

30 September 2010

PARK PLAZA HOTELS LIMITED
 (“Park Plaza” or the “Company” or the “Group”)

Unaudited results for the six months ended 30 June 2010

Park Plaza Hotels Limited, owner, operator and franchisor of hotels in Europe, the Middle East and Africa, today reports unaudited results for the six months ended 30 June 2010.

Summary

Unaudited Financial Statistics

	Six months ended 30 June 2010 (Unaudited)	Six months ended 30 June 2009 (Unaudited)
Occupancy	73.2%	76.8%
Average Room Rate	€107.5	€98.1
RevPAR	€ 78.7	€75.4
Total Revenue	€54.7 million	€39.7 million
EBITDA	€ 10.4 million	€ 7.2 million*

* 2009 EBITDA has been restated to reflect the adoption of the new IFRS standards.

The percentages shown throughout this announcement are based on the fully disclosed numbers detailed in the consolidated financial statements.

Like for like Financial Statistics[#]

	Six months ended 30 June 2010	Six months ended 30 June 2009
Occupancy	78.2%	78.0%
Average Room Rate	€105.0	€100.4
RevPAR	€ 82.1	€ 78.4
Total Revenue	€39.2 million	€ 38.5 million
EBITDA	€ 8.9 million	€ 7.5 million*

The 2010 statistics exclude Park Plaza Westminster Bridge London (partial opening to paying guests in March 2010), art'otel cologne (opened March 2010) and Park Plaza Amsterdam Airport (acquired April 2010). The 2009 statistics exclude Park Plaza Dresden, as the contract for this hotel was terminated in September 2009.

* 2009 EBITDA has been restated to reflect the adoption of the new IFRS standards.

- Total revenue growth for the Group of 38.0% to €54.7 million (2009: €39.7 million)
- EBITDA increased by 43.3% to €10.4 million (2009: €7.2 million)
- Group's flagship hotel, Park Plaza Westminster Bridge London, partially opened to paying guests in March 2010
- At 30 June 2010 366 of the 860 units at Park Plaza Westminster Bridge London contracted to be sold completed, raising net proceeds for the Group of £101.2 million (€123.9 million), reducing the Bank Hapoalim loan to £151.1 million (original facility was £248.0 million)
- Newly built art'otel cologne, Germany opened in March 2010
- Acquisition of leading Dutch conference hotel near Amsterdam Schiphol airport in April 2010
- 1,579 rooms added to the Group's hotel portfolio during the period
- Focus on average room rate growth and stable occupancy
- RevPAR of established London hotels outperformed competitive set by 7.4% (TRI Hospitality, June 2010)
- Some early signs of improvement in trading conditions in first 12 weeks of second half, but too early to assess whether this is sustainable.

Commenting on the results, Boris Ivesha, Chief Executive Officer of Park Plaza, said: "As anticipated, trading conditions in the first half of 2010 remained challenging across all the markets in which the Group operates. Against this backdrop, the Group is pleased to report interim results in line with the Board's expectations, delivering total revenue growth of 38.0% and EBITDA growth of 43.3%, as the Group starts to benefit from its development pipeline.

The Group's established London hotels performed strongly, outperforming the market in terms of occupancy, average room rate and RevPAR in local currency (TRI Hospitality, June 2010).

In line with our strategy to grow the Group's presence in the "affordable luxury" market by offering a high quality product at attractive prices, we were pleased to add a further 1,579 rooms to the portfolio through the launch of our flagship hotel, Park Plaza Westminster Bridge London, the opening of art'otel cologne and the acquisition of Park Plaza Amsterdam Airport, bringing the total number of rooms operated by the Group to 8,533.

Since the period end, the Group has seen some signs of improvement in trading conditions across all the markets in which it operates compared with the same period last year. However, visibility remains low, the trend toward last minute booking continuing into the second half. In light of this, it is still too early to assess whether there is firm evidence of a sustained recovery."

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Overview

As anticipated, trading conditions in the first half of 2010 remained challenging across all the markets in which the Group operates. However, the environment did not deteriorate further and towards the end of the period there were early signs of an improvement, particularly in London.

Against this backdrop, the Company is pleased to report interim results in line with the Board's expectations, delivering total Group revenue growth of 38.0% and EBITDA growth of 43.3% as the Group starts to benefit from its development pipeline. This result was achieved despite the travel disruption in northern Europe resulting from the heavy snow in January 2010 and the closure of airspace in April 2010 because of volcanic ash.

The Group's established London hotels performed strongly, outperforming the market in terms of occupancy, average room rate and RevPAR in local currency (TRI Hospitality, June 2010). However, the trend toward later bookings of hotel rooms, meetings and events, which has been a characteristic since the global downturn, has continued. This resulted in a continuation of low visibility of business.

In line with the Group's strategy to grow its presence in the "affordable luxury" market by offering a high quality product at attractive prices, the Group was pleased to add a further 1,579 rooms to its portfolio through an additional three hotels - two new built hotels and one acquisition - during the period, bringing the total number of rooms operated by the Group to 8,533.

The partial opening of the Group's 1,019 room flagship hotel, Park Plaza Westminster Bridge London, took place in March after ten years of planning and two years of construction, and the Board has been pleased with the hotel's performance to date. Completions of the sales of the 860 units in the hotel that have been contracted to be sold commenced in the second quarter of 2010 and have been proceeding at a steady pace, with 366 having been completed as at 30 June 2010. A total of £101.2 million was received from the purchasers, reducing the Bank Hapoalim bank loan to £151.1 million. The original facility was £248.0 million.

In March, the Group opened the new build art'otel cologne, which offers 218 rooms located in a prime position on the bank of the river Rhine. Customer feedback since opening has been very encouraging, with the hotel's guest satisfaction score ranking the hotel in the top five of the Group's portfolio.

In April, the Group acquired a leading conference hotel located near Amsterdam Schiphol Airport. This hotel, which offers 342 rooms, is among the top meeting locations in The Netherlands and was rebranded Park Plaza Amsterdam Airport on acquisition. The acquisition was financed via an increase to the Group's existing facility with Aareal Bank.

The Group has remained focused on managing costs tightly whilst providing its customers with a high quality of product and services. However, in line with the Board's expectations, costs increased in the first half as a result of pre-opening costs, including payroll and marketing costs, relating to the two new hotel openings, particularly Park Plaza Westminster Bridge London, and the acquisition in The Netherlands. As these hotels become established, the Directors would expect the hotels' costs to be in line with other hotels in the Group's portfolio.

Once again, a key focus for the Group in the period was its continued leverage of Park Plaza's strategic partnership with Carlson Hotels Worldwide. This relationship provides the Group with a global distribution platform and participation in global programmes. Contribution to hotel occupancy and room revenue from the reservation system continues to increase, largely driven by new online marketing initiatives and aggressive loyalty-focused marketing campaigns.

In particular, the goldpoints plus guest reward scheme continues to grow in importance for the Group and its members tend to stay more often, stay longer and spend more. The direct relationship with, and access to, these members has enabled the Group to generate more than five million customer impressions through email marketing and direct marketing initiatives in the first half of the year. These activities have contributed to a growth in the programme's share of occupancy of 13% (one of the main

benchmarks for successful loyalty marketing), and room nights generated through the programme are up by 31%. The average daily rate linked to the programme increased by 11%. The Group remains highly focused on enrolling more members into goldpoints plus and is on target to sign up 50,000 new members this year alone. With the programme gaining in popularity, the Group has also seen the number of free stays (redeemed by members in exchange for points earned) nearly double year on year, demonstrating customer commitment to the brands.

Operating Performance

Total Group revenue in the period increased by 38.0% to €54.7 million (2009: €39.7 million), primarily because of the first time contribution from Park Plaza Westminster Bridge London. Excluding the three additional hotels in the Group's portfolio during the period, and the effect of foreign currency movement, total Group revenue was flat.

Reported Group RevPAR increased by 4.4% to €78.7 (2009: €75.4). Whilst the average room rate increased 9.6% year on year in line with the strategy, as expected occupancy reduced year on year as a result of the openings of Park Plaza Westminster Bridge London and art'otel cologne and the acquisition of Park Plaza Amsterdam Airport. Occupancy at these additional hotels was lower than for the rest of the Group because the hotels were in the early stage of development. Occupancy is expected to improve as the hotels become established. Excluding these hotels and the impact of foreign exchange movement, Group RevPAR in the period increased by 4.7%.

In the United Kingdom, RevPAR was €102.4 (2009: €108.7). This is a pleasing result given the impact of the opening of Park Plaza Westminster Bridge London in the period. The Group benefited from the Sterling to Euro exchange translation. In local currency, and excluding Park Plaza Westminster Bridge London, the hotels outperformed the competitive set (TRI Hospitality, June 2010) delivering a 4.3% increase in RevPAR to £100.2 (2009: £96.2)

In The Netherlands, RevPAR was €81.7 (2009: €92.4). Both occupancy and average room rate declined year on year. However, the reduction was primarily the result of the addition of Park Plaza Amsterdam Airport to the Dutch hotel portfolio. Excluding this hotel, RevPAR was down only slightly at €91.4.

In Germany and Hungary, RevPAR increased 11.2% to €44.6 (2009: €40.1). The difficult trading conditions in these markets, which are characterised by an oversupply of hotel rooms, continued. Nonetheless, average room rates at the Group's hotels increased during the period, albeit helped by the government reducing the VAT rate from 19% to 7% on 1 January 2010. Excluding the newly-opened art'otel cologne and Park Plaza Dresden (the contract for which was terminated in 2009), RevPAR increased by 8.5% to €46.0 (2009: €42.4).

Revenue from Management and Holdings Operations was flat at €4.0 million (2009: €4.0 million), with management and franchise fees reflecting the revenue performance of the Group's hotels.

Group EBITDA increased to €10.4 million (2009: €7.2 million). This increase resulted primarily from the impact of Park Plaza Westminster Bridge London, an improvement in the German operations resulting in a reduced EBITDA loss from €(2.3) million to €(1.9) million and Management and Holdings operations EBITDA increasing to €1.8 million (2009: €0.9 million, which was impacted by a €1.1 million non-recurring restructuring costs). Excluding the three additional hotels to the Group's portfolio, Group EBITDA grew by €1.4 million.

The reported profit before tax was €5.3 million (2009: €3.5 million). Basic loss per share was €0.13 (2009: €0.09).

As at 30 June 2010 net debt was €345.2 million (as at 31 December 2009: €403.9 million). The decrease of € 58.7 million was primarily as a result of the repayment of bank borrowings amounting to €113.8 million. This was offset by additional bank borrowings of € 26.1 million for the acquisition of Park Plaza Amsterdam Airport and the construction of Park Plaza Westminster Bridge London, foreign exchange movement which increased bank borrowings denominated in Sterling by € 27.0 million, and

further investments in Park Plaza Westminster Bridge London amounting to €18.7 million. The remaining movement in the net debt was the proceeds received from the completion of units contracted to be sold at Park Plaza Westminster Bridge London and additional cash generated from the Group's hotel operations.

Sale of units at Park Plaza Westminster Bridge London

As at 30 June 2010, 860 of the 1,019 units at Park Plaza Westminster Bridge London had been contracted to be sold (31 December 2009: 854 units). Completion of the sales of these units commenced in the second quarter of 2010 and as at 30 June 2010 the sales of 366 units had been completed. The £101.2 million (€123.9 million) net proceeds raised from these sales was used to repay the Bank Hapoalim loan, of which £151.1 million (€185.0 million) was outstanding at 30 June 2010. The original facility amounted to £248.0 million (€303.5 million). The £32.4 million (€39.6 million) of deposits received in respect of uncompleted sales are held on the balance sheet as restricted deposits and are not included in the Group's €43.8 million liquid assets.

Since 30 June 2010, a further 124 sales have been completed raising an additional £38.3 million (€43.0 million). These further proceeds have been used to reduce the Bank Hapolaim loan to £110.6 million (€135.4 million) at 22 September 2010.

As long as control over the management company of the Park Plaza Westminster Bridge London hotel, and therefore indirect control over the hotel units, stays within the Group, all of the accounting conditions for derecognition of hotel units are not met. Hence, in the interim results the assets have not been derecognised and the proceeds received from purchasers have been accounted for as an advance payment until such time as they can be recognised as revenue (see Notes 2a and 4 to the interim financial statements).

As mentioned in Note 1c to the annual financial statements, the Board of Directors undertook an in-depth review of the proposed completion process of the Park Plaza Westminster Bridge London development and had established that the completion process and transfer of ownership to individual unit holders would occupy a staggered period commencing in mid-April 2010.

The Directors are aware of the likelihood that some unit buyers will not be in a position to complete their purchase in the development on the scheduled completion date. In the event that a purchaser fails to complete, Marlbray Limited, a wholly owned subsidiary of the Group which owns the freehold of the hotel, will be entitled to rescind the relevant contract. Marlbray Limited, will decide on a case by case basis the appropriate course of action to take.

The Bank Hapoalim loan (see Note 17a(5) to the annual financial statements) was originally repayable 30 days after practical completion of the development, but in order to accommodate the staggered completion process, which is now expected to run for a period of 20 weeks from mid-April 2010, the loan was extended first to 31 August 2010 and then to 31 October 2010.

Management is in active ongoing discussions with Bank Hapoalim, which is aware of the possible scenarios and has acknowledged the need for a facility beyond the expiry of the current facility. The Board is confident that an agreement will be reached with Bank Hapoalim before the expiry of the current facility for the provision of a new facility to finance the ownership and operation of the units that are retained by Marlbray Limited.

Financing of Park Plaza Amsterdam Airport

In April 2010, the Group increased its existing facility with Aareal Bank AG in order to finance the acquisition of the Park Plaza Amsterdam Airport. The amended facility, the maturity of which was extended to April 2017, has a value of €111.0 million and includes €5.0 million for renovations and updates to the hotels in order to strengthen their market position. The increased facility is secured on the Park Plaza Victoria Amsterdam (owned through a joint venture with Elbit Imaging Ltd), the Park Plaza Utrecht (owned through a joint venture with Elbit Imaging Ltd), the Park Plaza Mandarin Eindhoven

(100% owned by the Group) and the Park Plaza Amsterdam Airport (owned through a joint venture with Elbit Imaging Ltd). There is no other recourse to any other part of the Group.

The Goldman Sachs Loan

The Group has a 55% interest in both the Park Plaza Riverbank London and the Park Plaza Sherlock Holmes London and a 50% interest in the Park Plaza Victoria London, each of which hotels the Group also operates. The joint venture companies which own the three hotels are the borrowers under a £195.0 million non-recourse facility from Goldman Sachs International Bank, of which £113.4 million (€224.5 million) (attributable to the Group £98.9 million (€121.1 million)), including accrued interest, was outstanding at 30 June 2010. The facility is repayable in March 2011 unless the borrowers are able to, and do, exercise a two year extension option. The facility is secured by, *inter alia*, first legal charges over the three hotels and is without recourse to the Company or other Group companies.

The facility contains a debt service cover ratio (DSCR) covenant that the ratio of the aggregate net operating income and relevant management fees to debt service cost must not be less than 1.05 on any two consecutive quarterly interest payment dates. In the context of determining whether the borrowers were in compliance with such covenant for the first two quarters of 2009, the facility agent disputed the inclusion in net operating income of certain trading revenue received from, and expenses paid by, affiliates of the joint venture partners on the ground, *inter alia*, that the relevant transactions were, in breach of the Facility Agreement, entered into other than on arm's-length commercial terms in the ordinary course of the borrowers' business. If the disputed transactions were to be excluded from net operating income, the DSCR test would not have been met on two consecutive payment dates. In that event or if the transactions were not on arm's-length commercial terms in the ordinary course of the borrowers' business, there would be an event of default under the Facility Agreement, which would entitle the facility agent to demand immediate repayment of all amounts outstanding under the facility. However, the facility agent has not sought to exercise any right of acceleration.

The borrowers strongly disagree with the facility agent's view and consider that the covenant was complied with or that any breach could have been cured as permitted by the Facility Agreement on each payment date and that all relevant transactions were entered into on arm's length commercial terms in the ordinary course of the borrowers' business. In addition, the borrowers have at all times complied on a timely basis with their payment obligations under the Facility Agreement, both as to principal and interest.

Following discussions between the parties earlier this year, terms have been agreed in principle for a restructuring of the facility based on a possible sale and leaseback of one of the Group's hotels which secures the facility. The Group is also in discussions regarding a possible refinancing of the facility with another lender.

Dividend

The Board continues to believe that it is prudent not to commence payment of a dividend in light of current market and trading conditions. When market and trading conditions improve, the Board intends to adopt a progressive dividend policy.

Current Trading and Outlook

Since the period end, the Group has seen some signs of improvement in trading conditions across all the markets in which it operates compared with the same period last year. However, visibility remains low, the trend towards last minute booking continuing into the second half. In light of this, it is still too early to assess whether there is firm evidence of a sustained recovery.

For the 12 weeks to 22 September 2010, the total revenue at the Group's London hotels (excluding Park Plaza Westminster Bridge London) was flat compared with the same period last year. Stronger demand

for hotel rooms resulted in higher average room rates in the period compared with the same period last year. The Group also saw improved demand for conferences and meetings and events. However, although occupancy at the Group's London hotels continues to perform well against their competitive set (TRI Hospitality August 2010), there was a low single digit decline in occupancy compared with the same period last year.

Completions of the units at Park Plaza Westminster Bridge contracted to be sold continued in the second half and a further 124 units had been completed at 22 September 2010. This brings the total number of sales completed to 490, raising net proceeds £139.5 million (€170.7 million) for the Group, and reducing the Bank Hapoalim loan to £110.6 million.

In The Netherlands, total revenue (excluding Park Plaza Amsterdam Airport) for the 12 weeks to 22 September 2010 saw mid-single digit growth compared with the same period last year. As in the first half of the year average room rate increased during the period; however occupancy remained flat. The Dutch hotel market was late into the economic cycle and therefore the downturn impacted in the second quarter of 2009 and the recovery is likely to lag other European markets.

Revenue growth in Germany and Hungary (excluding art'otel cologne) was mid-single digit for the 12 weeks to 22 September 2010 against the same period last year. Stronger demand from both the business and leisure segments helped average room rate grow in line with revenue. Occupancy remained flat.

The Group's Management and Holdings operation continues to perform in line with the Board's expectations, reflecting the revenue performance of the Group's hotels. For the full year, this business will also continue to benefit from the non-recurring costs charged in 2009.

Overall, the Group continues to trade in line with the Board's expectations. The Board continues to believe that the Group's long-term growth prospects remain attractive. Its current portfolio and development pipeline mean Park Plaza is well positioned to benefit from more normalised market conditions as and when these occur.

Review of Operations

UK

Hotel Operations: Key Operating Statistics

	Euro (€) (Unaudited)		GBP (£) (Unaudited)	
	Six months to 30 June 2010	Six months to 30 June 2009	Six months to 30 June 2010	Six months to 30 June 2009
Occupancy	75.9%	83.0%	75.9%	83.0%
Average Room Rate	€134.8	€131.0	£116.4	£115.9
RevPAR	€102.4	€108.7	£ 88.4	£ 96.2
Total Revenue	€28.2 million	€14.2 million	£24.3 million	£12.6 million
EBITDA	€ 7.4 million	€ 5.6 million*	£ 6.4 million	£ 4.9 million*

* 2009 EBITDA has been restated to reflect the adoption of the new IFRS standards.

	Euro (€) Like for likes ⁺		GBP (£) Like for likes ⁺	
	Six months to 30 June 2010	Six months to 30 June 2009	Six months to 30 June 2010	Six months to 30 June 2009
Occupancy	85.3%	82.8%	85.3%	82.8%
Average Room Rate	€136.1	€131.1	£117.5	£116.0
RevPAR	€116.0	€108.5	£100.2	£ 96.0
Total Revenue	€14.5 million	€14.2 million	£12.5 million	£12.6 million
EBITDA	€ 5.4 million	€ 5.6 million*	£ 4.7 million	£ 4.9 million*

+ excludes Park Plaza Westminster Bridge London (partial opening to paying guests in March 2010)

* 2009 EBITDA has been restated to reflect the adoption of the new IFRS standards.

During the first half, the London hotel market saw some signs of improvement, particularly in the second quarter. RevPAR for the Group's competitive set grew to £93.3, reflecting improved occupancy rates and average room rates, despite the disruption caused by the heavy snow in January and the volcanic eruption in Iceland in April, which caused unprecedented air travel disruption (TRI Hospitality, June 2010).

The Group's established hotels (excluding Park Plaza Westminster Bridge London) have continued to perform in line with the Board's expectations in the first half. On a local currency basis, and excluding Park Plaza Westminster Bridge London, RevPAR was £100.2, 7.4% ahead of its competitive set (TRI Hospitality, June 2010).

Each of the Group's established hotels (Park Plaza Victoria, Park Plaza Riverbank and Park Plaza Sherlock Holmes) reported improvements in RevPAR in the first half. On a reported basis RevPAR was adversely affected by the partial opening of Park Plaza Westminster Bridge London.

The Group's flagship hotel, Park Plaza Westminster Bridge, partially opened to paying guests in March 2010. With uninterrupted views of Big Ben and the Houses of Parliament, this prestigious hotel is one of the largest hotels to open in the United Kingdom for over 40 years. The hotel, which fully opened in the third quarter of 2010, offers 1,019 guestrooms, full spa facilities, unrivalled meeting and conferencing facilities, including a 1,200 square metre pillar free ballroom and 31 additional meeting rooms, making it one of the most versatile locations in Central London. The highly acclaimed chef, Joel Antunes, is responsible for the dining operations at the hotel, which include Brasserie Joel, a 200-seat signature restaurant, and a 30-seat sushi restaurant.

The Group has been very pleased with the reception that the hotel has received to date and guest satisfaction scores have been very high, as have those for both the product and services. The meeting and events business has continued to perform in line with the Board's expectation, with continued strong levels of enquiries for meetings and events to be held in 2010 and beyond.

As at 30 June 2010, 860 of the 1,019 units at Park Plaza Westminster Bridge London had been contracted to be sold. Completion of the sale of these units commenced in the second quarter of 2010 and has been proceeding at a steady pace. As at 22 September 2010, the sale of 490 units had been completed, raising net cash proceeds for the Group of £139.5 million (€170.7 million).

Reported total revenue increased to €28.2 million (2009: €14.2 million) and EBITDA increased to €7.4 million (2009: €5.6 million).

In local currency and excluding Park Plaza Westminster Bridge London, total revenue reduced slightly to €12.5 million (2009: €12.6 million) and EBITDA reduced to €4.7 million (2009: €4.9 million).

The Netherlands

Hotel Operations: Key Operating Statistics

	Six months to 30 June 2010 (Unaudited)	Six months to 30 June 2010 Like for likes[^]	Six months to 30 June 2009 (Unaudited)
Occupancy	77.6%	82.1%	83.9%
Average Room Rate	€105.3	€111.3	€110.1
RevPAR	€81.7	€91.4	€92.4
Total Revenue	€10.3 million	€9.7 million	€9.9 million
EBITDA	€ 3.1 million	€ 3.1 million	€3.0 million

[^] excludes Park Plaza Amsterdam Airport acquired in April 2010.

The recent macro-economic conditions particularly affected the Dutch market. However, during the first half there were some early signs of a recovery, with both occupancy and average room rates improving in Amsterdam during the period (TRI Hospitality, June 2010).

During the downturn in The Netherlands, which impacted the Group's hotels in the second quarter of 2009, the Group continued to achieve higher occupancy than its competitive set (TRI Hospitality, June 2009), which was achieved on a decline in average room rates.

The early sign of improvement in the Dutch market has given the Group the opportunity to grow average room rates during the period. In line with this strategy, on a like for like basis, the Dutch hotels achieved higher average room rates in the period albeit on slightly lower occupancy, resulting in a marginal reduction in RevPAR year on year to €91.4 (2009: €92.4).

In the first half, both Park Plaza Victoria and Park Plaza Vondelpark outperformed their competitive sets in terms of occupancy (TRI Hospitality, June 2010). Park Plaza Victoria Amsterdam was particularly strong in the first six months, reporting 90.0% occupancy compared with 83.5% for the hotel's competitive set (STR Global, June 2010).

Park Plaza Utrecht delivered a particularly strong performance, outperforming in terms of occupancy and average room rate, resulting in RevPAR 37.5% ahead of its competitive set (STR Global, June 2010). Park Plaza Mandarin Eindhoven delivered RevPAR that was 25.0% ahead of its competitive set (MKG Hospitality, June 2010).

In April 2010, the Group acquired one of the largest conference hotels in The Netherlands, located near Amsterdam Schiphol Airport. The hotel, which was immediately rebranded Park Plaza Amsterdam Airport, offers 342 contemporary rooms and has over 1,800 square metres of flexible meeting space, which puts it among the top meeting and event venues in The Netherlands. Renovations and updates are planned in order to strengthen the hotel's market position and increase occupancy and average room rate. These refurbishments are expected to commence in the first quarter of 2011.

Total revenue was down slightly at €9.7 million (2009: €9.9 million) and EBITDA was flat at €3.0 million. Excluding the impact of Park Plaza Amsterdam Airport, EBITDA increased by 1.5%.

Germany and Hungary

Hotel Operations: Key Operating Statistics

	Six months to 30 June 2010 (Unaudited)	Six months to 30 June 2009 (Unaudited)
Occupancy	66.4%	67.0%
Average Room Rate	€67.2	€60.0
RevPAR	€44.6	€40.1
Total Revenue	€12.3 million	€11.6 million
EBITDA	€(1.9) million	€(2.2) million

	Six months to 30 June 2010 Like for likes ^{>}	Six months to 30 June 2009 Like for likes ^{>>}
Occupancy	69.3%	68.8%
Average Room Rate	€66.4	€61.6
RevPAR	€46.0	€42.4
Total Revenue	€11.1 million	€10.4 million
EBITDA	€(1.3) million	€(2.0) million

[>] excludes art'otel cologne (opened March 2010) and Park Plaza Dresden (contract terminated in September 2009).

^{>>}excludes Park Plaza Dresden (contract terminated in September 2009).

As previously highlighted, the German and Hungarian markets have been difficult for some time as a result of the oversupply of hotel rooms compounded by the recent global economic environment. However, in the first half of 2010, the Berlin market improved with reported increases in occupancy and average room rate resulting in RevPAR for the competitive set increasing by 12.4% (TRI Hospitality, June 2010), aided by the German government reducing VAT from 19% to 7% on 1 January 2010, which was reflected in an increased average room rate.

Although the Berlin market remains competitive, in the first half Park Plaza Prenzlauer Berg Berlin, Park Plaza Wallstreet Berlin and art'otel berlin kudamm all outperformed their competitive sets in terms of occupancy (Fairmas, June 2010). art'otel berlin city center west outperformed in the period achieving RevPAR 4.9% ahead of its competitive set (Fairmas, June 2010).

All the Group's hotels in Berlin achieved year on year increases in average room rate, resulting in an increase in RevPAR at each of the Group's hotels in the first half against the comparable period last year.

Budapest continues to be one of the most difficult markets in Europe with the oversupply of hotel rooms leading to continued pressure on average room rates and occupancy (TRI Hospitality, June 2010).

In March 2010, the Group opened art'otel cologne, a newly-built 218 room hotel located in the newly developed prestigious Rheinaufafen area of Cologne. The hotel features artwork by the Korean-born SEO and has the first Park Plaza award winning Chino Latino restaurant and bar outside the United Kingdom. Since opening, the conference business has performed well and the hotel has focused on delivering a robust average room rate. The focus in the second half will be to generate revenue by building up its corporate clients and conference business.

If the recently opened art'otel cologne and Park Plaza Dresden (the contract of which was terminated in September 2009) are excluded, RevPAR in Germany and Hungary increased by 8.5% and EBITDA increased by 32.0% year on year.

Given the oversupply of hotel rooms in these markets, the Group continues to review its operations and strategies in Germany and Hungary in order to improve its performance. A number of hotels remain under review and the Group will take action where appropriate.

Management and Holdings Operation

	Six months ended 30 June 2010 (Unaudited)	Six months ended 30 June 2009 (Unaudited)
Total Revenue	€4.0 million	€4.0 million
EBITDA	€1.8 million	€0.9 million

Total revenue in the Group's management and Holdings operation was flat at €4.0 million, with management and franchise fees reflecting the revenue performance of the Group's hotels. EBITDA increased to €1.8 million (2009: €0.9 million, which was impacted by €1.1 million non-recurring restructuring costs).

Development Pipeline

In the **United Kingdom**, plans for London's first art'otel, located in Hoxton, continued to advance in the first half. In February 2010, the Group received planning consent for the project after two years of design work and consultation with the local authorities and the local community in Shoreditch. The 352 room art'otel london hoxton is scheduled to open in 2013.

On 4 August 2010, the Company's wholly-owned subsidiary, Euro Sea Hotels N.V, acquired Hotel Leeds Holding B.V., Hotel Nottingham Holding B.V and Nottingham Park Plaza Hotel Operator Limited from Leno Hotel Holding B.V. (NPPHOL), a wholly-owned member of the Red Sea group, for an aggregate cash consideration of £3.31 million. These two hotels, Park Plaza Leeds and Park Plaza Nottingham, are operated by the Group under a long term operating agreement with NPPHOL. On the same date the Group acquired the companies which own the freehold and headlease interests in the two hotels, which will facilitate their planned refurbishment.

Park Plaza Leeds is located in the centre of Leeds, opposite Leeds Railway Station, and is within walking distance of local businesses, shopping centres and tourist attraction and offers 85 rooms and suites, flexible meeting space for up to 140 delegates, a business centre and fully-equipped gym. Park Plaza Nottingham, located in the city centre, offer 178 spacious rooms and suites and 12 flexible meeting rooms, with space for 220 delegates, a business centre and fitness suite. Both hotels offer Park Plaza's award winning Chino Latino Restaurant and Bar.

In **The Netherlands**, interior demolition work of Amsterdam's first art'otel, in the City's iconic former "Kadaster" office in the prime location near Central Station, has been completed and construction is scheduled to commence in October 2010. This 100 room hotel, which is expected to open in 2011, will include dedicated public spaces in an art café and on the ground and basement floors to showcase social and cultural activities.

Plans are underway for major renovations at some of the Group's Dutch hotels. These will include the refurbishment of some rooms and public spaces at Park Plaza Victoria Amsterdam, Park Plaza Mandarin Eindhoven and Park Plaza Utrecht. Works are due to commence during 2011.

In **Germany** work commenced in the second quarter 2010 on the 60 room extension at art'otel berlin city center west. This project, which is scheduled to finish in the fourth quarter of 2011, will include refurbishment of the ground floor and the addition of two new meeting rooms. A new wellness centre will also be added to the hotel.

In the **Middle East and North Africa** construction of the Park Plaza Marrakech is proceeding. This new hotel, which will operate under a franchise agreement, is located in the heart of the modern city in the Meara area. It will offer 114 guestrooms and suites and an array of food and beverage and leisure facilities. On opening, the Group will receive a royalty fee in respect of the new hotel, as well as fees for services such as marketing connected with the brands (calculated as a percentage of gross room revenues).

CONDENSED CONSOLIDATED BALANCE SHEETS

	Note	30 June		31 December
		2010	2009 *)	2009
		Unaudited	Unaudited	Audited
		€ '000		
ASSETS				
<u>NON-CURRENT ASSETS:</u>				
Intangible assets		43,600	46,164	44,882
Property, plant and equipment	4	473,948	194,963	188,625
Aparthotel units sold to unit holders	4	113,843	-	-
Prepaid leasehold payments		249	258	254
Investment in associate		21,868	21,670	22,468
Other non-current financial assets		40,013	34,078	35,306
		<u>693,521</u>	<u>297,133</u>	<u>291,535</u>
<u>CURRENT ASSETS:</u>				
Inventories under construction	4	-	277,310	304,817
Restricted deposits and cash		73,923	63,345	66,516
Inventories		876	515	527
Other current financial assets		2,893	13,320	14,536
Trade receivables		21,786	14,118	14,385
Other receivables and prepayments		10,181	4,814	5,137
Cash and cash equivalents		24,795	41,631	34,418
		<u>134,454</u>	<u>415,053</u>	<u>440,336</u>
<u>Total assets</u>		<u>827,975</u>	<u>712,186</u>	<u>731,871</u>

*) Comparative data have been adjusted (see Note 2b).

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

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June		31
		2010	2009 *)	December
		Unaudited	Unaudited	Audited
€ '000				
EQUITY AND LIABILITIES				
<u>EQUITY:</u>				
Issued capital		-	-	-
Share premium		236,000	236,000	236,000
Other reserves		(36,513)	(36,905)	(36,418)
Treasury shares		(1,083)	-	(1,083)
Foreign currency translation reserve		(24,420)	(26,968)	(28,376)
Hedging reserve		(12,098)	(9,266)	(9,096)
Accumulated deficit		(26,792)	(17,791)	(21,292)
Total equity		135,094	145,070	139,735
<u>NON-CURRENT LIABILITIES:</u>				
Bank borrowings	5	194,147	131,907	171,865
Advance payments from unit holders	4	123,883	-	-
Other liabilities		58,801	49,342	51,011
Deferred income taxes		10,399	10,316	9,655
		387,230	191,565	232,531
<u>CURRENT LIABILITIES:</u>				
Trade payables		26,706	8,764	4,853
Deposits received from unit holders		42,826	63,113	63,757
Other payables and accruals		41,265	13,591	13,128
Bank borrowings	5	194,854	290,083	277,867
		305,651	375,551	359,605
Total liabilities		692,881	567,116	592,136
Total equity and liabilities		827,975	712,186	731,871

*) Comparative data have been adjusted (see Note 2b).

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

CONDENSED CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June		Year ended 31 December
	2010	2009 *)	2009
	Unaudited	Unaudited	Audited
	€ '000 (except earnings per share)		
Revenues	54,751	39,718	80,326
Operating cost	(38,960)	(27,400)	(54,182)
EBITDAR	15,791	12,318	26,144
Rental expenses	(5,409)	(5,063)	(9,900)
EBITDA	10,382	7,255	16,244
Depreciation and amortisation	(4,234)	(4,513)	(9,066)
EBIT	6,148	2,742	7,178
Pre-opening expenses	(2,537)	-	-
Financial expenses	(10,820)	(7,768)	(18,940)
Interest expenses on advance payments from unit holders	(160)	-	-
Financial income	2,867	2,840	5,797
Negative goodwill on acquisition	293	-	-
Share in loss of associate	(1,135)	(1,322)	(1,195)
Loss before taxes	(5,344)	(3,508)	(7,160)
Income tax expenses	(156)	(440)	(289)
Loss for the period attributable to owners of the parent	<u>(5,500)</u>	<u>(3,948)</u>	<u>(7,449)</u>
Basic and diluted loss per share (in Euro)	<u>(0.13)</u>	<u>(0.09)</u>	<u>(0.18)</u>

*) Comparative data have been adjusted (see Note 2b).

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended		Year ended
	30 June		31 December
	2010	2009 *)	2009
	Unaudited	Unaudited	Audited
	€ '000		
Loss for the period	(5,500)	(3,948)	(7,449)
Other comprehensive income (loss):			
Profit (loss) from available-for-sale financial assets	(297)	200	348
Reclassification adjustment for loss from available-for-sale financial assets recorded in income statement	195	-	246
Loss from cash flow hedges	(3,002)	(2,885)	(2,715)
Foreign currency translation adjustments of foreign operations	3,915	5,168	3,762
Foreign currency translation adjustment of associate	41	28	26
Other comprehensive income, net	852	2,511	1,667
Total comprehensive loss attributable to owners of the parent	(4,648)	(1,437)	(5,782)

*) Comparative data have been adjusted (see Note 2b).

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital *)	Share premium	Other reserves	Treasury shares	Foreign currency translation reserve € '000	Hedging reserve	Accumulated deficit	Total
Balance as at 1 January 2009 (audited)	-	236,000	(37,189)	-	(32,164)	(6,381)	(13,843)	146,423
Loss for the year	-	-	-	-	-	-	(7,449)	(7,449)
Other comprehensive income for the year	-	-	594	-	3,788	(2,715)	-	1,667
Total comprehensive loss	-	-	594	-	3,788	(2,715)	(7,449)	(5,782)
Purchase of treasury shares	-	-	-	(1,083)	-	-	-	(1,083)
Share-based payments	-	-	177	-	-	-	-	177
Balance as at 31 December 2009 (audited)	-	236,000	(36,418)	(1,083)	(28,376)	(9,096)	(21,292)	139,735
Loss for the period	-	-	-	-	-	-	(5,500)	(5,500)
Other comprehensive income for the period	-	-	(102)	-	3,956	(3,002)	-	852
Total comprehensive loss	-	-	(102)	-	3,956	(3,002)	(5,500)	(4,648)
Share-based payments	-	-	7	-	-	-	-	7
Balance as at 30 June 2010 (unaudited)	-	236,000	(36,513)	(1,083)	(24,420)	(12,098)	(26,792)	135,094
Balance as at 1 January 2009 (audited)	-	236,000	(37,189)	-	(32,164)	(6,381)	(13,843)	146,423
Loss for the period	-	-	-	-	-	-	(3,948) **)	(3,948)
Other comprehensive income for the period	-	-	200	-	5,196 **)	(2,885)	-	2,511
Total comprehensive loss	-	-	200	-	5,196	(2,885)	(3,948)	(1,437)
Share-based payments	-	-	84	-	-	-	-	84
Balance as at 30 June 2009 (unaudited)	-	236,000	(36,905)	-	(26,968)	(9,266)	(17,791)	145,070

*) No par value.

**) Comparative data have been adjusted (see Note 2b).

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December 2009
	2010	2009 *)	Audited
	Unaudited	Unaudited	Audited
	€ '000		
Cash flows from operating activities:			
Profit (loss) for the period	(5,500)	(3,948)	(7,449)
Adjustment to reconcile profit (loss) to cash used in operating activities:			
Financial expenses	10,980	7,768	18,940
Financial income	(2,867)	(2,840)	(5,797)
Negative goodwill on acquisition of Schiphol Victoria Hotel C.V.	(293)	-	-
Income tax expense (income)	156	440	289
Share in loss of associates	1,135	1,322	1,195
Depreciation and amortisation	4,238	4,514	9,075
Share-based payments	7	84	177
	<u>13,356</u>	<u>11,288</u>	<u>23,879</u>
Changes in operating assets and liabilities:			
Decrease (increase) in inventories under construction	(9,030)	(46,835)	(80,951)
Decrease (increase) in inventories	(321)	20	3
Increase in trade and other receivables	(7,904)	(1,390)	(2,424)
Increase (decrease) in trade and other payables	27,792	(2,294)	(5,708)
	<u>10,537</u>	<u>(50,499)</u>	<u>(89,080)</u>
Cash paid and received during the period for:			
Interest paid	(6,625)	(7,944)	(12,549)
Interest received	468	319	609
Taxes paid	131	291	-
Taxes received	(40)	-	(63)
	<u>(6,066)</u>	<u>(7,334)</u>	<u>(12,003)</u>
Net cash used in operating activities	<u>12,327</u>	<u>(50,493)</u>	<u>(84,653)</u>
Cash flows from investing activities:			
Purchase of property, plant and equipment	(15,866)	(1,480)	(3,345)
Loans to jointly controlled entities and to partners in jointly controlled entities	(1,807)	(642)	(1,670)
Net change in cash on acquisition of Schiphol Victoria Hotel C.V. (a)	(14,739)	-	-
Increase in restricted deposits	(1,497)	(1,051)	(8,019)
Purchase of available for sale investment in bonds and securities	(687)	(11,297)	(12,279)
Purchase of available for sale investment in shares	(387)	(7,844)	(15,945)
Proceeds from maturity of bonds and securities	-	22,895	23,073
Proceeds from sale of available for sale investment in shares	13,492	8,542	16,136
Advance payments from unit holders	89,731	-	-
Purchase of treasury shares	-	-	(1,083)
Decrease (increase) in restricted cash	(41)	49	320
Loans to unit holders	(3,675)	-	-
Net cash provided by (used in) investing activities	<u>64,524</u>	<u>9,172</u>	<u>(2,812)</u>

*) Comparative data have been adjusted (see Note 2b).
The accompanying notes are an integral part of the consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	2010	2009 *)	2009
	Unaudited	Unaudited	Audited
	€ '000		
<u>Cash flows from financing activities:</u>			
Increase in deposits from unit holders	1,337	1,572	3,130
Proceeds from long-term loans	13,982	-	42,158
Repayment of long-term loans	(1,847)	(1,866)	(44,485)
Increase (decrease) in construction loan, net	(102,882)	47,839	85,032
Loans from jointly controlled entities and from partners in jointly-controlled entities	1,474	438	1,733
Net cash provided by financing activities	(87,936)	47,983	87,568
Increase (decrease) in cash and cash equivalents	(11,085)	6,662	103
Net foreign exchange differences	1,462	1,904	1,250
Cash and cash equivalents at beginning of period	34,418	33,065	33,065
Cash and cash equivalents at end of period	24,795	41,631	34,418
(a) Net change in cash on acquisition of Schiphol Victoria Hotel C.V.			
Current assets (excluding cash and cash equivalents)	393	-	-
Current liabilities	(536)	-	-
Non-current assets	15,293	-	-
Negative goodwill	(293)	-	-
Non-cash	(118)	-	-
Net change in cash on acquisition of Schiphol Victoria Hotel C.V.	14,739	-	-
(b) Significant non-cash transactions:			
Purchase of inventories under construction and fixed assets	18,661	-	-
Reclassification of deposits from unit holders to advance payments	27,461	-	-

*) Comparative data have been adjusted (see Note 2b).

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. The Company through its subsidiaries owns, develops, operates and franchises hotels in Europe, the Middle East and Africa under two primary brands: Park Plaza Hotels & Resorts and art'otel.
- b. These financial statements have been prepared in a condensed format as at 30 June 2010 and for the six months then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as at 31 December 2009 and for the year then ended and accompanying notes ("annual financial statements").
- c. As discussed in Note 1c to the annual financial statements, the Board of Directors continues to monitor the Group's cash flow forecasts for a period of at least 12 months from the signing date, including compliance with loan covenants and liquidity risks arising from the maturities of the Group's loans.

The Marlbray Loan:

As mentioned in Note 1c to the annual financial statements, the Board of Directors undertook an in-depth review of the proposed completion process of the Park Plaza Westminster Bridge development and established that the completion process and transfer of ownership to individual unit holders would occupy a staggered period commencing in mid-April. The Directors are aware of the likelihood that some unit buyers will not be in a position to complete their purchase in the development on the scheduled completion date.

In the event that a purchaser fails to complete, Marlbray Limited, a wholly owned subsidiary of the Group, will be entitled to rescind the contract. Marlbray Limited will decide on a case by case basis the appropriate course of action to take.

The loan (see Note 17a(5) to the annual financial statements) was originally repayable 30 days after practical completion of the development, but in order to accommodate the staggered completion process, which is now expected to run for a period of 20 weeks from mid-April 2010, the loan was extended first to 31 August 2010 and then to 31 October 2010.

Management is in active ongoing discussions with Bank Hapoalim, which is aware of the possible scenarios and has acknowledged the need for a facility beyond the expiry of the current facility. The Board is confident that an agreement will be reached with Bank Hapoalim before the expiry of the current facility for the provision of a new facility to finance the ownership and operation of the units that are retained by Marlbray. Accordingly, the Directors have concluded that there is no significant liquidity risk associated with this project. See also Note 7b.

The Goldman Sachs Loan:

As further mentioned in Note 1c to the annual financial statements, the facility agent has disputed the borrowers' compliance with the debt service cover ratio covenant in the respect of the first two quarters of 2009.

The borrowers strongly disagree with the facility agent's view and consider that the covenant was complied with or that any breach could have been cured as permitted by the Facility Agreement. In addition, the borrowers have at all

times complied on a timely basis with their payment obligations under the Facility Agreement, both as to principal and interest.

Following discussions between the parties earlier this year, terms have been agreed, in principle, for a restructuring of the facility based on a possible sale and leaseback of one of the Group's hotels which secures the facility. The Group is also in discussions regarding a possible refinancing of the facility with another lender.

The Directors have carefully considered the nature and circumstances of the dispute and its implications, both on the classification of the related debt and on the assessment of the going concern of the Group. They have considered the fact that negotiations are ongoing with Goldman Sachs with a view to resolving the dispute as well as the significant excess of the market values of the hotels over the current amount outstanding under the facility. Based on their assessment, the Directors' view is that the debt remains appropriately classified as non-current and the existence of the dispute does not threaten the ability of the Group to continue as a going concern.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in 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 as noted below:

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of all discounts and rebates, VAT and other sales taxes.

Hotel operations:

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Sale of aparthotel units

Revenue from the sale of aparthotel units is recognised when the significant risks and rewards of ownership and control have been passed to the buyer.

Property, plant and equipment:

Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses. Depreciation is calculated using the

straight-line method, over the shorter of the estimated useful life of the assets or the lease term as follows:

	Years
Land under finance lease	121 – 125
Hotel buildings	50 – 95
Furniture and equipment	2 – 15

The costs of maintaining property, plant and equipment are recognised in the income statement as they are incurred. Costs incurred that significantly increase the recoverable amount of the asset concerned are added to the asset's cost as an improvement and depreciated over the expected useful life of the improvement.

An item of property, plant and equipment, and any significant part initially recognised, is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted retrospectively, if appropriate.

The Company distinguishes between sold and unsold aparthotel units. Unsold units are depreciated using the straight-line method as mentioned above.

Aparthotel units which have been sold to individual purchasers are subject to a depreciation charge of zero as their residual value will be equal to their carrying amount.

Aparthotel units sold to purchasers will only be derecognised when significant risks and rewards of ownership of, and control over, the relevant units have passed to the purchasers.

Significant judgments applied determining accounting policy:

In light of the complexity of the Westminster Bridge project, a number of significant judgements have been made by the Board, in consultation with and upon the recommendation of management, in determining the accounting policies around the derecognition of the units sold to buyers and the recognition of resultant revenues.

These significant judgements relate to the timing of when substantially all the significant risks and rewards of ownership of the units and continuing managerial involvement are deemed to have been ceded by the Group.

Because of the complexity of the project and the potential for evolution of accounting guidance on the subject, the Board and management will continue to re-evaluate the relevant judgements on an ongoing basis.

IFRS 3 (Revised) - Business Combinations and IAS 27 (Amended) - Consolidated and Separate Financial Statements:

According to the new Standards:

- The definition of a business was broadened so that it includes activities and assets that are not managed as a business, as long as the seller is capable of operating them as a business.
- Non-controlling interests, including goodwill, can be measured either at fair value or at the proportionate share in the acquiree's fair value of net identifiable assets on the acquisition date, separately in respect of each

business combination transaction. Contingent consideration in a business combination is measured at fair value and changes in the fair value of the contingent consideration which do not represent adjustments to the acquisition cost in the measurement period are not recognised as goodwill adjustments. If the contingent consideration is classified as a financial derivative within the scope of IAS 39, it will be measured at fair value through profit or loss.

- Direct acquisition costs attributed to a business combination transaction are recognised in the statement of income as incurred.
- Subsequent measurement of a deferred tax asset for acquired temporary differences which did not meet the recognition criteria at acquisition date will be against profit or loss and not as adjustment to goodwill.
- A subsidiary's losses, even if resulting in a capital deficiency in a subsidiary, will be allocated between the parent company and non-controlling interests, even if the minority has not guaranteed or has no contractual obligation for sustaining the subsidiary or of investing further amounts.
- A transaction, whether sale or purchase, with non-controlling interests that does not result in a loss of control, is accounted for as an equity transaction. Accordingly, the acquisition of non-controlling interests by the Group is recognised as an increase or decrease in equity and is calculated as the difference between the consideration paid by the Group and the proportionate amount of the non-controlling interests acquired on the acquisition date. On the disposal of an interest in a subsidiary that does not result in a loss of control, an increase or decrease is recognised in equity for the amount of the difference between the consideration received by the Group and the carrying amount of the non-controlling interests in the subsidiary which have been added to the Company's equity, also taking into account the re-attribution of reserves originating from other comprehensive income (loss), such as translation differences, if any, based on the decrease in the interests in the subsidiary.
- Any classification or designation made when recognising assets and liabilities is assessed in accordance with the contractual terms, economic circumstances and pertinent conditions that exist at the acquisition date, except for leases and insurance contracts.
- In a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognises the resulting gain or loss, if any, including reverse of deferred amounts, in other comprehensive income. On the loss of control over a subsidiary, the remaining interests, if any, will be revalued to fair value against gain or loss from the sale and this fair value will represent the cost basis for the purpose of subsequent treatment.

The Standards were adopted prospectively from 1 January 2010.

b. Early adoption of IFRS Standards:

IAS 17 - Leases:

Pursuant to an amendment to IAS 17, the specific criterion for classification of land as an operating or a finance lease was removed. Consequently, there is no longer a requirement to classify a lease of land as an operating lease in all situations in which title does not pass at the end of the lease, but rather the classification of a lease of land should be evaluated by reference to the general guidance in IAS 17, which addresses the classification of a lease as finance or operating when the original agreement is signed while taking into account that land normally has an indefinite economic life. Accordingly, a lease of land should be evaluated by comparing the present value of the amount reported as prepaid operating lease expense and the fair value of the land and if said amount substantially reflects the fair value, the lease should be classified as a finance lease.

The Company had decided to adopt this amendment early in 2009. Accordingly, the classification of leases of land were re-assessed on the basis of information existing at the inception of the lease and in accordance with the general guidance of IAS 17 related to classification of a financial or an operating lease. Based on the re-assessment, it was concluded that the leases of land for two hotels, Park Plaza Sherlock Holmes London and Park Plaza Riverbank London, should be reclassified from operating to finance leases. The effect of the reclassification has been applied retrospectively to the comparative data in these financial statements.

Following are the effects of the retrospective application of the amendment to IAS 17:

Balance sheet

	As originally reported	The change in accounting policy € '000	As restated
30 June 2009:			
Intangible assets	52,191	(6,027)	46,164
Property, plant and equipment	166,008	28,955	194,963
Prepaid leasehold payments	17,586	(17,328)	258
Other liabilities	43,304	6,038	49,342
Accumulated deficit	(17,397)	(394)	(17,791)
Foreign currency translation reserve	(26,924)	(44)	(26,968)

Income statement

Year ended 30 June 2009:

Rental expenses	(5,424)	361	(5,063)
Depreciation and amortisation	(4,417)	(96)	(4,513)
Financial expenses	(7,488)	(280)	(7,768)
Profit for the year	(3,933)	(15)	(3,948)
Basic and diluted earnings per share (in Euro)	(0.09)	-	(0.09)

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

NOTE 3:- SEGMENTS DATA

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 for financial reporting purposes in income statements.

Six months ended 30 June 2010 (unaudited)						
	The Netherlands	Germany and Hungary	United Kingdom	Management	Holding companies and adjustments	Consolidated
	€ '000					
Revenue						
Third party	10,275	12,285	27,823	4,192	176	54,751
Inter-segments	-	-	389	4,261	(4,650)	-
Total revenue	<u>10,275</u>	<u>12,285</u>	<u>28,212</u>	<u>8,453</u>	<u>(4,474)</u>	<u>54,751</u>
Segment EBITDA	<u>3,143</u>	<u>(1,890)</u>	<u>7,373</u>	<u>2,336</u>	<u>(580)</u>	<u>10,382</u>
Depreciation and amortisation						(4,234)
Financial expenses						(10,980)
Financial income						2,867
Other expenses						(2,244)
Share in loss of associate						(1,135)
Loss before taxes on income						<u>(5,344)</u>

Six months ended 30 June 2009 (Unaudited)						
	The Netherlands	Germany and Hungary	United Kingdom	Management	Holding companies and adjustments	Consolidated
	€ '000					
Revenue						
Third party	9,887	11,557	13,462	4,613	199	39,718
Inter-segments	-	-	801	2,985	(3,786)	-
Total revenue	<u>9,887</u>	<u>11,557</u>	<u>14,263</u>	<u>7,598</u>	<u>(3,587)</u>	<u>39,718</u>
Segment EBITDA	<u>3,042</u>	<u>(2,201)</u>	<u>5,553</u>	<u>2,835</u>	<u>(1,974)</u>	<u>7,255</u>
Depreciation and amortisation						(4,513)
Financial expenses						(7,768)
Financial income						2,840
Share in loss of associate						(1,322)
Loss before taxes on income						<u>(3,508)</u>

Year ended 31 December 2009 (audited)

	<u>The Netherlands</u>	<u>Germany and Hungary</u>	<u>United Kingdom</u>	<u>Management</u>	<u>Holding companies and adjustments</u>	<u>Consolidated</u>
	€'000					
Revenue						
Third party	19,779	23,456	27,518	9,573	-	80,326
Inter-segments	-	-	1,504	6,869	(8,373)	-
Total revenue	<u>19,779</u>	<u>23,456</u>	<u>29,022</u>	<u>16,442</u>	<u>(8,373)</u>	<u>80,326</u>
Segment EBITDA	<u>6,474</u>	<u>(3,725)</u>	<u>11,369</u>	<u>5,928</u>	<u>(3,802)</u>	16,244
Depreciation and amortisation						(9,066)
Financial expenses						(18,940)
Financial income						5,797
Share in loss of associate						<u>(1,195)</u>
Loss before taxes on income						<u>(7,160)</u>

NOTE 4:- PROPERTY, PLANT AND EQUIPMENT

	Land	Hotel buildings	Furniture and equipment	Total
	€ '000			
Cost:				
Aparthotel units sold to unit holders				
Balance as at 1 January 2010	-	-	-	-
Reclassification from inventories under construction	13,426	96,498	3,919	113,843
Balance as at 30 June 2010	13,426	96,498	3,919	113,843
Property plant and equipment				
Balance as at 1 January 2010	64,437	116,801	44,951	226,189
Additions during the year	3,798	10,710	35,311	49,819
Reclassification from inventories under construction	28,170	173,178	7,036	208,384
Disposals				
Adjustment for exchange rate differences	6,222	20,683	5,254	32,159
Balance as at 30 June 2010	102,627	321,372	92,552	516,551
Total cost as at 30 June 2010	116,053	417,870	96,471	630,394
Accumulated depreciation:				
Aparthotel units sold to unit holders:				
Property plant and equipment				
Balance as at 1 January 2010	1,542	12,138	23,884	37,564
Provision for depreciation	126	947	1,879	2,952
Disposals				
Adjustment for exchange rate differences	128	403	1,556	2,087
Balance as at 30 June 2010	1,796	13,488	27,319	42,603
Depreciated cost as at 30 June 2010				
Aparthotel units sold to unit holders	13,426	96,498	3,919	113,843
Property plant and equipment	100,831	307,884	65,233	473,948
Total Depreciated cost as at 30 June 2010	114,257	404,382	69,152	587,791

The construction of the Park Plaza Westminster Bridge London was significantly completed at the beginning of the year and the hotel partially opened to paying customers in March 2010. As at 30 June 2010, the sale of 366 units out of the 860 units contracted to be sold, had been legally completed. On the completion of each sale the purchaser is issued a "B" Ordinary Share in the management company of the Park Plaza Westminster Bridge hotel, 1 Westminster Bridge Management Company Limited ("1WB"). Marlbray Limited, a 100% subsidiary of the Group which owns the freehold of the Park Plaza Westminster Bridge hotel, owns the only "A" Ordinary Share in 1WMB, which gives it sole voting rights in and therefore control over 1WMB until the later of:

- a) the date of completion of the sale of the last of the units forming part of the Park Plaza Westminster Bridge hotel; and
- b) the expiry of the period of guaranteed returns to purchasers (i.e.5 years from the last completion),

provided that the relevant date shall not in any event be later than 31 December 2017.

As long as control over 1WMB, and therefore the indirect control over the aparthotel units, stays within the Group, all of the conditions for derecognition of the aparthotel units are not met. Hence, in these financial statements the assets have not been derecognised and the proceeds received from the purchasers have been accounted for as an advance payment until such time as they can be recognised as revenue (see Note 2a).

NOTE 5:- BANK BORROWINGS

	<u>Bank loan in GBP</u>	<u>Bank loan in € € '000</u>	<u>Total</u>
Cost:			
Balance as at 1 January 2010	380,357	69,375	449,732
Proceeds of loans	12,078	13,982	26,060
Repayment of loans	(113,403)	(427)	(113,830)
Adjustment for exchange rate differences	27,039	-	27,039
Balance as at 30 June 2010	<u>306,071</u>	<u>82,930</u>	<u>389,001</u>

As at 30 June 2010, Marlbray Limited had completed the sale of 366 units in the Park Plaza Westminster Bridge. The net proceeds from the sale of these units were used to repay the Bank Hapoalim loan, of which £151.1 million (€185.0 million) was outstanding as at 30 June 2010.

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

- a. On 28 April 2010, the Group acquired one of the largest conference hotels in The Netherlands, located near Amsterdam Schiphol Airport. The property was acquired for approximately €30.0 million (attributable to the Group €15.0 million) from Melbourne Onroerende Zaken B.V. and is owned through Schiphol Victoria Hotel C.V., a joint venture controlled 50:50 by the Company and Elbit Imaging Ltd ("Elbit"). The Company and Elbit each contributed equity of approximately €1.0 million as consideration for the acquisition. The property, formerly operated as the 'Holiday Inn Amsterdam Schiphol', opened in 2007 and offers 342 contemporary guestrooms, bringing the Company's total number of rooms in The Netherlands to over 1,000. With over 1,800 square metres of flexible meeting space, this hotel is among the top meeting locations in The Netherlands. Other key destinations such as Amsterdam, Haarlem and Hoofddorp are also within easy reach. Given its close proximity to Amsterdam Schiphol Airport, the hotel was re-branded as Park Plaza Amsterdam Airport.

The fair value of the identifiable assets and liabilities as at the date of acquisition and the corresponding carrying amount immediately before the acquisition are:

	Fair value recognised on acquisition	Previous carrying amount
	€'000	€'000
Fixed assets	15,293	15,293
Trade receivables	350	350
Other current assets and liabilities	304	304
	<hr/> 15,947	<hr/> 15,947
Bank loans	-	-
Trade creditors	(142)	(142)
Other currency payables and accruals	(394)	(394)
	<hr/> (536)	<hr/> (536)
	<hr/> 15,411	<hr/> 15,411
Negative goodwill	<hr/> (293)	<hr/> -
Total consideration	<hr/> <hr/> 15,118	<hr/> <hr/> -

The negative goodwill is an outcome of the benefit that the Company sees from adding Park Plaza Amsterdam Airport to the Company's portfolio as a result of a bargain purchase.

The acquisition was financed via an increase to the existing facility with Aareal Bank AG. The amended facility, the maturity of which has been extended to 27 April 2017, has a value of €111.0 million (attributable to the Group €57.0 million) and includes €5.0 million for renovations and updates to the hotels in order to strengthen their market position. The increased facility is secured by the Park Plaza Victoria Amsterdam (owned through a joint venture with Elbit), the Park Plaza Utrecht (owned through a joint venture with Elbit), the Park Plaza Mandarin Eindhoven (100% owned by the Group) and the Park Plaza Amsterdam Airport (owned through a joint venture with Elbit). There is no other recourse to any other part of the Group.

- b. On 22 June 2010, Marlbray Limited entered into a deed of amendment to the credit agreement dated 19 April 2007 with Bank Hapoalim, as amended and restated from time to time, which the extended the final maturity date to 31 August 2010. This has subsequently been further extended to 31 October 2010.
- c. On 28 May 2010 Victoria Monument B.V. entered into a deed of amendment to the credit agreement dated 14 December 2006 with Bank Hapoalim (amounting to €14.0 million, attributable to the Group €7.0 million), as amended and restated from time to time, under which the final maturity date had been extended to 30 November 2010. Management is in active ongoing discussions with Bank Hapoalim to replace the current credit facility before it

expires with a new facility to finance the development of the art'otel Amsterdam project.

- d. In March 2010 art'otel cologne GMBH, a wholly-owned subsidiary of the Group, opened the Group's 7th art'otel in Europe, art'otel cologne in Germany. The hotel offers 218 guest rooms and is located in a prime position on the bank of the river Rhine. The hotel is under an operational lease for a period of 20 years.

NOTE 7:- EVENTS AFTER THE BALANCE SHEET DATE

- a. On 4 August 2010 the Company acquired, through its wholly-owned subsidiary, Euro Sea Hotels N.V. ("Euro Sea"), the entire issued share capitals of Hotel Leeds Holding B.V. ("Leeds"), Hotel Nottingham Holding B.V. ("Nottingham") and Nottingham Park Plaza Hotel Operator Limited ("NPPHOL") from Leno Hotel Holding B.V. ("Leno"), a wholly-owned member of the Red Sea group, for an aggregate cash consideration of £3.31 million.

The Company also acquired Leno Investment Limited ("Leno Investment"), a wholly-owned subsidiary of Leno, for £1. Prior to its acquisition by Euro Sea, Leno Investment acquired certain loans owed by Leeds and Nottingham ("the Loans") for an initial consideration of £5 million, which represented a substantial discount to the book value of the Loans. Of the initial consideration, £2 million was paid on completion of the acquisition of the Loans and the remaining £3 million has been deferred on a stepped interest bearing basis for up to 3 years. The balance of £3 million, repayment of which is guaranteed by Euro Sea, will become repayable on the occurrence of certain events, including a disposition of either of the hotels or any dilution of the Group's interest in Leno Investment. In addition, if there is a sale or other disposal of either or both of the leasehold interests in the hotels at any time during the next 2 years for an aggregate consideration in excess of £25 million, Leno Investment will be required to pay further consideration to the original lender in an amount equal to 50% of the excess. Euro Sea provided Leno Investment with the necessary funds to meet the initial payment for the Loans and has agreed to finance the deferred consideration payable when it becomes due.

As part of the agreement, the management fees owed by NPPHOL to Park Plaza Hotels Europe BV in the amount of £ 3.31 million (€ 4.0 million) were paid prior to the acquisition of NPPHOL by Euro Sea.

The Company has also acquired the entire issued share capital of Waterford Investments Limited ("Waterford") for £1. Waterford's principal assets are:

- (i) the freehold of the Park Plaza Leeds hotel (held through Waterford's wholly-owned subsidiary, Laguna Estates (Leeds) Limited ("Laguna")).
- (ii) a long lease of the main site of the Park Plaza Nottingham hotel which runs until 2145 (held through Waterford's wholly-owned subsidiary, Katmandu Limited ("Katmandu")); and
- (iii) a long lease of land for storage use adjoining the Park Plaza Nottingham hotel which runs until 2061 (held through Katmandu).

Laguna has a term facility from The Royal Bank of Scotland plc. Prior to completion of the acquisition of Waterford, the Company provided Laguna with the funds to enable it to reduce the amount outstanding under this loan by £1.25 million, which was a condition of the bank's consent to the change of control of Waterford.

Following the repayment, approximately £13.72 million was outstanding. £12.6 million of the loan carries fixed interest until 2019 at 6.43% per annum and £2.3 million of the loan carries fixed interest until 2019 at 7.78% per annum. The loan is repayable in 2019.

Katmandu has a term facility from National Westminster Bank PLC, under which approximately £5.94 million was outstanding on acquisition. The loan carries fixed interest at 6.84% per annum and is repayable in 2027.

As part of the acquisition of Waterford, the Company's wholly-owned subsidiary, Park Plaza Hotels Europe Holdings B.V. ("PPHEH"), acquired a deep discount bond issued by Laguna in 2008 for approximately £2.7 million and which had on acquisition a carrying value in Laguna's books of £3.14 million, for a cash consideration of £2.0 million.

As a result of the transactions, the Park Plaza Leeds hotel and the Park Plaza Nottingham hotel are now owned as well as operated by the Park Plaza Group, which will facilitate the planned refurbishment of the two hotels.

The details of the effect of the acquisition on the Group's assets and liabilities have not been disclosed, as the Group is currently in the process of finalising the purchase price allocation

- b. Between the balance sheet date and 22 September 2010, the Company completed the sale of an additional 124 aparthotel units forming part of the Park Plaza Westminster Bridge project, making a total of 490 completions... The net proceeds from the sale of these additional 124 units has been used to make further repayments of the Bank Hapoalim loan, of which £110.6 million (€135.4 million) was outstanding as at 22 September 2010. At 22 September 2010 the buyers of 36 units had failed to meet their contractual obligations and Marlbray has rescinded the relevant contracts. Under the terms of the contracts the deposits paid by the buyers totaling £ 0.8 million (€1.0 million) have been forfeited and will be used to repay the loan.