bay, St. Julians, Malta.	**100**	100
Coastline Hotel Limited Salina Bay, Salina, Malta.	**100**	100
Island Caterers Limited Salina Bay, Salina, Malta.	**100**	100
Bay Point Properties Limited Salina Bay, Salina, Malta.	**100**	100

15. Financial assets (continued)

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

	Proportion of ownership interest 2012 %	Proportion of ownership interest 2011 %
Island Resorts International Limited Alcara Building, 24 De Castro Street, Wickham's Cay 1, Tortola, British Virgin Islands.	**100**	100
Jointly controlled entities of Island Hotels Group Limited:		
Golden Sands Resort Limited Golden Bay, l/o Mellieha, Malta	**50**	50
Azure Services Limited Suite 1, Level 2, TG Complex Brewery Street, Mriehel, Malta.	**50**	50
The Heavenly Collection Limited The Radisson SAS Golden Sands Resort & Spa, Golden Bay, l/o Mellieha, Malta	**50**	50
Jointly controlled entities of Island Resorts International Limited:		
Vacation Financial Limited 325 Waterfront Drive, Omar Hodge Building, 2nd Floor Wickham's Cay Road Town, Tortola, British Virgin Islands.	**50**	50
Heathfield Overseas Limited 325 Waterfront Drive, Omar Hodge Building, 2nd Floor Wickham's Cay Road Town, Tortola, British Virgin Islands.	**50**	50

15. Financial assets (continued)

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

	Proportion of ownership interest 2012 %	Proportion of ownership interest 2011 %
Azure Resorts Limited 325 Waterfront Drive, Omar Hodge Building, 2nd Floor Wickham's Cay Road Town, Tortola, British Virgin Islands.	**50**	50
Brooksfield Overseas Limited 325 Waterfront Drive, Omar Hodge Building, 2nd Floor Wickham's Cay Road Town, Tortola, British Virgin Islands.	**50**	50
Medi International Limited 325 Waterfront Drive, Omar Hodge Building, 2nd Floor Wickham's Cay Road Town, Tortola, British Virgin Islands.	**50**	50
Jointly controlled entities of Island Hotels Group Holdings p.l.c. (directly/indirectly):		
Buttigieg Holdings Limited 5, Birbal Street, Balzan, Malta.	**50**	50
R.J.C. Caterers Limited 5, Birbal Street, Balzan, Malta.	**50**	50
The Coffee Company Malta Limited 5, Birbal Street, Balzan, Malta.	**50**	-
MKIC Limited Montekristo Estates, Hal Farrug Road, Luqa, Malta.	**50**	-

15. Financial assets (continued)

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

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

	2012	2011
	€	€
Current assets	**5,847,487**	5,068,739
Non-current assets	**52,456,018**	52,778,028
Current liabilities	**12,625,332**	17,213,721
Non-current liabilities	**18,041,242**	14,347,129
Income	**16,205,764**	12,864,346
Expenses	**15,665,673**	10,888,399

(ii) Loans and receivables

Group

	Jointly controlled entities	**Other loans**	**Total**
	€	**€**	**€**
Amortised cost			
At 31.10.2011	8,127,589	18,553	8,146,142
Amount expected to be settled after 12 months	8,127,589	18,553	8,146,142
At 31.10.2012	**8,127,589**	**41,552**	**8,169,141**
Amount expected to be settled after 12 months	**8,127,589**	**41,552**	**8,169,141**

15. Financial assets (continued)

(ii) Loans and receivables (continued)

Holding

	Subsidiaries €	**Other loans** €	**Total** €
Amortised cost			
At 31.10.2011	403,435	-	403,435
Amount expected to be settled after 12 months	403,435	-	403,435
At 31.10.2012	**170,695**	**23,000**	**193,695**
Amount expected to be settled after 12 months	**170,695**	**23,000**	**193,695**

€233,921 of the amounts owed by subsidiaries to the holding company in 2011 have all been settled during 2012. These amounts were unsecured and the company incurred interest at a floating interest rate averaging *4.7%* per annum. The remaining amounts are unsecured, interest-free and repayable on demand but are not expected to be realised within twelve months of the end of the reporting period.

Except for *€1,455,859* (2011 - *€1,455,859*) of the amounts due from jointly controlled entities at the end of the reporting period, which bear interest at the fixed rate of *6.75%* per annum (2011 - *6.75%* per annum), and *€150,000* (2011 – *€275,085*) which bear interest at the fixed rate of *6%* per annum (2011 – *6%* per annum), the remaining amounts due to the group are interest-free. All amounts due from jointly controlled entities are unsecured and are repayable on demand with twelve months' notice.

As at the end of the reporting period, the Company's and the Group's other loans include a cash reserve amounting to *€23,000* (2011 – *nil*) deposited with a trustee for the benefit of the holders of the debt securities as disclosed in note 20, in line with the Combined Securities note dated 28th August 2009 for the company to build a sinking fund. During this financial year the company engaged Bank of Valletta plc, a trustee authorised in terms of the Trusts and Trustee Act (Cap 331 of the Laws of Malta), to provide the services required by the company in connection with this fund. By redemption date, the value of the sinking fund is expected to amount to 50% of the value of the issued Bonds. This sinking fund is expected to create a cash reserve from the Company's annual surpluses to meet part of the redemption proceeds on the Redemption date.

16. Inventories

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Food, beverage, consumables and maintenance stocks	**1,211,641**	1,138,519	**-**	-

17. Trade and other receivables

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Trade receivables	**6,654,147**	6,737,631	**-**	-
Amounts owed by group undertakings	**-**	-	**2,750,504**	1,761,887
Amounts owed by jointly controlled entities	**350,619**	19,990	**20,020**	-
Amounts owed by associated undertakings	**87,339**	-	**-**	-
Amounts owed by related undertakings	**181,860**	30,155	**-**	-
Other receivables	**906,117**	656,397	**-**	4,725
Prepayments and accrued income	**493,434**	649,550	**15,666**	21,479
	8,673,516	8,093,723	**2,786,190**	1,788,091

No interest is charged on trade and other receivables. Amounts owed by group undertakings, jointly controlled entities and related parties are unsecured, interest-free and repayable on demand.

18. Trade and other payables

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Trade payables	**13,793,810**	11,575,830	**66,010**	63,615
Advance deposits	**862,634**	748,648	**-**	-
Other payables	**1,615,221**	1,174,055	**81**	-
Accruals and deferred income	**5,540,770**	6,187,384	**381,622**	473,967
	21,812,435	19,685,917	**447,713**	537,582
Less: amounts due for settlement within 12 months (shown under current liabilities)	**(17,601,801)**	(18,327,741)	**(447,713)**	(537,582)
Amounts due for settlement after 12 months	**4,210,634**	1,358,176	**-**	-

Included with the Group's trade and other payables is an amount of *€0.6million* which is subject to interest rates at commercial rates. No interest is charged on the trade payables of the holding company.

19. Bank overdrafts and loans

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Bank overdrafts (note 23)	**11,281,101**	10,581,112	**-**	559,845
Bank loans	**31,014,024**	34,238,911	**9,242,937**	8,412,885
	42,295,125	44,820,023	**9,242,937**	8,972,730
Less: amounts due for settlement within 12 months (shown under current liabilities)	**(15,472,437)**	(21,348,218)	**(939,114)**	(1,861,020)
Amounts due for settlement after 12 months	**26,822,688**	23,471,805	**8,303,823**	7,111,710

The bank loans and overdrafts of the group bear floating interest rates averaging between *4.95%* - *7.5%* (2011 - *4.7%* to *7.5%*) per annum. The bank loans of the holding company bear a floating interest rate of *4.95%* (2011 – *4.7%*) per annum. These are secured by general and special hypothecs on the group's assets, privileges on certain assets and guarantees given by related parties, as well as pledges over the shares in subsidiaries and jointly controlled entities.

19. Bank overdrafts and loans (continued)

During the year, the Group renegotiated the repayment terms of certain bank loans granted to subsidiaries and jointly controlled entities. As at the end of the reporting period, the Group's share of the renegotiated bank loans amounted to *€14,268,310* (2011 - *€15,733,250*). Moreover, during the same period the group and the holding company converted an existing bank overdraft into a bank loan which is repayable in equal monthly instalments by the end of financial year ending 31 October 2017.

As at 31 October 2012, the group had an additional undrawn bank facility of *€1.2million* (2011 – *nil*) which is repayable in monthly instalments within a period of 10 years from the first withdrawal date. This facility was requested to support a refurbishment project which is due to commence in the next financial reporting period.

20. Other financial liabilities

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Amounts owed to shareholders	**1,803,594**	2,161,494	**-**	-
Amounts owed to group undertakings	**-**	-	**12,664,960**	11,835,511
Amounts owed to related undertakings	**2,376,285**	1,738,645	**102,957**	26,058
Amounts owed to associates	**12,476**	12,675	**-**	-
Debt securities	**14,000,000**	14,000,000	**14,000,000**	14,000,000
Loans and advances from joint venturer	**8,127,589**	8,127,589	**-**	-
	26,319,944	26,040,403	**26,767,917**	25,861,569
Less: amounts due for settlement within 12 months (shown under current liabilities)	**(2,765,186)**	(2,127,206)	**(527,018)**	(456,025)
Amounts due for settlement after 12 months	**23,554,758**	23,913,197	**26,240,899**	25,405,544

The amount owed to shareholders by the group is unsecured, bears interest at a fixed rate of *5%* per annum (2011 - *5%* per annum) and is repayable at *€218,000* semi-annually, inclusive of interest.

20. Other financial liabilities (continued)

Except for *€1,455,859* (2011 - *€1,455,859)* of the loans and advances payable to the joint venturer by the group at the end of the reporting period, which bears interest at the rate of *6.75%* per annum (2011 – *6.75%* per annum) and an amount of *€150,000* (2011 – *€150,000*) which bears interest at the rate of *6%* (2011 – *6%*) per annum, the remaining amounts due to the joint venturer are interest-free. All loans and advances payable to the joint venturer are unsecured and are repayable on demand with twelve months' notice.

The amounts owed to the related undertakings are interest-free, unsecured and have no fixed date for repayment. Except for *€3,711,383* (2011 - *€3,456,310*) of the amounts owed to group undertakings by the holding company which bear interest at a floating rate averaging *5%* (2011 – *5%*) per annum, the remaining amounts are interest free. Of these amounts, *€3,711,383* (2011 - *€3,456,310*) are payable by instalments ranging between *€25,000 and €50,000* per month (2011 - *€50,000* per month) (inclusive of interest) and the remaining amounts are repayable on demand with twelve months' notice. All the amounts due to group undertakings are unsecured.

Debt securities comprise 140,000 unsecured bonds bearing interest at 6.5% per annum of *€100* each, which are repayable between 2017 and 2019 and which are listed on the Malta Stock Exchange. The market value of these debt securities on the last trading day before the end of the reporting period was *€103.05* (2011 - *€101.00*) each. As further disclosed in note 15, in line with the Combined Securities note dated 28th August 2009, the Company is required to build a sinking fund, the value of which will, by the redemption date of the bonds, be equivalent to 50% of the value of such bonds.

21. Deferred taxation

Group

	Opening balance €	Acquired on business combination €	Recognised in profit or loss €	Recognised in other comprehensive income €	Closing balance €
2011					
Arising on:					
Temporary differences					
Property, plant and equipment	(14,775,889)	(64,753)	187,952	-	(14,652,690)
Unabsorbed capital allowances	3,809,426	29,027	(202,327)	-	3,636,126
Other temporary differences	(1,430,378)	-	506,245	(12,683)	(936,816)
	(12,396,841)	(35,726)	491,870	(12,683)	(11,953,380)
Arising on:					
Unused tax losses	113,386	-	(9,808)	-	103,578
	(12,283,455)	(35,726)	482,062	(12,683)	(11,849,802)

21. Deferred taxation (continued)

	Opening balance €	Acquired on business combination €	Recognised in profit or loss €	Recognised in other comprehensive income €	Closing balance €
2012					
Arising on:					
Temporary differences					
Property, plant and equipment	**(14,652,690)**	**-**	**62,656**	**-**	**(14,590,034)**
Unabsorbed capital allowances	**3,636,126**	**-**	**(210,003)**	**-**	**3,426,123**
Other temporary differences	**(936,816)**	**-**	**91,221**	**(2,795)**	**(848,390)**
	(11,953,380)	**-**	**(56,126)**	**(2,795)**	**(12,012,301)**
Arising on:					
Unused tax losses	**103,578**	**-**	**(9,452)**	**-**	**94,126**
	(11,849,802)	**-**	**(65,578)**	**(2,795)**	**(11,918,175)**

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

At 31 October, a subsidiary of the parent had a deferred tax asset of *€386,769* (2011 - *€386,769)* emanating from unabsorbed capital losses. The crystallisation of this asset remains doubtful given the expected pattern of the subsidiary company's income in the future years and has therefore not been recognised.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised amounts to *€3,110,026* (2011 - *€3,496,106*).

22. Share capital

	No of shares and share capital (€)	
	Ordinary shares	**Total**
Authorised:-		
As at 31.10.2011/**31.10.2012**	**40,000,000**	**40,000,000**
Issued and fully paid up:-		
As at 31.10.2011	36,340,160	36,340,160
As at 31.10.2012	**36,340,160**	**36,340,160**

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

By virtue of a resolution of the directors dated 12 September 2011, the company issued *1,070,960* ordinary shares of *€1* each fully paid up by way of the capitalisation of amounts due by the company to the shareholders of the acquired company, as detailed in note 25.

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

23. Cash and cash equivalents

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

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Cash at bank and on hand	**1,013,711**	903,617	**-**	-
Bank overdrafts (note 19)	**(11,281,101)**	(10,581,112)	**-**	(559,845)
Cash and cash equivalents in the statements of cash flows	**(10,267,390)**	(9,677,495)	**-**	(559,845)

24. Significant non-cash transactions

There were no significant non-cash transactions during the current year. The previous year's non-cash transactions have been disclosed in notes 22 and 25.

25. Acquisition of subsidiaries and jointly controlled entities

Goodwill

	€
Carrying amount	
At 31.10.2010	31,782,672
Additional amounts recognised from business combinations occurring during the year	644,000
Effect of foreign currency exchange differences	256,532
At 31.10.2011	32,683,204
Effect of foreign currency exchange differences	1,266,626
At 31.10.2012	**33,949,830**

Cash-generating units containing goodwill

Goodwill arose on the acquisition of a number of subsidiaries and jointly-controlled entities in financial years ending 31 October 2009 and 2011. Goodwill represents amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiaries and the jointly-controlled entities acquired. These benefits were not recognised separately because they did not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions was deductible for tax purposes.

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

	2012	2011
	€	€
Hotels and vacation ownership	**26,440,008**	25,173,382
Catering	**7,509,822**	7,509,822
	33,949,830	32,683,204

The key assumptions used for the purpose of the impairment testing of the CGUs are disclosed in note 3 to the financial statements.

25. Acquisition of subsidiaries and jointly controlled entities (continued)

2011

Acquisition of jointly controlled entity by the holding company

With effect from 1 July 2011, Island Hotels Group Holdings plc acquired joint control over Buttigieg Holdings Limited. Buttigieg Holdings Limited has a 99.99% equity interest in R.J.C. Caterers Limited, a 50% equity interest in Quality Catering & Retail Services Limited and a 25% equity interest in Travel Stores Company Limited. The companies are engaged mainly in the operation of catering establishments and have developed a high level of expertise in the management of these operations and in securing competitive contracts. The factors that make up the goodwill recognised mainly comprise the possibility of expanding the external catering activities of the group by successfully participating in industrial catering and the acquisition of an interest in the central food processing unit, which at the date of acquisition has a substantial unutilised capacity.

In consideration of the acquisition of a 50% equity interest in Buttigieg Holdings Limited, Island Hotels Group Holdings plc issued 1,070,960 fully paid up ordinary shares of €*1* each. The fair value of the said equity interest was determined by independent experts using a discounted cash flow analysis. As a result of Buttigieg Holdings Limited securing the extension of one of the concessions, Island Hotels Group Holdings plc will issue additional ordinary shares to that company's former shareholders and receive additional ordinary shares in that company thereby retaining the same percentage equity holding (50%).

Island Hotels Group Holdings plc also has the option to acquire at fair value in cash, during a specified period, the remaining shares in Buttigieg Holdings Limited. Details of the acquisition are set out below:

25. Acquisition of subsidiaries and jointly controlled entities (continued)

2011 (continued)

Fair value of the major class of assets acquired and liabilities assumed at the date of acquisition:

	€
Cash and cash equivalents	**17,000**
Trade and other receivables	**97,703**
Trade and other payables	**(846,000)**
Bank borrowings	**(580,000)**
Inventories	**100,000**
Intangible assets	**657,000**
Property, plant and equipment	**1,015,440**
Investment in associate	**1,543**
Deferred tax liabilities	**(73,500)**
Deferred tax assets	**37,774**
	426,960
Consideration (note 22)	**1,070,960**
Goodwill arising on consolidation	**644,000**

26. Related party transactions

Island Hotels Group Holdings p.l.c. is the parent company of the subsidiary undertakings highlighted in note 15.

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

26. Related party transactions (continued)

Group

	2012 Related party activity €	**2012** Total activity €	**2012** %	2011 Related party activity €	2011 Total activity €	2011 %
Staff costs:						
Related party transactions with:						
Key management personnel	**626,419**			619,770		
Other related party	**2,500,272**			2,360,615		
	3,126,691	**13,190,090**	**24**	2,980,385	11,860,954	25
Other operating expenses:						
Related party transactions with:						
Other related party	**115,000**	**10,300,039**	**1**	115,000	9,427,289	1
Investment income:						
Related party transactions with:						
Joint venturer	**17,023**	**165,166**	**10**	52,113	151,446	34
Finance costs:						
Related party transactions with:						
Shareholders	**99,556**			112,120		
Jointly controlled entities	**1,322**			-		
Other related party	**32,729**			38,683		
	133,607	**2,947,528**	**5**	150,803	3,041,345	5

26. Related party transactions (continued)

Holding

	2012			2011		
	Related party activity €	**Total activity €**	**%**	Related party activity €	Total activity €	%
Other income: *Related party transactions with:* Subsidiaries	**220,745**	**220,745**	**100**	113,451	113,451	100
Investment income: *Related party transactions with:* Subsidiaries	**1,235,593**	**1,235,593**	**100**	1,615,583	1,615,583	100
Finance costs: *Related party transactions with:* Subsidiaries	**115,338**	**1,491,145**	**8**	139,651	1,477,365	9

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

The amounts due from/to related parties at the end of the reporting period are disclosed in notes 15, 17 and 20. Other than as disclosed in the respective notes, no guarantees have been given or received.

27. Operating leases

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Minimum lease payments under operating leases	**790,658**	219,728	**-**	-
Contingents rents recognised as an expense for the year	**287,368**	190,041	**-**	-
	1,078,026	409,769	**-**	-

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

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

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Within one year	**787,080**	634,664	**-**	-
Between two to five years	**2,603,363**	1,444,813	**-**	-
Over five years	**11,389,303**	8,908,511	**-**	-
	14,779,746	10,987,988	**-**	-

28. Capital commitments

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

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Commitments for the acquisition of property, plant and equipment				
Contracted but not provided for:	**103,892**	-	**-**	-
Authorised but not contracted for:	**111,665**	-	**-**	-
	215,557	-	**-**	-

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

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Commitments for the acquisition of property, plant and equipment	**1,913,132**	1,624,815	**-**	-
Commitments for the acquisition of intangible assets	**9,068**	-	**-**	-
Contracted but not provided for:	**1,922,200**	1,624,815	**-**	-

29. Fair value of financial assets and financial liabilities

At 31 October 2012 and 2011, the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively approximate their fair values due to the short-term maturities of these assets and liabilities.

The fair value of debt securities that are listed on the Malta Stock Exchange is disclosed in note 20.

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

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

30. Financial risk management

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

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

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

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

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

Credit risk

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

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

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

30. Financial risk management (continued)

Credit risk (continued)

Other than as disclosed in note 31, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's and the company's maximum exposure to credit risk

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

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

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

Loans and receivables together with other receivables mainly comprise amounts due from related parties (Notes 15 and 17). The group's and the company's concentration to credit risk arising from these receivables is considered limited as there were no indications that these counter parties are unable to meet their obligations.

Included in the group's trade receivables are amounts which have been due for more than 90 days which amounted *to €779,007* (2011 - *€1,343,610).* Management has not identified any major concerns in relation to concentration of credit risk with respect to past due debts.

30. Financial risk management (continued)

Credit risk (continued)

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

	Group		Holding	
	2012	2011	**2012**	2011
	€	€	**€**	€
Opening balance	**707,685**	773,440	**-**	-
Net movement for the year	**(30,972)**	(65,755)	**-**	-
Balance at the end of the year	**676,713**	707,685	**-**	-

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

Foreign currency risk

Foreign currency transactions arise when the group buys or sells services whose price is denominated in a foreign currency, or borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency.

Foreign currency transactions that affect the consolidated income statement mainly comprise loans denominated in Euro granted by a foreign operation with a GBP functional currency. The Group is no longer exposed to this foreign currency risk at the end of the current reporting period. The translation of the Group's foreign operation with a GBP functional currency into Euro affects the consolidated statement of comprehensive income.

The foreign currency risk is managed by regular monitoring of the relevant exchange rates and the directors' reaction to material movements thereto.

Interest rate risk

The group and the company have taken out bank and other facilities to finance their operations as disclosed in notes 19 and 20 to the financial statements. The interest rates thereon and the terms of such borrowings are disclosed accordingly in those notes. The interest rates on loans and receivables are disclosed in note 15.

30. Financial risk management (continued)

Interest rate risk (continued)

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

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

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

At year end, if interest rates on bank borrowings had been 0.5% higher/lower with all other variables held constant, post-tax profit for the period would have been *€211,476* (2011 - *€242,076)* lower/higher.

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

Liquidity risk

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

30. Financial risk management (continued)

Liquidity risk (continued)

As disclosed in note 19, as at 31 October 2012, the group had an additional undrawn bank facility of *€1.2million* (2011 – *nil*) which was requested to support a refurbishment project which is due to commence in the next financial reporting period.

The group and the company are exposed to liquidity risk in relation to meeting future obligations associated with their financial liabilities, which comprise principally trade and other payables and borrowings as disclosed in notes 18, 19 and 20.

At the end of the reporting period, the group showed a net current liability position of *€24,917,513* (2011 - *€31,693,338).*

As disclosed in note 19, during the year, the Group renegotiated the repayment terms of certain bank loans granted to subsidiaries and jointly controlled entities. As at the end of the reporting period, the Group's share of the renegotiated bank loans amounted to *€14,268,310* (2011 - *€15,733,250*). Moreover, during the same period the group and the holding company converted an existing bank overdraft into a bank loan which is repayable in equal monthly instalments by the end of financial year ending 31 October 2017.

The directors have reviewed cash flow projections that have been prepared for the next 5 years, based largely on current levels of activity. The group is actively pursuing operational initiatives aimed at increasing income and reducing costs. The directors will continue to pursue development and growth plans and are seeking the injection of fresh equity for this purpose.

As further disclosed in note 15, in terms of the Combined Securities Note dated 28 August 2009, the company is required to build a sinking fund, the value of which will, by the redemption date of the bonds, be equivalent to 50% of the value of the bonds.

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

30. Financial risk management (continued)

Liquidity risk (continued)

Group

	Carrying Amount €	Contractual cash flows €	On demand or within 1 year €	2 - 5 years €	over 5 years €
2012					
Bank borrowings	**42,295,125**	**48,783,213**	**16,917,945**	**21,373,240**	**10,492,028**
Trade and other payables	**21,812,435**	**21,142,811**	**16,836,487**	**4,306,324**	**-**
Other financial liabilities	**26,319,944**	**32,996,442**	**3,872,693**	**13,303,749**	**15,820,000**
	90,427,504	**102,922,466**	**37,627,125**	**38,983,313**	**26,312,028**
2011					
Bank borrowings	44,820,023	48,182,306	22,348,749	23,689,281	2,144,276
Trade and other payables	19,685,917	20,268,006	18,897,027	1,370,979	-
Other financial liabilities	26,040,403	33,571,971	3,144,844	13,361,590	17,065,537
	90,546,343	102,022,283	44,390,620	38,421,850	19,209,813

Holding

	Carrying Amount €	Contractual cash flows €	On demand or within 1 year €	2 - 5 years €	over 5 years €
2012					
Bank borrowings	**9,242,937**	**11,645,941**	**1,374,840**	**5,363,595**	**4,907,506**
Trade and other payables	**447,713**	**447,713**	**447,713**	**-**	**-**
Other financial liabilities	**26,767,917**	**33,876,534**	**1,612,957**	**14,993,577**	**17,270,000**
	36,458,567	**45,970,188**	**3,435,510**	**20,357,172**	**22,177,506**
2011					
Bank borrowings	8,972,730	9,766,684	1,928,181	7,100,000	738,503
Trade and other payables	537,582	537,582	537,582	-	-
Other financial liabilities	25,861,569	33,828,861	1,536,058	14,279,550	18,013,253
	35,371,881	44,133,127	4,001,821	21,379,550	18,751,756

30. Financial risk management (continued)

Capital risk management

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

The capital structure consists of debt instruments as disclosed in notes 19 and 20 and shareholders' equity.

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

31. Contingent liabilities

Group

The group issued general and special hypothecs and guarantees in relation to bank facilities granted to related undertakings. As at the end of the reporting period, the related undertakings' borrowings stood at *€773,301* (2011 - *€577,322*).

In addition, the group entities, in their capacity as joint venturers, issued hypothecs and guarantees in relation to bank facilities granted to the group's jointly controlled entities and other related parties. The borrowings to the group's jointly controlled entities which are covered by the said hypothecs and guarantees and which are not recognised in the consolidated financial statements amounted to *€4million* at the end of the reporting period (2011 - *€4.8million*). The share of the other related parties' borrowings at the end of the reporting period that is not recognised in the consolidated financial statements is an amount not exceeding *€200,000*.

Holding company

The company issued general and special hypothecs and guarantees in relation to bank facilities granted to group and jointly controlled entities, which borrowings amounted to *€24.8million* as at the end of the reporting period (2011 - *€2.3million*).

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VAT Reg No: MT2013 6121
Exemption number: EXO2155

Independent auditor's report
to the members of

Island Hotels Group Holdings p.l.c.

We have audited the accompanying financial statements of Island Hotels Group Holdings p.l.c and its group set out on pages 20 to 76 which comprise the statements of financial position of the company and the group as at 31 October 2012, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the company and the group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As explained more fully in the directors' report on pages 2 to 9, the directors of the company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Companies Act (Chap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

Independent auditor's report (continued)
to the members of

Island Hotels Group Holdings p.l.c.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Island Hotels Group Holdings p.l.c. and its group as at 31 October 2012 and of the company's and its group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Chap. 386).

Bernard Scicluna as Director
in the name and on behalf of
Deloitte Audit Limited
Registered auditor

22 February 2013