

Unaudited Interim Results for the six months ended 30 June 2013

21 August 2013

PPHE Hotel Group, which together with its subsidiaries (the "**Group**") owns, leases, develops, operates and franchises full service upscale and lifestyle hotels in major gateway cities and regional centres, predominantly in Europe, is pleased to announce its interim results for the six months ended 30 June 2013.

Financial Summary

- Reported total revenue increased by 0.7% to €111.7 million (H1 2012: €110.9 million). Like for like revenue decreased 2.2% to €108.5 million (H1 2012: €110.9 million).
- Reported revenue was impacted by a 3.8% decrease in Sterling against the Euro. On a constant currency basis, total revenue increased by 3.3% to €114.6 million.
- RevPAR was €94.8 (H1 2012: €95.6), reflecting soft market conditions in several European countries putting pressure on average room rates, which decreased by 4.0% to €122.0 (H1 2012: €127.1). This decrease was partly offset by a 2.6% increase in occupancy to 77.8% (H1 2012: 75.2%).
- EBITDA increased by 1.7% to €35.8 million (H1 2012: €35.2 million). Like for like EBITDA was flat at €35.2 million (H1 2012: €35.2 million).
- Reported profit before tax decreased by 83.0% to €9.3 million (H1 2012: €54.9 million). However, 2012 profit before tax for the first half of the year included €50.0 million related to gains from the application of IFRS accounting following an acquisition. Normalised Profit before tax¹ for the first half of 2013 was €5.0 million (H1 2012: €5.3 million). Normalised and Reported Profit before tax includes currency exchange expenses of €1.0 million (H1 2012: gain of €0.3 million).
- Reported EPS was €0.23 (H1 2012: €1.34). Normalised EPS is €0.12 (H1 2012: €0.13), representing a 7.8% decrease.
- An interim dividend of 6.0 pence per ordinary share will be paid on 11 October 2013.

¹ Normalised profit before tax includes adjustments for other income and expenses and fair value changes of certain derivatives.

Operational Highlights

- Acquired a prime site near London Waterloo Station, United Kingdom.
- Disposed of a development site in Pattaya Bay, Thailand.
- Completed renovations of the remaining guestrooms at Park Plaza Medulin in Croatia. Renovations of the guestrooms of the former Hotel Palma in Croatia were also completed and added to the inventory of Park Plaza Histria Pula.
- Opened TOZI, a new Italian restaurant concept, at Park Plaza Victoria London, United Kingdom.
- Completed the renovations of a further 36 guestrooms at art'otel budapest, Hungary.
- Made significant progress with the construction of art'otel amsterdam, The Netherlands, which is scheduled to open in September 2013.

Post balance sheet events

- Acquired the freehold interests in art'otel berlin mitte and art'otel berlin kudamm in Germany.

Commenting on the results, Boris Ivesha, President and Chief Executive Officer, PPHE Hotel Group said:

'We are pleased to report our performance in the first half year which, despite continued macro-economic uncertainties and on the back of a record 2012 performance, shows modest revenue growth. The second half of the year is seasonally our strongest and we expect our full year results to be in line with Board expectations. During the first half, our pipeline has been extended with new projects and this, together with several hotels under construction, will further strengthen our business.'

Key Financial Statistics

	Reported			Like for like ²		
	Six months ended 30 June 2013	Six months ended 30 June 2012	% change ³	Six months ended 30 June 2013	Six months ended 30 June 2012	% change ³
Total revenue	€111.7 million	€110.9 million	+0.7%	€108.5 million	€110.9 million	(2.2)%
Room revenue	€78.0 million	€76.9 million	+1.5%	€75.9 million	€76.9 million	(1.3)%
EBITDAR	€41.4 million	€40.9 million	+1.2%	€40.8 million	€40.9 million	(0.3)%
EBITDA	€35.8 million	€35.2 million	+1.7%	€35.2 million	€35.2 million	(0.1)%
EBITDA Margin	32.1%	31.8%	+30 bps	32.5%	31.8%	+70 bps
Reported PBT	€9.3 million	€54.9 million	(83.0)%	N/A	N/A	N/A
Normalised PBT ¹	€5.0 million	€5.3 million	(6.8)%	N/A	N/A	N/A
Occupancy	77.8%	75.2%	2.6%	77.8%	75.2%	2.6%
Average room rate	€122.0	€127.1	(4.0)%	€122.0	€127.1	(4.0)%
RevPAR	€94.8	€95.6	(0.8)%	€94.8	€95.6	(0.8)%

¹ Normalised profit before tax includes adjustments for other income and expenses and fair value changes of derivatives.

² In the like for like figures the financial contribution of Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam and Park Plaza Utrecht in 2013 has been calculated on the basis of the ownership interest of PPHE Hotel Group in those hotels during the six months ended 30 June 2012.

³ Percentage change figures are calculated from actual figures as opposed to the rounded figures included in the above table. Unless otherwise indicated, all figures in this report compare six months ended 30 June 2013 with six months ended 30 June 2012. All financial information in this report for room revenue, total revenue EBITDAR and EBITDA reflects PPHE Hotel Group's interest.

Interim Management Report

This interim management report discusses the performance of the PPHE Hotel Group for the six months ended 30 June 2013.

Financial Performance

Reported total revenue grew by 0.7% to €111.7 million (H1 2012: €110.9 million), primarily driven by a strong performance of the London hotels and its increased ownership in three operational hotels in The Netherlands during 2012. On a like for like basis, total Group revenue decreased by 2.2% reflecting challenging market conditions in some of the markets in which the Group operates. Although trading in the first quarter was challenging, the Group saw an improvement in performance across its hotel portfolio in the second quarter.

Reported EBITDA increased by 1.7% to €35.8 million (H1 2012: €35.2 million). On a like for like basis, EBITDA was flat at €35.2 million.

Reported profit before tax was €9.3 million (H1 2012: €54.9 million). €50.0 million of the profit reported in 2012 related to gains arising from the application of IFRS accounting following PPHE Hotel Group obtaining 100% control of previously jointly owned entities and negative goodwill arising from the newly acquired interests in these entities.

Normalised profit before tax¹ was €5.0 million (H1 2012: €5.3 million). Normalised and reported profit before tax include currency exchange expenses of €1.0 million (H1 2012: gain of €0.3 million).

Reported EPS was €0.23 (H1 2012: €1.34). Normalised EPS was €0.12 (H1 2012: €0.13), representing a 7.8% decrease.

Reported RevPAR decreased by 0.8% to €94.8 (H1 2012: €95.6), the result of a 4.0% decrease in average room rate to €122.0 (H1 2012: €127.1), partly offset by a 2.6% increase in occupancy to 77.8% (H1 2012: 75.2%).

The European Hotel Market

In the first half of 2013, the European hotel market reported a 2.0% increase in occupancy to 64.9% and a 0.8% decrease in average room rate to €101.6. As a result, RevPAR improved by 1.2% to €65.94.

Western Europe reported a 0.8% increase in occupancy to 64.7%, a flat average room rate and 0.8% growth in RevPAR to €116.4 (source: STR Global, June YTD).

Notes to editors

PPHE Hotel Group Limited (formerly Park Plaza Hotels Limited) is a Guernsey registered company, which, through its subsidiaries, jointly controlled entities and associates, owns, leases, operates, franchises and develops full service upscale and lifestyle hotels in major gateway cities and regional centres, predominantly in Europe.

The majority of the Group's hotels operate under two distinct brands, Park Plaza[®] Hotels & Resorts and art'otel[®]. The Company has an exclusive licence from CarlsonSM, a global privately owned hospitality and travel company, to develop and operate Park Plaza[®] Hotels & Resorts in Europe, the Middle East and Africa. The art'otel[®] brand is fully owned by the Group.

The Group has a minority ownership interest in the Arenaturist group, one of Croatia's leading hospitality companies. The Group's portfolio of owned, leased, managed and franchised hotels comprises 38 hotels offering a total of more than 8,200 rooms. Its development pipeline includes four new hotels, which together are expected to add nearly 800 rooms to the portfolio by the end of 2015.

REVIEW OF OPERATIONS

United Kingdom

	Reported in Euros (€) ^{1,2}		Reported in local currency GBP (£) ¹	
	Six months ended 30 June 2013	Six months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Total revenue	€74.2 million	€73.9 million	£63.3 million	£60.6 million
EBITDAR	€26.7 million	€25.1 million	£22.7 million	£20.6 million
EBITDA	€26.1 million	€24.5 million	£22.2 million	£20.1 million
Occupancy	84.4%	79.7%	84.4%	79.7%
Average room rate	€152.6	€160.8	£130.1	£132.0
RevPAR	€128.9	€128.2	£109.9	£105.3
Room revenue	€52.7 million	€52.7 million	£45.0 million	£43.3 million

¹ No like for like comparison is provided as there have not been any transactions in the United Kingdom, in the period 30 June 2012 to 30 June 2013, which would affect these figures.

² Average exchange rate from Sterling to Euro for June 2013 was 1.168 and for June 2012 was 1.218, representing a 3.8% decrease.

UK hotel portfolio performance

In the first half of 2012 we benefited from the preparation for the Olympic Games and Paralympic Games. Historically, previous host cities of the Games have reported a decrease in hotel demand the following year and PWC forecasted a 3.2% decrease in RevPAR for London hotels.

Source: PWC 'A challenging year for hotels UK hotels forecast update 2013, February 2013'.

Nonetheless, London has continued to perform strongly and our hotels were no exception. Our London hotels delivered a solid performance in the first half, with Park Plaza Westminster Bridge London in particular continuing to perform strongly during the period.

In Sterling terms, our United Kingdom hotels reported 4.4% growth in total revenue and 10.5% growth in EBITDA. Average room rate reduced slightly, but this was offset by a 4.7% increase in occupancy.

Projects

On 17 June, the Group acquired a prime site near London Waterloo Station.

The Group also launched TOZI, a new Italian destination restaurant at Park Plaza Victoria London. Within three months of opening TOZI is now ranked as the 2nd restaurant (out of approximately 12,000) in London on the influential travel website tripadvisor.com

The United Kingdom hotel market

In the first six months of 2013, the UK hotel market has continued to grow according to TRI Hospitality (June 2013). UK hotels reported a 2.6% increase in RevPAR to £69.5 compared to the same period last year. This growth was driven by a 0.6% growth in average room rate to £96.0 and a 1.4% increase in occupancy to 72.4%.

The London hotels reported a 1.5% increase in RevPAR to £111.4. This growth was driven by a 1.4% increase in occupancy to 79.7%. The average room rate decreased by 0.3% to £139.9.

The provincial hotel market reported growth in occupancy of 1.5% to 68.6%, average room rate increased 1.7% to £69.4 and RevPAR 3.9% to £47.60.

Source: TRI Hospitality, June 2013.

REVIEW OF OPERATIONS

The Netherlands

	Reported		Like for like ¹	
	Six months ended 30 June 2013	Six months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Total revenue	€19.6 million	€17.4 million	€16.3 million	€17.4 million
EBITDAR	€5.7 million	€5.8 million	€5.1 million	€5.8 million
EBITDA	€5.7 million	€5.6 million	€5.1 million	€5.6 million
Occupancy	71.7%	71.4%	71.7%	71.4%
Average room rate	€104.1	€110.6	€104.1	€110.6
RevPAR	€74.7	€79.0	€74.7	€79.0
Room revenue	€13.7 million	€12.4 million	€11.5 million	€12.4 million

¹ In the like for like figures the financial contribution of Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam and Park Plaza Utrecht in 2013 has been calculated on the basis of the ownership interest of PPHE Hotel Group in those hotels during the six months ended 30 June 2012.

Dutch hotel portfolio performance

Market conditions in The Netherlands remained challenging in the first half, although there was an improvement in the second quarter.

All cities in which the Group operates have seen new hotel supply added to their markets and this, paired with continued pressure on demand due to a challenging domestic economy, has resulted in softer trading conditions for the Group. Despite a difficult start of the year, the second quarter improved notably, in particular at Park Plaza Amsterdam Airport. On a reported basis the Group increased its total revenue by 12.8% to €19.6 million (H1 2012: €17.4 million) and EBITDA increased by 0.4% to €5.7 million (H1 2012: €5.6 million). This growth was the result of the Group increasing its shareholding to 100% in three operational hotels in The Netherlands – Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam and Park Plaza Utrecht – compared to the same period last year.

On a like for like basis, total revenue reduced by 6.1% to €16.3 million and EBITDA by 10.6% to €5.1 million. This decrease was a direct result of a 5.9% decrease in average room rate to €104.1 (H1 2012: €110.6), with occupancy increasing 0.3% to 71.7%, resulting in RevPAR of €74.7 (H1 2012: €79.0), representing a 5.5% decrease.

Projects

Work continued on the art'otel amsterdam which is scheduled to open its doors in September 2013.

The Amsterdam hotel market

The Amsterdam hotel market reported a 3.2% increase in RevPAR, which was the result of a 3.2% increase in occupancy, whilst the average room rate decreased by 1.1%.

Source *TRI Hospitality*, June 2013.

REVIEW OF OPERATIONS

Germany and Hungary

	Reported ¹	
	Six months ended 30 June 2013	Six months ended 30 June 2012
Total revenue	€15.3 million	€15.4 million
EBITDAR	€3.8 million	€3.5 million
EBITDA	€(0.8) million	€(1.0) million
Occupancy	70.7%	70.2%
Average room rate	€71.4	€72.3
RevPAR	€50.4	€50.7
Room revenue	€11.6 million	€11.8 million

¹ No like for like comparison is provided as there have not been any transactions in Germany and Hungary in the period 30 June 2012 to 30 June 2013, which would affect these figures.

German and Hungarian hotel portfolio performance

The top line performance of the Group's hotels in Germany and Hungary has been flat during the period, but overall profitability has improved. Reported revenue was €15.3 million (H1 2012: €15.4 million). Our EBITDA loss in the region however was reduced to €(0.8) million ((H1 2012: €(1.0) million)), primarily due to an improved performance of art'otel cologne.

The average room rate was under pressure and decreased by 1.3% to €71.4 (H1 2012: €72.3). Occupancy increased by 0.5% to 70.7% resulting in a RevPAR of €50.4 (H1 2012: €50.7), a reduction of 0.5%.

Projects

A further 36 rooms were renovated at art'otel budapest, taking the number of renovated rooms to 111 (out of 165).

Following the acquisition of the freehold interests in art'otel berlin kudamm and art'otel berlin mitte on 1 July 2013, renovation works at both hotels are currently being planned for the second half of 2013. A renovation plan has also been scheduled for art'otel cologne and is due to commence in September 2013.

Construction of Park Plaza Nuremberg is expected to commence by the end of this year.

The German and Hungarian hotel market

In the first half of 2013, the German hotel market reported 1.2% growth in RevPAR, driven by 0.8% growth in occupancy and 0.4% growth in average room rate.

The year started well for Berlin, corporate travel demand increasing in particular. As a result, RevPAR in Berlin increased 2.9% due to a 1.6% growth in occupancy and 1.3% in average room rate. In Dresden, the poor weather conditions and flooding at the start of the year impacted leisure travel and the city reported a 0.8% decrease in RevPAR. Cologne's slight occupancy decrease was offset by a slight increase in average room rate, resulting in a flat RevPAR for the period.

Source: STR Global, June 2013.

REVIEW OF OPERATIONS

Management and Holdings

	Reported	
	Six months ended 30 June 2013	Six months ended 30 June 2012
Total revenue	€13.9 million	€15.0 million
Revenue elimination	€(11.3) million	€(10.8) million
Total revenue	€2.6 million	€4.2 million
EBITDA	€4.9 million	€6.1 million

Total Management and Holdings revenue decreased by 7.3% to €13.9 million (H1 2012: €15.0 million). Reported revenues decreased by 39.0% to €2.6 million (H1 2012: €4.2 million) after the elimination of intra-group revenue.

Reported EBITDA decreased by 19.9% to €4.9 million (H1 2012: €6.1 million) with 2012 results benefiting from a one off incentive fee.

Projects

Arenaturist, Croatia

In Croatia, renovations of the remaining guestrooms at Park Plaza Medulin completed. Renovations of the guestrooms of the former Hotel Palma completed and added to the inventory of Park Plaza Histria Pula.

Both sets of renovations were completed in time for the start of the summer season.

Pattaya Bay, Thailand

During the period the Group completed the disposal of its development site in Pattaya Bay, Thailand, see Note 3a for further details.

Financial Position

Our net bank debt as at 30 June 2013 was €478.3 million, an increase of €17.7 million (as at 31 December 2012: €460.6 million). This includes €25.9 million of liquid assets (as at 31 December 2012: €46.2 million), of which cash and cash equivalents were €24.4 million (as at 31 December 2012: €44.9 million) and other liquid financial assets of €1.5 million (as at 31 December 2012: €1.3 million).

During the period, the movement in net debt primarily included a €13.0 million increase to finance the acquisition of Hercules House in London, €5.5 million increase in loans for construction and renovation purposes, a decrease due to foreign exchange of €16.4 million and a decrease of €4.6 million due to redemption of loans.

The Group's gearing ratio (net bank debt as a percentage of equity adjusted for the hedging reserve) stayed flat at 62.4% (as at 31 December 2012: 62.0%).

Dividend

The Board has approved the payment of an interim dividend of 6.0 pence per ordinary share, for the period ended 30 June 2013, to all shareholders who are on the register of members at 30 August 2013. The interim dividend is to be paid on 11 October 2013.

A final dividend of 6.0 pence per ordinary share for the year ended 31 December 2012 was paid on 14 May 2013 to all shareholders who were on the register of members as at the close of business on 2 April 2013.

Outlook

Trading conditions in the first half of 2013 were challenging, in particular during the first quarter, seasonally the weakest quarter of the year. However, an improvement was seen in the second quarter and this trend continued into the second half of the year.

The second half of the year is usually the strongest trading period and, despite the London market facing a challenging year on year comparison due to the positive impact of the 2012 Olympic Games and Paralympic Games, the Company's full year results are expected to be in line with the Board's expectations.

Principal Risks and Uncertainties

The Group is exposed to a variety of risks associated with the Group's existing bank borrowings and its ability to satisfy debt covenants. Failure to satisfy obligations under any current or future financing arrangements could give rise to default risk and require the Group to refinance its borrowings. The Board considered the liquidity risk arising on two bank loans (totaling €44.3 million) maturing within the coming 12 months. Due to the asset backed securities on these loans, the Board is confident that an agreement will be reached on the refinance of both facilities. The liquidity risk is therefore deemed low.

There are no other changes to the risks and uncertainties as set out in the Company's consolidated financial statements for the year ended 31 December 2012, which may affect the Group's performance in the next six months. The most significant risks and uncertainties relate to factors that are common to the hotel industry and beyond the Group's control, such as the global economic downturn, changes in travel patterns or in the structure of the travel industry and the increase in acts of terrorism. For a detailed discussion of the risks and uncertainties facing the Group, please refer to the Company's 2012 annual report, pages 53 to 54.

Statement of Directors' Responsibilities

The directors confirm that, to the best of their knowledge, these interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting", as adopted by the European Union, and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

an indication of important events which have occurred during the first six months and their impact on the condensed set of financial statements, plus a description of the principal risks and uncertainties for the remaining six months of the financial year.

material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

By the order of the Board

20 August 2013



Boris Ivesha
President & Chief
Executive Officer



Chen Moravsky
Chief Financial
Officer

Forward-looking statements

This interim management report and interim consolidated financial statements may contain certain “forward-looking statements” which reflect the Company’s and/or the Directors’ current views with respect to financial performance, business strategy and future plans, both with respect to the Group and the sectors and industries in which the Group operates. Statements which include the words “expects”, “intends”, “plans”, “believes”, “projects”, “anticipates”, “will”, “targets”, “aims”, “may”, “would”, “could”, “continue” and similar statements are of a future or forward-looking nature. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group’s actual results to differ materially from those indicated in these statements. Any forward-looking statements in this interim management report and interim financial statements reflect the Group’s current views with respect to future events and are subject to risks, uncertainties and assumptions relating to the Group’s operations, results of operations and growth strategy. These forward-looking statements speak only as of the date of this interim management report and interim financial statements. Subject to any legal or regulatory obligations, the Company undertakes no obligation publicly to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Nothing in this publication should be considered as a profit forecast.

INDEPENDENT REVIEW REPORT TO PPHE HOTEL GROUP LIMITED

Introduction

We have been engaged by the Company to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprises the Interim Consolidated Statement of Financial Position, the Interim Consolidated Income Statement, the Interim Consolidated Statement of Comprehensive Income, the Interim Consolidated Statement of Changes in Equity, the Interim Consolidated Statement of Cash Flows and the explanatory notes 1 to 8. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of consolidated financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of consolidated financial statements in the half-yearly financial report based on our review.

Scope of Review


We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

Guernsey



20 August 2013

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2013 Unaudited €'000	31 December 2012 Audited €'000
ASSETS		
NON-CURRENT ASSETS:		
Intangible assets	36,785	38,174
Property, plant and equipment	770,663	762,922
Apart-hotel units under management	164,923	172,812
Prepaid leasehold payments	444	453
Investment in associate and loans to related parties	31,454	21,561
Other non-current financial assets	11,053	8,195
Restricted deposits and cash	9,229	9,953
	1,024,551	1,014,070
CURRENT ASSETS:		
Inventories under construction	—	16,356
Restricted deposits and cash	4,989	5,987
Inventories	1,094	1,256
Other current financial assets	1,455	1,339
Trade receivables	18,763	19,753
Other receivables and prepayments	9,567	5,895
Cash and cash equivalents	24,451	44,903
	60,319	95,489
Total assets	1,084,870	1,109,559

The accompanying notes are an integral part of the consolidated interim financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2013 Unaudited €'000	31 December 2012 Audited €'000
EQUITY AND LIABILITIES		
EQUITY:		
Issued capital	—	—
Share premium	239,504	239,504
Other reserves	(36,327)	(36,524)
Treasury shares	(3,701)	(3,701)
Foreign currency translation reserve	(35,338)	(34,471)
Hedging reserve	(17,139)	(22,626)
Retained earnings	124,382	117,715
Total equity	271,381	259,897
NON-CURRENT LIABILITIES:		
Bank borrowings	447,440	474,447
Advance payments from Apart-hotel unit holders	177,658	186,595
Deposits received from Apart-hotel unit holders	8,617	9,360
Other financial liabilities	58,823	68,798
Deferred income taxes	12,391	12,865
	704,929	752,065
CURRENT LIABILITIES:		
Trade payables	9,994	10,931
Other payables and accruals	41,826	54,236
Bank borrowings	56,740	32,430
	108,560	97,597
Total liabilities	813,489	849,662
Total equity and liabilities	1,084,870	1,109,559

The accompanying notes are an integral part of the consolidated interim financial statements.

20 August 2013

Date of approval of the
financial statements



Boris Ivesha
President & Chief Executive Officer



Chen Moravsky
Chief Financial Officer

INTERIM CONSOLIDATED INCOME STATEMENT

	Six months ended	
	30 June 2013	30 June 2012
	Unaudited	Unaudited
	€'000¹	€'000 ¹
Revenues	111,747	110,923
Operating expenses	(70,341)	(70,019)
EBITDAR	41,406	40,904
Rental expenses	(5,568)	(5,658)
EBITDA	35,838	35,246
Depreciation and amortisation	(10,718)	(10,444)
EBIT	25,120	24,802
Financial expenses	(14,163)	(13,530)
Changes in fair value of derivatives	459	295
Financial income	1,742	1,700
Other income and expenses	3,900	49,255
Interest expenses guaranteed to Apart-hotel unit holders	(5,331)	(5,522)
Share in loss of associate	(2,400)	(2,121)
Profit before tax	9,327	54,879
Income tax benefit	261	297
Profit for the period	9,588	55,176
Basic and diluted earnings per share (in Euro)	0.23	1.34

¹Except earnings per share.

The accompanying notes are an integral part of the consolidated interim financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30 June 2013	30 June 2012
	Unaudited	Unaudited
	€'000	€'000
Profit for the period	9,588	55,176
Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods:		
Fair value gain on available for sale Financial Assets ¹	126	–
Gain (loss) from cash flow hedges ²	5,487	(4,076)
Foreign currency translation adjustments of foreign operations ³	(452)	2,099
Reclassification adjustment for foreign currency translation adjustments included in profit or loss on sale of site in Thailand ³	(297)	–
Foreign currency translation adjustment of associate ³	(118)	(12)
Other comprehensive income (loss), net	4,746	(1,989)
Total comprehensive income (loss) attributable to owners of the parent	14,334	53,187

¹ Included in other reserves.

² Included in hedging reserve.

³ Included in foreign currency translation reserve.

The accompanying notes are an integral part of the consolidated interim financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

				Foreign currency				
	Issued capital ¹ €'000	Share premium €'000	Other reserves €'000	Treasury shares €'000	Translation reserve €'000	Hedging reserve €'000	Retained earnings €'000	Total €'000
Balance as at 1 January 2013 (audited)	–	239,504	(36,524)	(3,701)	(34,471)	(22,626)	117,715	259,897
Profit for the period	–	–	–	–	–	–	9,588	9,588
Other comprehensive income (loss) for the period	–	–	126	–	(867)	5,487	–	4,746
Total comprehensive income (loss)	–	–	126	–	(867)	5,487	9,588	14,334
Share based payments	–	–	71	–	–	–	–	71
Dividend distribution	–	–	–	–	–	–	(2,921)	(2,921)
Balance as at 30 June 2013 (unaudited)	–	239,504	(36,327)	(3,701)	(35,338)	(17,139)	124,382	271,381
Balance as at 1 January 2012 (audited)	–	237,729	(36,544)	(3,181)	(35,565)	(17,072)	55,864	201,231
Profit for the period	–	–	–	–	–	–	55,176	55,176
Other comprehensive income (loss) for the period	–	–	–	–	2,087	(4,076)	–	(1,989)
Total comprehensive income (loss)	–	–	–	–	2,087	(4,076)	55,176	53,187
Issue of shares	–	1,753	–	–	–	–	–	1,753
Dividend distribution	–	–	–	–	–	–	(2,903)	(2,903)
Balance as at 30 June 2012 (unaudited)	–	239,482	(36,544)	(3,181)	(33,478)	(21,148)	108,137	253,268

¹ No par value.

The accompanying notes are an integral part of the consolidated interim financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended	
	30 June 2013 Unaudited €'000	30 June 2012 Unaudited €'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the period	9,588	55,176
ADJUSTMENT TO RECONCILE PROFIT TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Financial expenses including changes in fair value of derivatives and interest expenses guaranteed to Apart-hotel unit holders	19,035	18,757
Financial income	(1,742)	(1,700)
Income tax benefit	(261)	(297)
Negative goodwill on acquisition of Dutch joint venture interest	–	(4,317)
Capital gain upon obtaining control of a former jointly controlled entity	–	(45,672)
Fair value gain on deferred consideration from business combinations	(848)	–
Capital gain upon sale of subsidiary in Thailand	(2,757)	–
Share based payments	72	–
Share in loss of associate	2,400	2,121
Depreciation and amortisation	10,718	10,444
	26,617	(20,664)
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Increase in inventories under construction	(1,625)	(684)
Decrease in inventories	135	52
(Decrease) increase in trade and other receivables	(425)	(584)
(Decrease) increase in trade and other payables	(835)	4,390
	(2,750)	3,174
CASH PAID AND RECEIVED DURING THE PERIOD FOR:		
Interest paid	(18,563)	(18,064)
Interest received	68	179
Taxes paid	(5)	–
	(18,500)	(17,885)
Net cash flows provided by operating activities	14,955	19,801

The accompanying notes are an integral part of the consolidated interim financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended	
	30 June 2013 Unaudited €'000	30 June 2012 Unaudited €'000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in property, plant and equipment	(38,834)	(14,130)
Net change in cash upon acquisition of Dutch joint venture interest	–	(21,553)
Net change in cash upon divestment of subsidiary in Thailand	(1,595)	–
Decrease in restricted deposits	–	688
Proceeds from sale of available for sale investments	–	193
Decrease (increase) in restricted cash	847	(236)
Advance payments in property transactions	(6,200)	–
Net cash flows (used in) provided by investing activities	(45,782)	(35,038)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend distribution	(2,921)	(2,903)
Draw down of long-term loans	18,033	27,468
Repayment of long-term loans	(7,380)	(7,440)
Proceeds from assets sold and leased back under a finance lease	–	3,585
Advance receipt of loan for equity investment from future joint venture partner	4,180	–
Repayments of loans from third parties	–	(2,675)
Net cash flows provided by financing activities	11,912	18,035
Decrease (increase) in cash and cash equivalents	(18,915)	2,798
Net foreign exchange differences	(1,537)	780
Cash and cash equivalents at beginning of period	44,903	29,506
Cash and cash equivalents at end of period	24,451	33,084

The accompanying notes are an integral part of the consolidated interim financial statements.

NOTES

Note 1: General

- a. The Company's primary activity is owning, leasing, developing, operating and franchising upscale and lifestyle hotels in major gateway cities and regional centres, predominantly in Europe.
- b. These financial statements have been prepared in a condensed format as of 30 June 2013 and for the six months then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual consolidated financial statements as of 31 December 2012 and for the year then ended and accompanying notes ("annual financial statements"). The company's annual consolidated financial statements as of 31 December 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards Committee interpretations as issued by the International Accounting Standards Board (IASB) as adopted by the European Union.
- c. The Board continues to monitor the Group's cash flow forecasts for a period of at least 12 months from the date of approval of the financial statements, including compliance with loan covenants and liquidity risks arising from the maturities of the Group's loans.

The Board believes that the Group has adequate resources and will generate sufficient funds in the future to serve its financial obligations and continue its operations as a going concern in the foreseeable future.

As at 30 June 2013, the consolidated statement of financial position of the Group shows a negative working capital of €48 million, which is mainly caused by the short term presentation of two bank loans due to mature in September 2013 (€18.3 million) and March 2014 (€26.0 million). Management is currently in refinance discussions on these bank loans. Due to the asset backed securities on these loans, Management is confident that an agreement will be reached on the refinance of both facilities.

- d. The Company is listed on the Standard Listing segment of the UK Listing Authority and its shares are admitted to trading on the main market for listed securities of the London Stock Exchange.

Note 2: Basis of Preparation and Changes to the Groups' Accounting Policies

Basis of preparation:

The interim consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting".

The significant accounting policies and methods of computation adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements, except for the adoption of new standards and interpretations as of 1 January 2013, noted below:

The following amendments became effective as of 1 January 2013:

1. Amendments to IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities
2. Amendments to IFRS 1 – Government loans for First-time Adopters
3. IFRS 13 Fair Value Measurement
4. Amendments to IAS 19 Employee benefits
5. IFRIC 20 Stripping costs in the production of a surface mine
6. IAS 1 (amendment) Presentation of items of other comprehensive income
7. Annual improvements cycle 2009-2011

None of these amendments had a material impact on the financial position or performance of the Group except for some additional disclosures (see note 5 and the statement of other comprehensive income).

The Group has not adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTES

Note 3: Significant Events during the Reported Period

a. Sale of site in Thailand.

The Company has completed a sale to Red Sea Hotels Limited ("Red Sea") of all the Company's shares in its subsidiary, Leno Finance Limited ("Leno"), the company through which PPHE Hotel Group owned its interest in the site in Pattaya Bay, Thailand, and certain related loans and receivables, for a total consideration of Thai Baht 600 million (c. US\$20 million). Red Sea is controlled by Mr Eli Papouchado, Chairman of PPHE Hotel Group, who, together with his family trusts, owns 44.63% of the voting rights in the Company. Mr Papouchado (and his family trusts) are deemed to be acting in concert with Mr Boris Ivesha (the President and Chief Executive Officer of PPHE Hotel Group) and his family trust, which owns 19.25% of the voting rights in the Company. None of the consideration for the disposal was paid on completion, but will be payable by Red Sea in cash by no later than January 2017 (by when it is expected that the project will have been completed). However, Red Sea will be required to pay the consideration (in whole or in part, as applicable) earlier to the extent either that revenues from the sale of condominium units and serviced apartments exceed the aggregate of the total project development costs (including all financing costs) and related tax liabilities or that value from the project is otherwise released to Red Sea. The present value of the outstanding consideration is calculated at Thai Baht 419 million, taking into account a discount rate of 10%. It is intended that the capital that will be received from this transaction will in due course be redeployed to develop our exciting pipeline of projects and to support renovation works at our existing hotels. The Company recognised a profit on the transaction of €2.7 million, which is presented under other income and expenses.

As security for payment of the consideration, the Company has been granted a charge over shares in Leno representing 63% of Leno's share capital. Under the terms of the United Overseas Bank ("UOB") facilities, the Company is obliged, among other things, to provide certain financial support in the event of a cost overrun or funding shortfall in relation to the project and, in the event of default by Bali Hai Company Limited (the Thai company undertaking the project that is the borrower under the UOB facility) after completion of the project, UOB can require the Company to purchase the serviced apartments for a consideration equal to the amount then outstanding under the UOB facilities, subject to a maximum of Thai Baht 600 million. It was a condition of UOB's consent to the sale of Leno that the Company continues to be bound by these obligations.

Red Sea and Leno have agreed to indemnify the Company in respect of certain of these continuing obligations and as security Leno has pledged the shares held by it in Bali Hai Company Limited and certain affiliated Thai companies to the Company.

The Company has also been granted an option to manage the completed development and/or acquire the serviced apartment element of the Project for Thai Baht 600 million. However, the Group will not be under any obligation to the Buyer to proceed with either. If Red Sea will pay the Company an amount of not less than Thai Baht 150 million of the total consideration, the option would lapse if the Company would not give an exercise notice in 60 days.

b. Acquisition of a prime site near Waterloo Station in London

The Company, through its wholly-owned subsidiary, Hercules House Holding B.V., has acquired a prime site near Waterloo Station in London for a consideration of £23.5 million in cash.

The consideration was funded partly by a new £11.5 million term loan from Bank Hapoalim B.M. secured on the property at the site and guaranteed by the Company and from the Group's existing cash balances.

NOTES

NOTE 4: SEGMENT DATA

- a. For management purposes, the Group's activities are divided into Owned Hotel Operations and Management Activities. Owned Hotel Operations are further divided into three reportable segments: The Netherlands, Germany and Hungary, and the United Kingdom. The operating results of each of the aforementioned segments are monitored separately for the purpose of resource allocations and performance assessment. Segment performance is evaluated based on EBITDA, which is measured on the same basis as the amount presented in the consolidated income statement.

Six months ended 30 June 2013 (unaudited)						
	The Netherlands €'000	Germany and Hungary €'000	United Kingdom €'000	Management €'000	Holding companies and adjustments €'000	Consolidated €'000
REVENUE						
Third party	19,601	15,330	74,234	2,582	–	111,747
Inter-segment	–	–	–	11,276	(11,276)	–
Total revenue	19,601	15,330	74,234	13,858	(11,276)	111,747
Segment EBITDA	5,684	(769)	26,061	4,862	–	35,838
Depreciation and amortisation						(10,718)
Financial expenses and changes in fair value of derivatives						(13,704)
Financial income						1,742
Interest expenses on advance payments for unit holders						(5,331)
Other income, (net)						3,900
Share in loss of associate						(2,400)
Profit before tax						9,327

Six months ended 30 June 2012 (unaudited)						
	The Netherlands €'000	Germany and Hungary €'000	United Kingdom €'000	Management €'000	Holding companies and adjustments €'000	Consolidated €'000
REVENUE						
Third party	17,372	15,423	73,895	4,233	–	110,923
Inter-segment	–	–	–	10,722	(10,722)	–
Total revenue	17,372	15,423	73,895	14,955	(10,722)	110,923
Segment EBITDA	5,664	(998)	24,507	6,073	–	35,246
Depreciation and amortisation						(10,444)
Financial expenses and changes in fair value of derivatives						(13,235)
Financial income						1,700
Interest expenses on advance payments for unit holders						(5,522)
Other income, (net)						49,255
Share in loss of associate						(2,121)
Profit before tax						54,879

NOTES

NOTE 5: FINANCIAL INSTRUMENTS

Fair value of financial instruments:

The fair value of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables.

The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair value of available-for-sale financial assets is derived from quoted market prices in active markets. The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives are valued using valuation techniques, for swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, and interest rate curves.

Fair value of the contingent consideration is estimated using the present value of the contingent cash payment, adjusted by the value of an American call options (using a binomial model).

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As at 30 June 2013, the Group held the following financial instruments measured at fair value:

Assets

	30 June 2013 €'000	Level 1 €'000	Level 2 €'000	Level 3 €'000
Available-for-sale financial assets:				
Equity shares	1,455	1,455	—	—

Liabilities

	31 June 2013 €'000	Level 1 €'000	Level 2 €'000	Level 3 €'000
Financial liabilities:				
Deferred consideration business combinations	2,837	—	2,837	—
Interest rate swaps	24,570	—	24,570	—

During the period ended 30 June 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table specifies the companies' estimation of the fair value of its financial assets and liabilities as at 30 June 2013:

	Carrying amount €000	Fair value €000
Financial assets		
Other non-current financial assets	53,370	56,022
Restricted deposits	14,218	14,218
Other current financial assets	1,455	1,455
Trade receivables	18,763	18,763
Other receivables	9,561	9,561
Cash and cash equivalents	24,451	24,451
Total assets	121,818	124,470

	Carrying amount €000	Fair value €000
Financial liabilities		
Fixed rate borrowings	105,345	120,993
Floating rate borrowings	398,835	398,835
Derivative financial instruments	24,570	24,570
Other financial liabilities	9,378	9,378
Lease liability	19,107	19,107
Trade payables	9,994	9,994
Deposits received from unit holders	8,617	8,617
Other payables and accruals	39,076	39,076
Total liabilities	614,922	630,570

NOTES

NOTE 6: OTHER DISCLOSURES

a. Seasonality

The company is in an industry with seasonal variations. Sales and profits vary by quarter and the second quarter is generally the strongest in the first half of the year.

b. Tax position

There have not been any significant changes to the Company's tax structure during the six months under review.

c. Significant capital commitments

At 30 June 2013 the company has a total of €2.5 million in capital commitments with respect to a construction project.

d. Changes in business or economic circumstances

There were no material changes in interest rates that significantly affected the fair value of the Companies financial assets and liabilities. As assets are matched with liabilities in the same currency the exposure to currency risk is limited.

e. Other incomes and expenses

	30 June 2013 €000	30 June 2012 €000
Financial assets		
Capital gains	2,757	49,988
Fair value adjustment deferred consideration business combinations	848	–
Marketing expenses Thai development project	–	(298)
Strategic advice expenses	–	(435)
Income from forfeited deposits	295	–
Total assets	3,900	49,255

f. Earnings per share

The following reflects the income and share data used in the basic earnings per share computations:

	As at 30 June	
	2013 €000	2012 €000
Reported Profit	9,588	55,176
Normalised Profit	4,968	5,330
Weighted average number of Ordinary shares outstanding	41,515	41,074

Potentially dilutive instruments had an immaterial effect on the basic earnings per share.

NOTE 7: SIGNIFICANT RELATED PARTY TRANSACTIONS

Besides disclosed in note 3a (sale of site in Thailand to Red Sea Group), there are no significant related party transactions or changes in the related party transactions described in the 2012 Annual Report that have materially affected the financial position or the performance of the Group during the period.

NOTE 8: POST BALANCE SHEET EVENTS

On 1 July 2013, the Company completed the acquisition of the freehold interests in two hotels in Berlin which the Group currently leases and manages, namely the art'otel berlin mitte and the art'otel berlin kudamm, together with the associated inventories, for a total consideration of €17.5 million (exclusive of VAT of €0.31 million on the inventories). As at 30 June 2013 the group advanced €6.2 million of the purchase price, of which €3.1 million has been presented under other non-current financial assets and €3.1 million as other receivables and prepayments. On completion, the seller paid to the Group €2.0 million which will be used for renovation works on the hotels. The Company is currently in negotiation with a prospective joint venture partner in respect of the two hotels. The prospective joint venture partner has advanced a loan in the amount of €4.2 million for its proportion of what would be the equity in the 50:50 joint venture. As at 30 June 2013 the advanced amount of €4.2 million is presented as other payables and accruals. The consideration for the acquisition of the properties was funded by a €12.5 million 10-year term loan from Deutsche Hypothekenbank secured on the properties and guaranteed by the Company, the loan from the prospective joint venture partner, and the Group's existing cash resources. The joint venture is conditional on agreement of documentation and bank consent. If it is not concluded by the extended deadline of 16 September 2013, the loan will become repayable.

The Board has approved the payment of an interim dividend of 6.0 pence per ordinary share, for the period ended 30 June 2013, to all shareholders who are on the register of members at 30 August 2013. The interim dividend is to be paid on 11 October 2013.