

ANNUAL REPORT 2008  
BUILDING ON SOLID  
FOUNDATIONS

PARK PLAZA | HOTELS



Park Plaza®

Hotels & Resorts

artotel

## UNITED KINGDOM

Total rooms in 2008 1,874  
Total rooms under development 1,391  
Co-owned hotels  
Park Plaza Riverbank London  
Park Plaza Sherlock Holmes London  
Park Plaza Victoria London  
Plaza on the River - London  
Managed hotels  
Park Plaza County Hall London  
Park Plaza Leeds  
Park Plaza Nottingham  
Franchised hotels  
Park Plaza Belfast  
Park Plaza Cardiff  
Hotels under development  
art'otel london hoxton  
Park Plaza Westminster Bridge London

## GERMANY

Total rooms in 2008 1,250  
Total rooms under development 395  
Leased hotels  
art'otel berlin city center west  
art'otel berlin kudamm  
art'otel berlin mitte  
art'otel dresden  
Park Plaza Dresden  
Park Plaza Prenzlauer Berg Berlin  
Park Plaza Wallstreet Berlin  
Franchised hotels  
art'otel potsdam  
Park Plaza Trier  
Hotels under development  
art'otel cologne  
Park Plaza Nuremberg

## HUNGARY

Total rooms in 2008 165  
Leased hotel  
art'otel budapest

## IRELAND

Total rooms in 2008 155  
Franchised hotel  
Park Plaza Tyrrelstown Dublin

## CROATIA

Total rooms in 2008 2,810  
Co-owned hotels  
Re-development of Arenaturist portfolio

## THE NETHERLANDS

Total rooms in 2008 666  
Total rooms under development 100  
Owned hotels  
Park Plaza Mandarin Eindhoven  
Park Plaza Vondelpark, Amsterdam  
Co-owned hotels  
Park Plaza Utrecht  
Park Plaza Victoria Amsterdam  
Hotel under development  
art'otel amsterdam

## MOROCCO

Total rooms under development 184  
Franchised hotels under development  
Park Plaza Marrakech  
art'otel marrakech

## BELGIUM

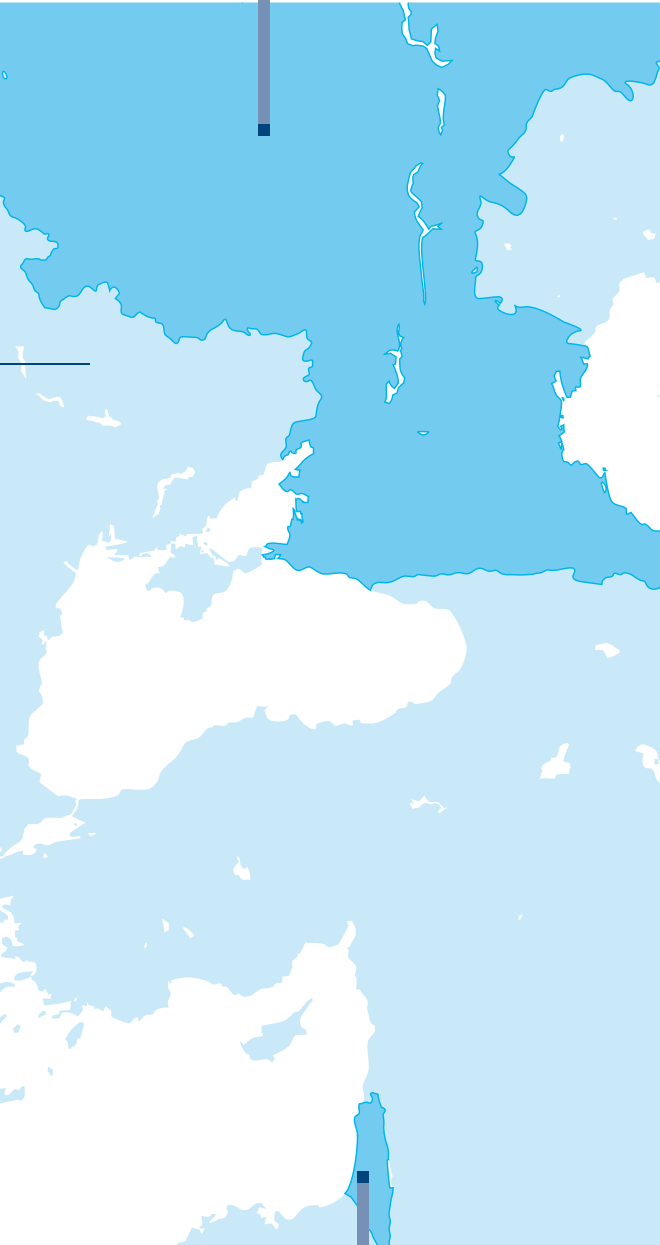
Total rooms in 2008 247  
Managed hotel  
Park Plaza Astrid Antwerp\*

\* Termination of management contract effective from 23 December 2008.

# GROUP AT A GLANCE

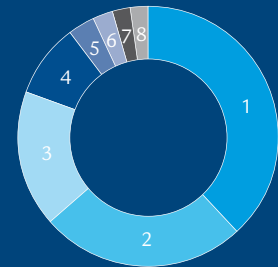
## RUSSIA

Total rooms under development 4,000  
Managed hotels  
Development of 15-20 Park Plaza Hotels



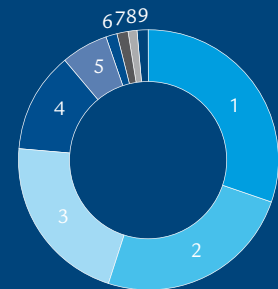
### 2008 ROOMS

1 CROATIA	2,810
2 UNITED KINGDOM	1,874
3 GERMANY	1,250
4 THE NETHERLANDS	666
5 BELGIUM	247
6 ISRAEL	182
7 HUNGARY	165
8 IRELAND	155



### 2012 PROJECTED ROOMS

1 RUSSIA	4,000
2 UNITED KINGDOM	3,265
3 CROATIA	2,810
4 GERMANY	1,645
5 THE NETHERLANDS	766
6 MOROCCO	184
7 ISRAEL	182
8 HUNGARY	165
9 IRELAND	155



## ISRAEL

Total rooms in 2008 182  
Franchised hotel  
Park Plaza Orchid Tel Aviv

# FINANCIAL HIGHLIGHTS

Year ended 31 December<sup>1</sup>

	2008	Unaudited proforma 2007
Occupancy	79.8%	82.4%
Average Room Rate	€113.9	€118.8
RevPAR <sup>2</sup>	€90.3	€ 97.1
Total Revenue	€93.4m	€97.0m
EBITDA <sup>3</sup>	€24.7m	€28.4m

1. Park Plaza Hotels Limited was incorporated and registered in Guernsey on 14 June 2007. However, the merger of Euro Sea Group and acquisition of Park Plaza Group did not take place until 17 July 2007. Therefore, all 2007 figures are like-for-like, unaudited proforma results.

2. Revenue per available room.

3. Earnings before interest, tax, depreciation and amortisation.

- Solid financial performance against backdrop of significantly deteriorating trading conditions in the second half
- Reported revenue affected by the 14% reduction in average Sterling to Euro exchange rate, as United Kingdom hotels account for approximately 40% of Group revenue
- Hotels in the United Kingdom and The Netherlands outperformed their local markets again (Source: TRI Hospitality December 2008)
  - United Kingdom: Underlying RevPAR for owned and co-owned hotels up by 2.5% vs. 1.2% for the London market as a whole
  - The Netherlands: RevPAR for Park Plaza Victoria Amsterdam down only 1.4% vs. 8.5% decline for the Amsterdam market as a whole
- EBITDA primarily affected by Sterling devaluation, on-going difficult markets in Germany and Hungary and costs incurred in relation to transactions completed during the year
- Excellent progress made towards expanding the Group's portfolio in 2008:
  - Increased shareholding in the Park Plaza Westminster Bridge London project to 100%; on schedule for 2010 opening
  - Opened Park Plaza County Hall London in February
  - Agreed joint venture with Reuben Brothers to develop UK's first art'otel in Hoxton, London
  - Acquired shareholding in, and agreed management contract of, a Croatian company that owns a large resort on the Istrian coast
  - Extended franchise agreement in Morocco to include a new art'otel in Marrakech
  - Signed management contract with Ferens Management Ltd for a chain of new hotels in Russia; expected to be developed from 2010 onwards

## POST BALANCE SHEET

In April 2009 Park Plaza Hotels announced that its wholly owned subsidiary, Marlbray Limited, signed an agreement with Bank Hapoalim to increase its existing bank facility loans of the Park Plaza Westminster Bridge London project. The loan now covers the total project development cost (see Note 32).

Cover image: art'otel berlin city center west, Germany.

OUR OBJECTIVE IS TO  
BECOME THE LEADING  
HOTEL OWNER/  
OPERATOR IN THE  
FOUR-STAR DELUXE  
AND BOUTIQUE HOTEL  
MARKETS IN EUROPE,  
THE MIDDLE EAST AND  
NORTH AFRICA.

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# CHAIRMAN'S STATEMENT



## WELCOME

I am pleased to present Park Plaza Hotels' second Annual Report. 2008 was a year of two halves. The effects of a slowdown in economic conditions in some markets during the first half were compounded by the unprecedented global financial crisis during the second half of the year.

### A HISTORY OF GROWTH

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Park Plaza Mandarin Eindhoven opened				Acquired Park Plaza Victoria Amsterdam	Obtained Park Plaza Hotels & Resorts territorial license for four countries	Park Plaza Utrecht opened					Obtained Park Plaza Hotels & Resorts territorial license for a further 52 countries Entered agreement to operate art'otels in Germany and Hungary Agreement to operate Park Plaza Hotels in Germany

“I am pleased to report a solid financial performance by the Group in 2008 with our hotels in the United Kingdom and The Netherlands outperforming their local markets on an underlying basis.”

The combination of these factors has undoubtedly had a profound effect on both corporate and consumer confidence impacting almost all industries around the world.

Overall European hotel performance in the first six months of 2008 was reasonable. Room revenues and profits continued to grow in most city markets, with average room rates remaining robust despite pressure on occupancy rates. However, in the second half of the year the economic environment reduced demand for hotel rooms in Europe.

#### FINANCIAL PERFORMANCE

Against this backdrop, I am pleased to report a solid financial performance by the Group in 2008 with our hotels in the United Kingdom and The Netherlands outperforming their local markets on an underlying basis. Total revenue for the year was €93.4 million (2007: €97.0 million) and was affected by the 14% devaluation of Sterling, as approximately 40% of the Group's total hotel revenue is derived from our hotels in the United Kingdom. Group RevPAR was €90.3 (2007: €97.1), impacted by the Sterling devaluation and an increasingly challenging trading environment, especially in the second half.

Group EBITDA at €24.7 million (2007: €28.4 million) was also primarily impacted by the weakening of Sterling. The performance of our hotels in Germany and Hungary and non-recurring transaction related costs and those associated with our status as a public company also had a significant impact on EBITDA.

Further details on the Group's net debt and cash positions can be found in the Chief Financial Officer's Review on page 16 of this report.

#### DIVIDEND

The Board has reviewed its dividend policy and, given the current market and trading, it does not believe that it is prudent to commence payment of a dividend at this time.

#### COLLEAGUES

Once again our solid financial performance this year was achieved thanks to the efforts of our nearly 2,000 staff. I would like to take this opportunity to express the thanks of the Board to every member of our team for their continued hard work and commitment to delivering excellent customer service. Their professionalism, enthusiasm and dedication are differentiating factors for Park Plaza Hotels and are central to the success of the Group.

#### LOOKING FORWARD

2009 will be a challenging year for the hotel industry as the uncertain economic and financial environment continues to impact visibility. Expansion of hotels in the sector may be delayed and affected by the lack of credit available to fund the projects.

Despite these challenges, we are confident that over the longer term there remain significant growth opportunities for the Group within the markets in which we operate. A number of projects, including a Park Plaza Hotel and an art'otel in Marrakech as well as an art'otel in Cologne, are expected to open in 2009 and our flagship Park Plaza Westminster Bridge London is on schedule to open in 2010. Our pipeline remains strong and we continue to make progress across our development projects albeit, in some cases, opening schedules will be reviewed.

At Park Plaza Hotels we have an extremely experienced team that has managed hotels through difficult times before. We believe that the quality of our hotel portfolio, our two distinct brands and our strategic partnership with Carlson Hotels Worldwide will prove all the more valuable in 2009 and position the Group well for further progress.



Eli Papouchado  
Chairman

2001	2002	2003	2004	2005	2006	2007	2008	>
Three new hotels opened in London and Berlin	Carlson Hotels acquired the Park Plaza Hotels & Resorts brand Park Plaza Nottingham opened	Two new hotels opened in Trier and Leeds	Park Plaza Belfast opened	Three new hotels opened in Cardiff and London	Acquisition of Amsterdam hotel project Five new hotels opened in Amsterdam, Berlin and Dublin	Acquired the art'otel brand Acquisition of Nuremberg hotel project Successful IPO on London's AIM market	Ownership stake in, and management of, Arenaturist Croatia Acquired full ownership of the Park Plaza Westminster Bridge London project Joint venture to develop 15-20 hotels in Russia Joint venture to develop art'otel london hoxtton Park Plaza County Hall opened	

# CHIEF EXECUTIVE OFFICER'S REVIEW



## WELCOME

The Group delivered a solid financial performance in 2008, against a backdrop of significantly deteriorating economic and trading conditions in the second half of the year, with our hotels in the United Kingdom and The Netherlands again outperforming their local markets.

This performance was achieved thanks to the operational expertise of our management and marketing teams, through further leveraging the benefits of our strategic partnership with the Carlson Hotels network and keeping tight control over the Group's cost base.

### DEVELOPMENTS

The Group made excellent progress towards the achievement of its goal to have over 8,000 rooms in its portfolio by 2010. Among the transactions completed during the year are the increase in the Group's shareholding in the Park Plaza Westminster Bridge London project to 100%, a joint venture agreement with the Reuben Brothers to develop the United Kingdom's first art'otel in London and the acquisition of a shareholding and management contract in a Croatian company that owns a large resort on the Istrian coast. In addition, we opened the Park Plaza County Hall London, extended our franchise agreement in Morocco and signed a management contract for a chain of new hotels in Russia, expected to be developed from 2010 onwards.

### CARLSON HOTELS PARTNERSHIP

Our strategic partner Carlson Hotels opened its 1,000<sup>th</sup> hotel in December and in Asia Pacific Carlson has 12 new Park Plaza<sup>®</sup> Hotels & Resorts under development in key cities including Beijing, Delhi and Bangkok. Once open, we expect these to provide the Group with even greater cross-marketing opportunities and increase brand awareness in this region. During the year, we have been successful in better leveraging Carlson's powerful distribution network and marketing programmes and have seen a record contribution from their reservation system. We have also implemented aggressive marketing strategies for the rapidly growing global guest reward programme, goldpoints plus<sup>sm</sup> (with more than 4.2 million members), and have experienced significant contributions through an improved online presence and a range of email marketing initiatives.

We were also pleased to add Air China and Jet Airways to the list of frequent flyer programmes with which we have negotiated agreements. These arrangements support the broadening of our client base and generate valuable exposure for the Park Plaza Hotels & Resorts brand. We now have 21 agreements in place, covering all the major global carriers, including KLM/Air France, SAS, Lufthansa, British Airways, JAL, Cathay Pacific, American Airlines and United Airlines.

“We believe our performance since the beginning of the year is testament to the quality of our portfolio, our expertise in managing through difficult markets and the importance of our strategic relationship with the Carlson network.”

#### QUALITY EXPERIENCES

Quality of service standards, guest and employee satisfaction and people development are extremely important to our business. Two important initiatives were put in place during the year to support our goals in these areas. The introduction of Medallia, one of the industry's leading online guest satisfaction survey systems, in all our hotels and a company-wide training programme Connect!

With nearly 10,000 completed surveys collected through Medallia in the first five months, this powerful tool has really helped us to better respond to customer needs and build loyalty.

The Connect! training programme was created to ensure that our staff are consistently exceeding guest expectations, improving their performance and creating unique service solutions for our guests.

Furthermore, we are proud to report that our second Employee Satisfaction Survey reflects an increase in staff satisfaction, notwithstanding the difficult trading environment they have worked in, especially during the second half. All our staff have done great work during the year and I and the Board are extremely grateful for their commitment and dedication.

#### CURRENT TRADING AND OUTLOOK

Since the beginning of 2009 trading conditions have continued to be difficult in our markets. As previously indicated, the global economic downturn has reduced visibility and continues to put pressure on occupancy and average room rates. As a result, we continue to anticipate that 2009 will be a very challenging year for the industry.

Clearly, the Group is not immune from these market conditions. Nonetheless, since the beginning of 2009, RevPAR at our hotels in the United Kingdom and The Netherlands has continued to outperform that of the local markets.

The London hotel market has continued to be challenging with revenue for the first two months of the year down 12.5% (Source: TRI Hospitality Report February 2009). For the first 12 weeks of the year the Group's hotels in the United Kingdom have achieved revenue that is broadly flat. EBITDA during this period has improved slightly compared to the first 12 weeks of last year, having benefited from the cost control initiatives we have put in place.

The Dutch market has remained extremely weak since the beginning of the year. Occupancy rates in Amsterdam for January were 50.4% (Source: STR Global January 2009) and some market participants estimate that occupancy rates remain at this level.

The Group's hotels have continued to outperform in terms of occupancy relative to the market and are growing market share. Nonetheless revenue and EBITDA for the first 12 weeks of the year are down in the order of 20-25% on the comparative period last year.

In Germany and Hungary revenue for the Group's hotels is flat compared to the first 12 weeks of last year. Revenues from our management and holdings operation are marginally lower for the first 12 weeks of the year.

We continue to be focused on stringent management of our cost base and in adapting our marketing and selling strategies to mitigate the slowdown in the markets. We believe our performance since the beginning of the year is testament to the quality of our portfolio, our expertise in managing through difficult markets and the importance of our strategic relationship with the Carlson network. Our membership in this network provides the Group with access to Carlson's large-scale and effective marketing programmes, reservation and distribution systems – a significant advantage not enjoyed by smaller hotel companies.

In 2009, we will build further on the success of these initiatives. We will also be launching a new art'otels website on Carlson's web technology platform, which will generate additional revenue and increase awareness of this appealing and growing brand.

We are also well advanced in achieving our 2010 room target and are actively working towards the completion of refurbishments and important projects in our development pipeline, including the Park Plaza Westminster Bridge London project, the art'otel london hoxton and our Croatian development. These projects will all contribute to growing the longer term prospects of the Group. Although 2009 will be a difficult year, we believe the Group is well positioned to efficiently manage its operations and expansion projects and achieve further progress during the year ahead.



Boris Ivesha  
Chief Executive Officer

# ADOPTING A FLEXIBLE TWO-BRAND APPROACH

What makes Park Plaza Hotels unique is our proven track record of carefully selecting the right business model for each hotel opportunity and then branding it correctly.

We operate most of our hotels under two different brands, Park Plaza Hotels & Resorts or art'otel, giving us the flexibility to operate different hotel products in different markets, appealing to different clients.

What our two brands share however is our strong service oriented culture, our focus on offering our guests quality experiences at reasonable rates and the global distribution and marketing muscle from our strategic partner Carlson Hotels Worldwide.



Park Plaza Vondelpark, Amsterdam, The Netherlands.





# Park Plaza®

## Hotels & Resorts

The Group holds the exclusive license to operate and develop hotels as part of Carlson Hotels Worldwide's Park Plaza Hotels & Resorts brand in 56 countries in Europe, the Middle East and Africa.

Park Plaza Hotels & Resorts sits comfortably within Carlson's family of brands which includes Carlson Wagonlit Travel, TGI Fridays, Regent® Hotels & Resorts, Radisson® Hotels & Resorts, Country Inns & Suites by Carlson<sup>SM</sup> and Park Inn® and is positioned in the mid to upscale end of the hotel market. Individual design, unique character, ideal city centre locations, excellent meeting facilities and value for money are key characteristics of the brand.

The brand has been truly transformed in recent years and fresh and contemporary Park Plaza Hotels & Resorts can now be found in cities such as Amsterdam, Bangkok, Beijing, Berlin, Tel Aviv and London.

Key future developments include London's largest hotel to open in 40 years, the Park Plaza Westminster Bridge, as well as new hotels planned for Nuremberg and in new markets for the Group such as Morocco, Croatia and Russia.

These new openings, in combination with aggressive marketing strategies and our global distribution network, ensure that awareness of the Park Plaza Hotels & Resorts brand among guests, clients, developers and investors will continue to grow.

[www.parkplaza.com](http://www.parkplaza.com)



art'otel berlin city center west, Germany.

## art'otel

The Group acquired the art'otel brand in July 2007, and in conjunction with Park Plaza Hotels & Resorts, the brand is represented in all Carlson Hotels' systems.

Located in key cultural destinations, each art'otel is a contemporary blend of modern art and striking architecture and features original artworks from a signature artist.

Having operated several art'otels since 2000, we have made significant progress since our acquisition of the brand to further develop its market position and customer appeal.

Not only have two of the brand's properties in Berlin been extensively renovated, we have also refreshed the brand's identity, appointed new management, launched a new food concept in several of the hotels and developed a new brand website on Carlson's award-winning technology platform.

All this has been done with expansion in mind as new art'otels have already been planned for cultural hotspots such as Cologne, Marrakech, Amsterdam and London.

[www.artotels.com](http://www.artotels.com)

# RESPONDING TO CUSTOMER NEEDS

Within our industry it is important to always deliver the best possible service and product experience.

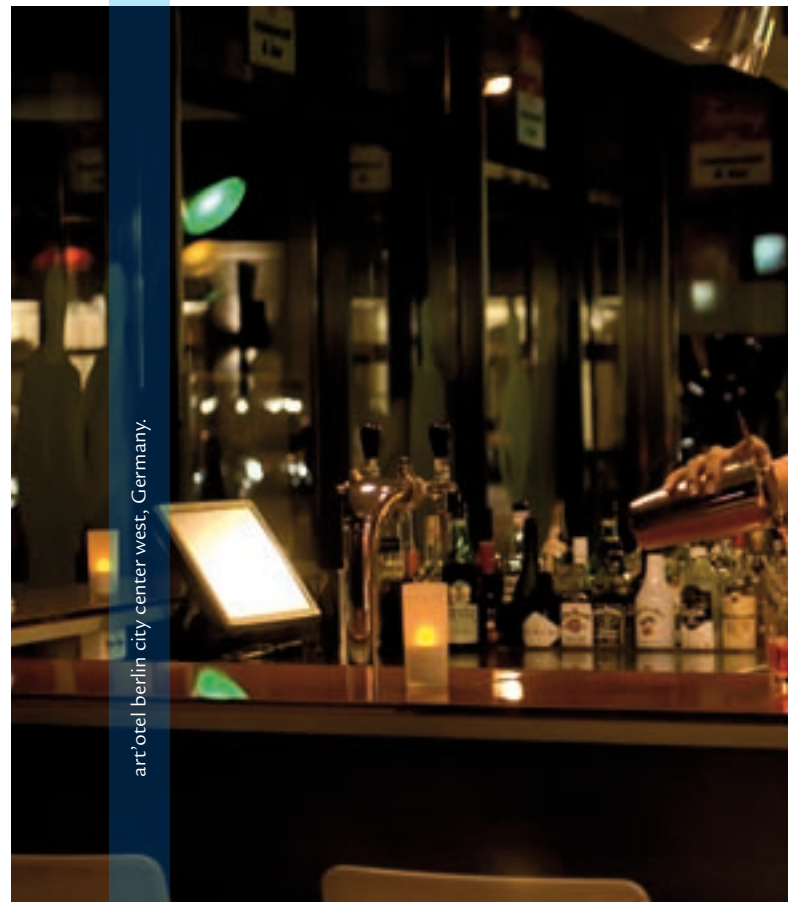
Our product offering is after all largely made up of service elements and we only have one chance to get it right. Customer preferences and expectations have changed dramatically in the last few decades with, what were once USPs such as Wi-Fi internet, air-conditioning, power showers, flat screen TVs, healthy menu options and pillow menus now taken for granted, if not expected.

To ensure Park Plaza Hotels continues to meet, or where possible exceed, our customers' expectations we introduced the web based Medallia Customer Satisfaction tool in 2008. In the first five months after launch we generated over 10,000 completed guest surveys at our hotels which have enabled us to really focus on what we do best, and improve our product and service offering where required.

As we progress, our database with customer needs, preferences and suggestions will continue to grow and we are in a better position than ever before to further build guest loyalty and better understand our guests' needs, all with increased guest satisfaction and driving repeat stays in mind.



art'otel dresden, Germany



art'otel berlin city center west, Germany



Be  
**Inspired!**  
**Individual.**  
**Passionate.**



Park Plaza Cardiff, the United Kingdom.

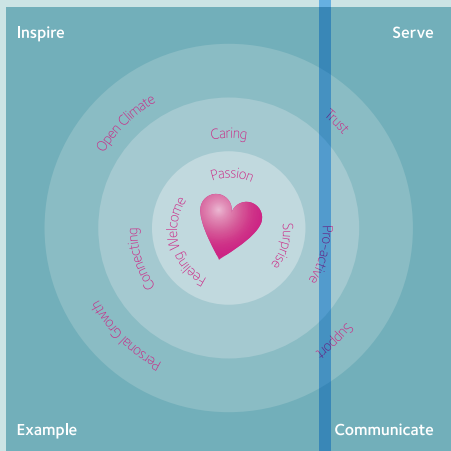
# IMPROVING SERVICE DELIVERY THROUGH LEARNING AND DEVELOPMENT



Connect!

learning and development

The desired context



- Desired guest experience
- Park Plaza working climate
- Park Plaza behaviour
- Park Plaza leadership

Connect! workshop activity.



Our staff are the cornerstone of our business and their loyalty, satisfaction and development is vital to the success of the Group. In order to ensure that our staff are consistently exceeding guest expectations, constantly improving their performance and creating unique service solutions for our guests we introduced Connect!, a tailor-made training programme, in April.

In the first half of 2008, all our employees, including agency staff, participated in a one-day workshop during which the focus was on how each individual could contribute to delivering a memorable guest experience. The training was extremely well-received by our teams, the participation ratio was very high and we have seen numerous improvements in customer focus as a result of the training.

Despite the challenging market conditions, the Connect! training programme was seen as a real success and the company has decided to continue to invest in service culture programmes such as these.

Furthermore, we are proud to report that our second Employee Satisfaction Survey reflects an increase in staff satisfaction, notwithstanding the difficult trading environment they have worked in, especially during the second half.

# LEVERAGING THE BENEFITS OF GLOBAL PARTNERSHIPS

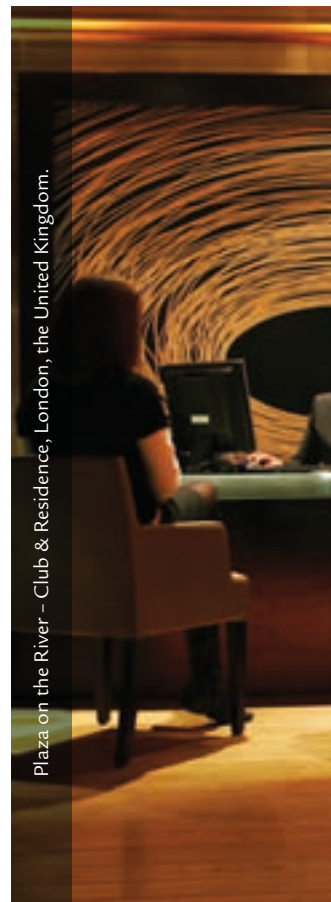
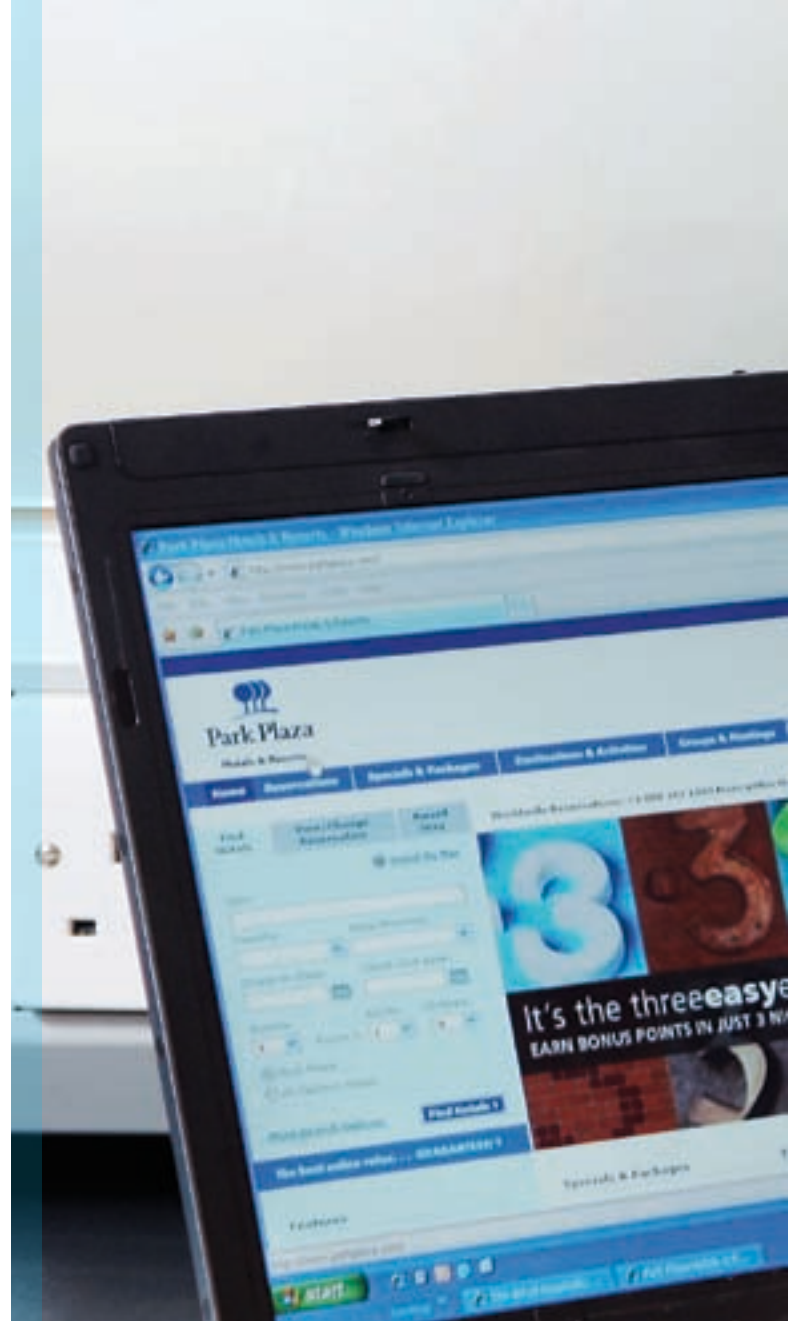
Global distribution and connections are fundamental to today's fast moving market.

Through our affiliation with industry giant Carlson Hotels Worldwide, which opened its 1,000<sup>th</sup> hotel in 2008, we benefit from these global distribution and powerful marketing programmes normally available to larger organisations only. The difference however is that we retain the flexibility and speed of reaction of a much smaller organisation.

Park Plaza Hotels has experienced a record contribution from Carlson's reservation system in 2008, largely driven by a significant shift to the online distribution channels, including the brand websites.

Other contributing factors are the rapidly growing goldpoints plus guest reward programme, with over four million members, and look to book<sup>®</sup>, which remains one the most popular reward programmes for travel agents.

We have also extended our network of airline partners (which now includes 21 of the world's main carriers) by adding Air China and Jet Airways. These two new partners will provide us with brand marketing opportunities to key strategic markets which are guaranteed to change – and perhaps dominate – the hospitality landscape in the next few decades.



Plaza on the River – Club & Residence, London, the United Kingdom.



Case studies



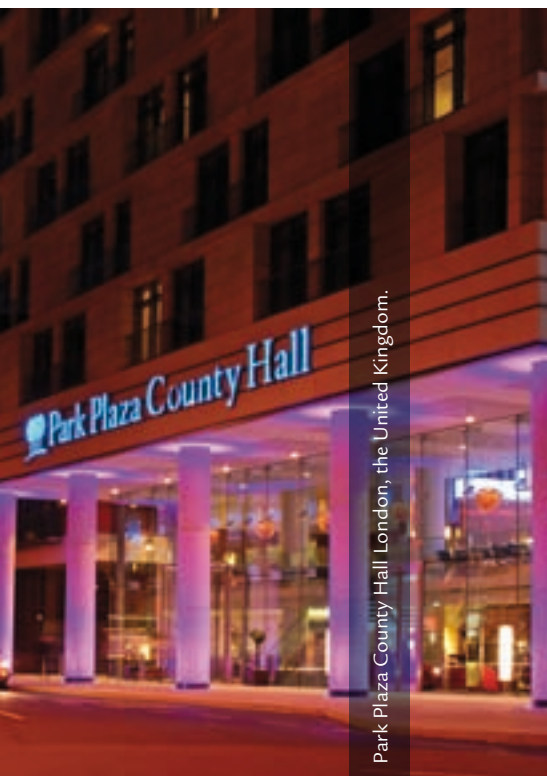


Park Plaza County Hall London, the United Kingdom.





Park Plaza Westminster Bridge London, the United Kingdom.



Park Plaza County Hall London, the United Kingdom.

## BUILDING ON SOLID FOUNDATIONS BY

# TURNING PIPELINE INTO PROFIT

2008 was a milestone year for Park Plaza Hotels with our investment in and development of London's South Bank continuing to grow. Since opening in February, Park Plaza County Hall London has enjoyed record-breaking results and its enviable position close to London's premier river-side attractions has ensured its ranking as one of the capital's leading hotels.

In the same year, Park Plaza Hotels increased its shareholding in the Park Plaza Westminster Bridge London project, located opposite Park Plaza County Hall, to 100%. We are pleased to report that we are very advanced in putting a solid foundation in place to ensure a successful opening of this prestigious, landmark development in early 2010.

The General Manager for London's largest hotel to open in 40 years joined us from one of the largest Conference Hotels in the United Kingdom, the Hilton Birmingham Metropole. We were also quick to appoint a pre-opening sales team, engineers and an experienced Marketing Director.

The hotel has already been showcased at several of the industry's leading tradeshow, the PR campaign is due be implemented shortly and several promotional events have already taken place. Initial feedback from prospective clients has been highly encouraging and we are taking enquiries for large meetings and events as far out as 2013.

A development of this scale, along with our key hotels in the nearby vicinity – Park Plaza Riverbank and Park Plaza County Hall – allows us to target large associations and offers new marketing opportunities given the wealth of facilities on offer.

# CHIEF FINANCIAL OFFICER'S REPORT



## WELCOME

Total revenue for the year was €93.4 million (2007: €97.0 million). Reported revenues were affected by the 14% reduction in the average Sterling to Euro exchange rate during the year, as our hotels in the United Kingdom account for approximately 40% of the Group's total hotel revenue.

### REVPAR

Reported Group RevPAR for the year was €90.3 (2007: €97.1) reflecting both the impact of Sterling devaluation and the increasingly challenging trading environment, particularly in the second half of the year. On a constant currency basis, Group RevPAR increased by 1.4%.

### EBITDA

Group EBITDA was €24.7 million (2007: €28.4 million), primarily as a result of the devaluation in Sterling during the year. EBITDA was also affected by the performance of our hotels in Germany and Hungary, the costs incurred in relation to the transactions that were completed in 2008 and the full year costs related to our status as a listed company.

### PROFIT

Reported profit before tax was €7.9 million (2007: €22.1 million), after negative goodwill adjustments of €6.5 million and impairment charges of €2.3 million. Excluding these adjustments, the Group's 2008 underlying profit before tax was €3.7 million (2007: underlying loss before tax €0.1 million). Additional detail on the negative goodwill and impairment adjustments can be found in Notes 3, 5 and 6 in the financial statements.

### EARNINGS PER SHARE

Basic earnings per share for the period were €0.19 (2007: €0.78). Details on the calculation of earnings per share are provided in Note 27 in the financial statements.

### DEBT POSITION AND GOING CONCERN

As at 31 December 2008, net debt was €282.3 million (as at 30 June 2008: €267.9 million), and the Group had €54.6 million of liquid assets, of which cash and cash equivalents were €33 million (as at 30 June 2008: €60.1 million) and UK Treasury bond investments maturing on 7 March 2009 were €21.6 million (as at 30 June 2008: nil). The movement in the net debt position is primarily a result of increased current liabilities for the financing of construction of the Park Plaza Westminster Bridge London project. 818 of the 1,021 rooms have been sold and the €53.6 million of deposits received are held on the balance sheet as restricted deposits which are excluded from the €54.6 million liquid assets above. The financing for this project will be reimbursed from the sales of the Apart-hotel units. The remainder of the change in the cash position results from the devaluation of Sterling.

“Reported revenues were affected by the 14% reduction in the average Sterling to Euro exchange rate during the year, as our hotels in the United Kingdom account for approximately 40% of the Group’s total hotel revenue.”

The Group’s €42.3 million banking facility for three of its owned/co-owned Dutch properties matures in September. The Group intends to refinance this facility and is currently in discussions with the lenders. A further update will be provided as appropriate.

The Group believes that its excellent hotel portfolio, characterised by both geographical and size diversity, in addition to the strong management teams and distribution capabilities, is attractive to banks, notwithstanding the current banking climate.

The Board reviews the Group’s financial resources as a matter of course and is confident that the Group has adequate resources to meet its ongoing requirements and hence have prepared the financial statements on a going concern basis.

#### SAP CONSOLIDATION SOFTWARE

In the course of 2008 the Group implemented SAP consolidation software across the organisation and introduced new controls, policies and procedures. SAP not only helps us to improve the consolidation and reconciliation process, it also enables us to better set our goals and monitor and manage performance from high-level objectives to operational metrics. SAP gives us new financial control mechanisms and improves both statutory and management reporting and decision making.

#### RESPONDING TO CHANGING ENVIRONMENTS

With much uncertainty in the market, and the hotel industry under pressure in particular, the Group has been forced to extensively review its organisation and take a number of precautionary steps.

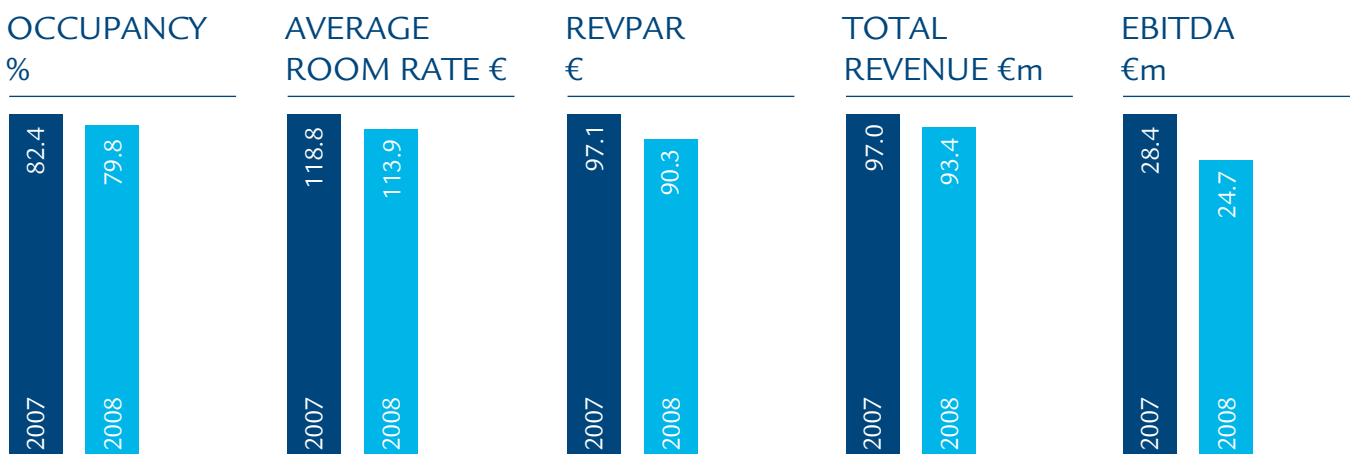
However, as our employees are at the heart of our organisation and the consistent delivery of a high quality guest experience is paramount to our long term success, we have decided to continue with a number of essential learning and development initiatives, such as the Connect! Training programme, company staff events and employee satisfaction surveys. The latter of which was conducted in November 2008, and despite the turbulent business climate in which our staff operate, and in combination with some of the difficult decisions we have had to make, our staff satisfaction rate increased.

#### DEVELOPMENTS AND CAPEX

During the year we continued to work towards our target of having over 8,000 rooms in our portfolio by 2010. A number of transactions were completed during the first half and we continued to progress the development of these and other projects in the remainder of the year. In 2009, we will continue refurbishment plans for the portfolio, although in light of current market conditions, we will be re-visiting opening schedules for our new hotels in order to optimise capital investment and returns.



Chen Moravsky  
Chief Financial Officer



Comparative results (2007) are like-for-like, unaudited proforma results.



art'otel budapest, Hungary.

# REVIEW OF 2008

## GERMANY AND HUNGARY

### HOTELS

Germany

Park Plaza Prenzlauer Berg Berlin

Park Plaza Wallstreet Berlin

Park Plaza Dresden

art'otel dresden

art'otel berlin mitte

art'otel berlin city center west

art'otel berlin kudamm

Park Plaza Trier\*

art'otel potsdam\*

Hungary

art'otel budapest

### OCCUPANCY

70.9%

### AVERAGE ROOM RATE

€69.2

### REVPAR

€48.8

### TOTAL REVENUE

€27.9m

### EBITDA

€(1.4)m

### OUR PERFORMANCE

As previously reported, oversupply of hotel rooms in Germany and Hungary has impacted performance, particularly in Dresden and Budapest. RevPAR for the Group's hotels in these countries was €48.8 (2007: €51.7), with a 7.8% decline in occupancy rates partially offset by a 2.4% increase in average room rates.

### REFURBISHMENTS

Renovations took place at art'otel berlin mitte and all guest rooms and suites were completed during the first half of 2008.

### UNDER CONSTRUCTION

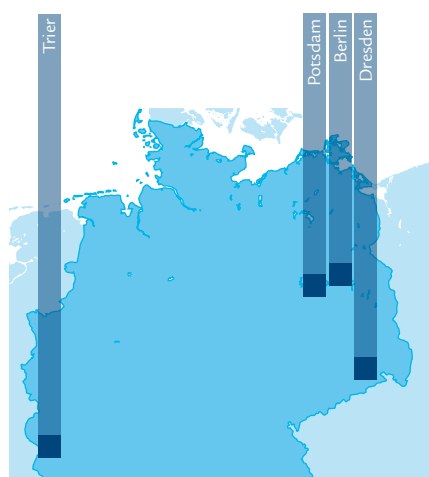
Construction is well under way at the brand new art'otel cologne which is scheduled to open late 2009. Located in the heart of the prestigious Rheinauhafen development, this hotel will be a welcome addition to our growing portfolio of contemporary and unique art'otels.

We have made good progress with the owned Park Plaza Nuremberg hotel project and were able to secure all necessary planning permissions in 2008. We anticipate building work will commence in 2009 with a planned hotel opening of 2010.

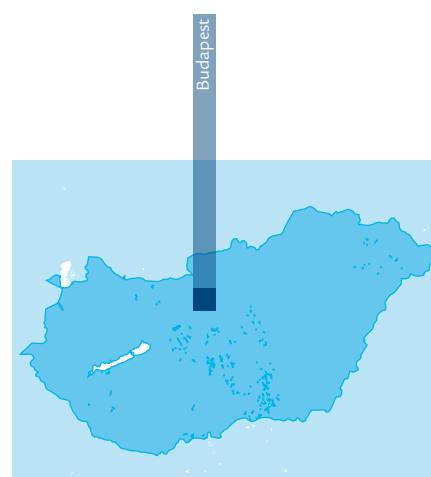
### AWARDS AND ACKNOWLEDGEMENTS

- art'otel budapest  
Best Value Hotel,  
Budget Travel Magazine
- art'otel budapest  
Top 100 Best Value Hotel 2008,  
TripAdvisor.com

### GERMANY



### HUNGARY



\* Franchised hotels do not count towards any of the above figures presented (Occupancy, Average Room Rate, RevPAR, Total Revenue, EBITDA).

Comparative results (2007) are like-for-like, unaudited proforma results.



Park Plaza Utrecht, The Netherlands.

# REVIEW OF 2008

## THE NETHERLANDS

### HOTELS

Park Plaza Victoria Amsterdam  
Park Plaza Vondelpark, Amsterdam  
Park Plaza Utrecht  
Park Plaza Mandarin Eindhoven

### OCCUPANCY

89.5%

### AVERAGE ROOM RATE

€125.9

### REVPAR

€113.2

### TOTAL REVENUE

€22.9m

### EBITDA

€8.4m

### OUR PERFORMANCE

In The Netherlands, RevPAR was €113.2 (2007: €112.5) with occupancy and average room rates remaining stable. This performance was achieved despite a decline in occupancy rates in the Dutch hotel market as a whole, particularly in Amsterdam where RevPAR for the industry declined by 8.5% during the year (Source: TRI Hospitality Report December 2008).

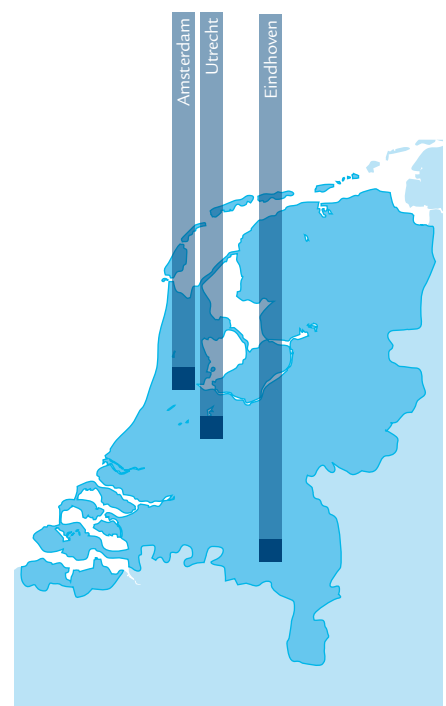
### REFURBISHMENTS

In the first half of the year, the Group's first ever hotel, Park Plaza Mandarin Eindhoven, was restyled. Half of the guest room stock, the lobby, bar, lounge, leisure facilities and breakfast restaurant were extensively renovated.

A selection of guest rooms at Park Plaza Utrecht has been refurbished and all signage at Park Plaza Vondelpark, Amsterdam has been renewed to reflect its recent name change from Vondel Park Plaza Amsterdam.

### A NEW PROJECT

The refurbishment of an extension of the Park Plaza Victoria Amsterdam is due to be completed in 2010 and will add an additional 100 rooms to the Group's portfolio. This project is currently awaiting required permits and consents. Once these have been granted, we anticipate that the extension will become Amsterdam's first art'otel.



Comparative results (2007) are like-for-like, unaudited proforma results.



# REVIEW OF 2008 UNITED KINGDOM

## HOTELS

Park Plaza Sherlock Holmes  
London  
Park Plaza Victoria London  
Park Plaza Riverbank London  
Plaza on the River – London  
Park Plaza Belfast\*  
Park Plaza Cardiff\*  
Park Plaza County Hall London\*\*  
Park Plaza Nottingham\*\*  
Park Plaza Leeds\*\*

## OCCUPANCY

85.0%

## AVERAGE ROOM RATE

€153.9

## REVPAR

€127.5

## TOTAL REVENUE

€33.2m

## EBITDA

€10.3m

## OUR PERFORMANCE

In the United Kingdom, RevPAR for our London hotels was €127.5 (2007: €144.6). Our hotels outperformed the London market (Source: TRI Report December 2008) and on a constant currency basis RevPAR increased by 2.5%. This was achieved through stable occupancy and a slight improvement in average room rates.

## REFURBISHMENTS

In 2008 we renovated a selection of guest rooms at the Park Plaza Victoria London and the bar at the Park Plaza Riverbank London.

## UNDER CONSTRUCTION

We are also extremely pleased with progress made at the Park Plaza Westminster Bridge London project which has been 100% owned by the Group since February. This prestigious apart-hotel will be one of the largest hotel openings in the United Kingdom for 40 years and construction of the project is running on schedule and to budget for its 2010 opening. The General Manager, Marketing Director and sales teams were all put in place during the year. As a result of our already active pre-marketing of this property's rooms to potential guests, we have had an encouraging level of enquiries primarily relating to the state-of-the-art conferencing and events facilities.

Despite the current economic environment, we are also extremely encouraged that in addition to the 818 rooms already sold to investors, offers have been made for a number of additional rooms in early 2009.

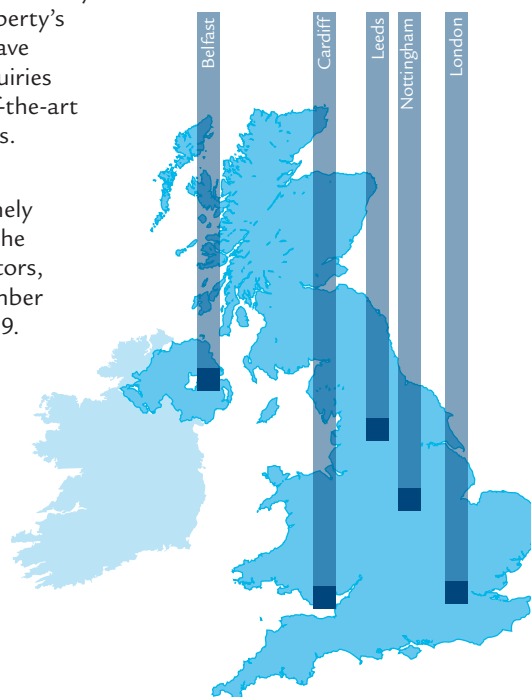
This has been achieved without any active marketing of the rooms to potential investors or the requirement to discount prices.

## A NEW PROJECT

London's first art'otel will be located in Hoxton and is being developed through a 50:50 joint venture created by the Group and the Reuben Brothers. 370 rooms are expected to be added to our portfolio through this project and good progress was made on the design of plans during 2008. Feedback on these from the local authorities has been positive and we anticipate moving the planning process forward in 2009, aiming to have all permissions in place by the end of the year.

## AWARDS AND ACKNOWLEDGEMENTS

- Plaza on the River, Club & Residence London Achieves 5-star rating from The AA



\* Franchised hotels do not count towards any of the above figures presented (Occupancy, Average Room Rate, RevPAR, Total Revenue, EBITDA).

\*\* Managed hotels do not count towards any of the above figures presented (Occupancy, Average Room Rate, RevPAR, Total Revenue, EBITDA).

Comparative results (2007) are like-for-like, unaudited proforma results.



# REVIEW OF 2008 FRANCHISED AND MANAGED HOTELS

## FRANCHISED HOTELS

Park Plaza Trier, Germany  
art'otel potsdam, Germany  
Park Plaza Tyrrelstown  
Dublin, Ireland  
Park Plaza Orchid Tel Aviv, Israel  
Park Plaza Belfast, UK  
Park Plaza Cardiff, UK

## MANAGED HOTELS

Park Plaza Astrid  
Antwerp, Belgium\*  
Park Plaza Leeds, UK  
Park Plaza County Hall  
London, UK  
Park Plaza Nottingham, UK

## OUR PERFORMANCE

Our Management and Holdings operation performed well with revenue up 26% to €9.3 million (2007: €7.4 million). This increase was due primarily to strong trading at Park Plaza County Hall London and contributions from our operations in Croatia. It was achieved despite the negative exchange rate impact on our UK management fees.

## NEW OPENING

In February we opened our largest Park Plaza hotel to date, the Park Plaza County Hall London. This managed hotel has proven extremely popular with our guests and has been quick to secure a strong position in the highly competitive London hotel market.

## REFURBISHMENTS

Park Plaza Belfast introduced a new leisure facility, Park Plaza Leeds now provides Wi-Fi internet to its guests and Park Plaza Orchid Tel Aviv has been dramatically transformed with renovated guest rooms, the introduction of a brand new executive lounge, business centre and Wi-Fi internet as well as an upgraded dining room.

## UNDER CONSTRUCTION

Our territorial franchise partner is developing a Park Plaza hotel and art'otel in the heart of Marrakech, both of which are scheduled to open late 2009. These new openings will add nearly 200 guest rooms to our portfolio and represent our first step into the North African market.

## NEW PROJECTS

In April, the Group signed an agreement with Ferens Management Ltd to operate a chain of new hotels in Russia under 20 year management contracts. These hotels are expected to be established from 2010 onwards under the Park Plaza Hotels & Resorts brand. Market conditions in Russia have deteriorated significantly since this agreement was signed, therefore whilst we have continued to actively review sites, project time-lines have been revised to account for the changed economic backdrop.

## AWARDS AND ACKNOWLEDGEMENTS

- Park Plaza Tyrrelstown Dublin Best Business Growth 2008, Fingal Business Awards
- Park Plaza Leeds Chino Latino Restaurant of the year, Leeds Restaurant Association 2008
- Park Plaza County Hall London Business Development Team of the year, Travel Trade Gazette 2008
- Park Plaza Nottingham Chino Latino Best Oriental Restaurant 2008, Nottingham Evening Post Restaurant Awards

\* Termination of management contract effective from 23 December 2008.  
Comparative results (2007) are like-for-like, unaudited proforma results.

# REVIEW OF 2008 CROATIA

Arenaturist is one of Croatia's largest and best known hospitality companies and is well positioned to benefit from the growth Croatia has been experiencing in recent years.





Artist impressions, Arenaturist re-development.

#### HOTELS

Hotel Histria  
 Hotel Medulin  
 Hotel Brioni  
 Hotel Park  
 Hotel Palma  
 Hotel Holiday  
 Hotel Belvedere  
 Hotel Riviera

#### RESORTS

Villas Verudela Beach  
 Verudela Beach Apartments  
 Punta Verudela Resort  
 Horizont Resort  
 Splendid Resort  
 Ai Pini Medulin Resort

[www.arenaturist.com](http://www.arenaturist.com)  
[www.arenacamps.com](http://www.arenacamps.com)

#### MANAGEMENT AND PART OWNERSHIP

In March 2008, the Group acquired a 20% stake in Bora, which owns approximately 74% of Arenaturist d.d., a Croatian listed company which is the 100% owner of three private companies that together own eight hotels and five apartment complexes in and around Pula on the Istrian coast of Croatia. This transaction added an additional 2,810 rooms to Park Plaza's portfolio. The Group has also won the management contracts for these properties for an initial 20 year period.

#### PROGRESS REPORT

Since we took over management of Arenaturist's properties in the summer, we have put in place a number of initiatives to improve the operations and appeal of this property in preparation for the 2009 Summer season.

In partnership with our co-investors, Goldman Sachs, we have appointed a new Board and senior management, including a Director who, most recently, was Vice President of Marketing & Sales at Isrotel, one of Israel's leading hotel and resort companies. A new Director of Sales & Marketing has also joined Arenaturist from Sol Melia, where she was responsible for the repositioning of their resort in Umag, Istria. In addition we have significantly upgraded the property management and internal financial systems, as well as investing in restaurant refurbishments and staff training and development.

Work has also progressed on plans and designs for the redevelopment of these properties. We are currently in dialogue with the local authorities and are working towards obtaining planning permission by the end of 2009.

#### THE UPSIDE

Arenaturist is one of Croatia's largest and best known hospitality companies and is well positioned to benefit from the growth Croatia has been experiencing in recent years.

The portfolio is located in the northern part of Croatia and is easily accessible by air and road from key feeder markets such as Germany, Italy, Switzerland, Austria, The Netherlands and neighbouring countries. The hotels and resorts all occupy a pristine, coastal setting and have great development potential.

The Group benefits from the management fees generated and by starting to operate in the leisure segment, is diversifying risk by moving away from a pure focus on business travel.

# CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is a key issue for Park Plaza Hotels and it has quickly become part of the Group's operating strategy.



Park Plaza Westminster Bridge London, the United Kingdom.





Our industry is clearly one that serves the travelling public and as such, we believe it is important for the hotel, hospitality and tourism industry to lead in the identification of practices that help mitigate our environmental impact, albeit in the context of a global downturn.

Park Plaza Hotels' corporate social responsibility (CSR) policy, established in 2008 and available on our website at [www.parkplazahotels.net](http://www.parkplazahotels.net), is a genuine, active and responsible commitment to our environment and society.

In developing this policy over the last couple of years, our team of professionals from different disciplines and different countries worked with Environwise and The Carbon Trust to ensure appropriate targets and benchmarking were established.



The main areas in which we aim to improve the environmental performance of our hotels are in utility consumption and waste management. We have established clear and achievable criteria for success and have been working hard to ensure our policies are communicated both internally and externally. Several hotels have also taken significant steps by installing water saving devices, energy efficient light bulbs and much more.

From a community perspective we encourage our hotels to support a charity in their immediate environment and the Group itself is an active supporter of the Willow Foundation, a charity that provides special days for seriously ill 16-40 year olds.

Through Carlson's goldpoints plus guest reward scheme our guests can also donate points to the World Childhood Foundation or offset their CO<sub>2</sub> emissions from their travels. In celebration of Carlson's 1,000<sup>th</sup> hotel opening in December 2008, Park Plaza Hotels donated 240,000 goldpoints to The CarbonNeutral Company, which is estimated to equate to a carbon offset of approximately 60 trips per year by plane for guests staying at a Park Plaza Hotel or art'otel.

Our Park Plaza Westminster Bridge London project has proven to be a real showcase for us and has set a new benchmark in our CSR developments. We will be further regenerating the hotel's local area by creating several hundred jobs, many of which are expected to be taken up by local residents. The construction is also being carried out to high environmental standards. The building itself uses the latest insulation technology including triple glazed windows to retain heat and eliminate noise pollution. In addition, energy retaining cladding is used to ensure maximum efficiency all year round. Carbon emissions at the hotel are reduced by using renewable energy sources and the hotel will also have its own on-site water bottling plant.

Based on a carbon filter process, we estimate that this eliminates the need to transport and dispose of approximately one million bottles of water every year.

For 2009 we have identified several CSR priorities and we will continue to inform and engage our employees, guests and owners about our environmental initiatives and the contribution that they can make. Such initiatives will further reduce our impact on the (local) environments in which we operate, will enable us to use resources as efficiently as possible and support local communities and charitable causes.

#### KEY OBJECTIVES

- Continue building the base for delivery
- Reduce environmental impact
- Engage staff, guests and hotel owners
- Support local communities and charities
- Meet legal requirements

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required to prepare the Directors' Report and the financial statements for each financial year which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each of the Directors is aware, there is no relevant audit information of which the Group's auditor is unaware, and each has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

# CORPORATE GOVERNANCE

## INTRODUCTION

As a closed-ended investment company registered in Guernsey, the Company is eligible for exemption from the requirements of the Combined Code (the "Code") issued by the UK Listing Authority. The Board has however put in place a framework for corporate governance which it believes is suitable for an investment company and which enables the Company to voluntarily comply with the main requirements of the Code, which sets out principles of good governance and a code of best practice.

The Directors are committed to maintaining a high standard of corporate governance and intend to comply with those aspects of the Code which they consider appropriate, taking into account the size of the Company and the nature of its business.

The Board considers that the Company has complied with the provisions contained in Section 1 of the Code throughout this accounting period.

The Code recommends that the Board of Directors of a listed company should include a balance of Executive and Non-Executive Directors (and in particular Non-Executive Directors) such that no individual or group of individuals can dominate the Board's decision making. The Combined Code also recommends that the Chairman should, on appointment, be independent.

## THE BOARD

The Company currently has six Directors, four of whom are Non-Executives (including the Chairman Eli Papouchado). As recommended by the Combined Code, three of the Directors, Elisha Flax, Kevin McAuliffe and Nigel Jones are regarded by the Company as being independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Company's Chairman, Eli Papouchado, is the founder of the Red Sea Group (of which Euro Sea, the Company's largest Shareholder, is a part) and is not therefore independent of the Company.

The Board has responsibility for the Group's strategic and financial policies and meets regularly.

All the Directors have access to the advice and services of the Company Secretary and are able to gain access to external independent advice should they wish to do so.

An appropriate balance of Executive and Non-Executive members of the Board is maintained and the Board is to be supplied with regular and timely information concerning the activities of the Group in order to enable it to exercise its responsibilities and control functions in a proper and effective manner.

The Board has a breadth of experience relevant to the Company, and the Directors believe that any changes to the Board's composition can be managed without undue disruption. With any new Director appointment to the Board, consideration will be given as to whether an induction process is appropriate.

The Board considers agenda items laid out in the Notice and Agenda which are formally circulated to the Board in advance of the Meeting as part of the Board Papers and therefore Directors may request any Agenda Items to be added that they consider appropriate for Board discussion. Additionally, each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussion.

The Board has not currently considered it necessary to have formal strategy sessions, as the investment strategy, which is set out in the Company's prospectus, is reviewed regularly.

The primary focus at Board Meetings is a review of investment performance and associated matters such as gearing, asset allocation, as well as marketing/investor relations, risk management, general administration and compliance, peer group information and industry issues.

The Board evaluates its performance and considers the tenure of each Director on an annual basis, and believes that the mix of skills, experience, ages and length of service are appropriate to the requirements of the Company.

#### DIRECTOR'S DUTIES

The Directors have adopted a set of reserved powers, which establish the key purpose of the Board and detail its major duties. These duties cover the following areas of responsibility:

- statutory obligations and public disclosure
- strategic matters and financial reporting
- oversight of management and personnel matters
- risk assessment and management, including reporting, monitoring, governance and control
- other matters having material effects on the Company

These reserved powers of the Board have been adopted by the Directors to clearly demonstrate the seriousness with which the Board takes its fiduciary responsibilities and as an ongoing means of measuring and monitoring the effectiveness of its actions.

#### BOARD COMMITTEES

In accordance with best practice for corporate governance, the Group has established, amongst other Committees, the following Committees in order to carry out work on behalf of the Board: an Audit Committee, a Remuneration Committee, a Nominations Committee, an Investment Committee and an Operational Committee.

##### Audit Committee

An Audit Committee has been established and comprises Kevin McAuliffe (Chairman), Elisha Flax and Nigel Jones and meets at least three times a year. The Audit Committee assists the Board in observing its responsibility for ensuring that the Group's financial systems provide accurate and up-to-date information on its financial position and that the published financial statements represent a true and fair reflection of this position. It also assists the Board in ensuring that appropriate accounting policies, internal financial controls and compliance procedures are in place. The Audit Committee receives information from the Company Secretary and from the external auditors.

##### Remuneration Committee

A Remuneration Committee has been established and comprises Kevin McAuliffe (Chairman) and Elisha Flax. The Remuneration Committee advises the Board on an overall remuneration policy and meets at least twice a year. The Remuneration Committee also determine, on behalf of the Board, and with the benefit of advice from external consultants, the remuneration packages of the Executive Directors. The Board determines the remuneration of the Non-Executive Directors.

##### Nominations Committee

A Nominations Committee has been established and comprises Elisha Flax (Chairman), Nigel Jones and Kevin McAuliffe. Whenever possible, all Non-Executive Directors will be present. The Nominations Committee carries out the selection process for the appointment of candidates to the Board and propose names for approval by the full Board.

##### Investment Committee

An Investment Committee has been established and comprises Eli Papouchado (Chairman), Boris Ivesha, Chen Moravsky and Elisha Flax. The Investment Committee assesses and approves new projects in accordance with an agreed approval process. The Investment Committee is also responsible for carrying out post-investment appraisals.

##### Operational Committee

An Operational Committee has been established and comprises Eli Papouchado (Chairman), Boris Ivesha, Chen Moravsky and Elisha Flax. The Operational Committee develops and implements the overall operations strategy. The Operational Committee also determines the framework of the Operational Board and monitors its activities.

#### INTERNAL CONTROLS

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the period under review and up to the date of approval of this Annual Report and Accounts, and is reviewed by the Board and accords with appropriate corporate governance codes. The Directors conduct at least annually a review of the Company's system of internal control, covering all controls, including financial, operational, compliance and risk management. The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and the policies by which these risks are managed.

#### CORPORATE RESPONSIBILITY

The Company keeps abreast of regulatory and statutory changes and takes appropriate action.

On an annual basis the Chairman assesses the performance of each Director that includes a review of Board and Committee meeting attendance.

#### GOING CONCERN

After making enquiries, and given the nature of the Company and its investments, the Directors are satisfied that it is appropriate to continue to adopt the going concern basis in preparing the financial statements, and, after due consideration, the Directors consider that the Company is able to continue in the foreseeable future.

#### RELATIONS WITH SHAREHOLDERS

Board members will be available to respond to shareholders' questions at the Annual General Meeting.

Major shareholders are contacted directly on a regular basis.

The Company reports formally to Shareholders once a year and a proxy voting card is sent to shareholders with the Annual Report and financial statements. Additionally, current information is provided to shareholders on an ongoing basis through the Company website. The Registrar monitors the voting of the shareholders and proxy voting is taken into consideration when votes are cast at the Annual General Meeting. Shareholders may contact the Directors via the Company Secretary.

# BOARD OF DIRECTORS



**Eli Papouchado**, 05 December 1937  
Non-Executive Chairman of the Board  
Date of appointment 26 June 2007

Eli Papouchado is the founder of the Red Sea Group and was Chairman of its Board for ten years. He has been involved in the construction, design, development, financing, acquisition and management of leading hotels, including the Park Plaza Riverbank London, Park Plaza Victoria London, Park Plaza Leeds, Park Plaza Nottingham, Park Plaza Victoria Amsterdam and the milestone Taba Hotel. Mr. Papouchado was involved in the development of hundreds of thousands of square metres of retail space in shopping malls and large residential projects in the United States, Eastern Europe and the Middle East. He also served as Chairman of the Israeli Hotel Association. Mr. Papouchado is Chairman of the Investment and Operational Committees.



**Boris Ivesha**, 08 October 1945  
President and Chief Executive Officer  
Date of appointment 14 June 2007

Boris Ivesha has been the President of Park Plaza Hotels Europe since 1991. In 1972 he was appointed General Manager of the Royal Horseguards Hotel in London, a position he held until 1979, when he became a Managing Director for the Carlton Hotel in Israel. Mr. Ivesha established the Yamit Hotel in 1984, served as the hotel's President and brought the Park Plaza Hotels & Resorts brand to the Group in 1994 in collaboration with the Red Sea Group. Mr. Ivesha has been one of the major drivers behind the expansion of the Group's portfolio. He sits on the Investment and Operational Committees.



**Chen Moravsky**, 11 November 1970  
Chief Financial Officer  
Date of appointment 14 June 2007

Chen Moravsky was Financial Director of the Red Sea Group before joining Park Plaza Hotels Europe in 2005. Mr. Moravsky worked as an Audit Manager at Deloitte. He joined the Red Sea Group in 2001, where he gained his expertise in the hotel/leisure business and real estate investment market. Mr. Moravsky is a Certified Public Accountant (ISR) and holds an MBA from The University of Manchester as well as a Bachelor of Business from the Tel Aviv College of Management. He sits on the Investment and Operational Committees.



**Kevin McAuliffe**, 12 June 1957  
Non-Executive Director  
Date of appointment 15 June 2007

Kevin McAuliffe has been the Chief Executive of Carey Group since 1999, prior to which he was Head of Advisory Services for Paribas International Private Banking operations. In 1994 he was appointed Chief Executive of Ansbacher, a Guernsey bank and trust company, having worked for the Ansbacher Group since 1980 during which time he held the position of Finance Director as well as being a director of other banks held by the Ansbacher Group. From 1973-1980, he held posts in three different departments in the State of Guernsey. He is a Member of the Society of Trust and Estate Practitioners and a director of various companies, including U.K. Care No. 1 Limited. Mr. McAuliffe is Chairman of the Audit and Remuneration Committees and sits on the Nominations Committee.



**Nigel Jones**, 04 December 1961  
Non-Executive Director  
Date of appointment 26 June 2007

Nigel Jones was the Chief Executive Officer of ComProp Limited, an AIM listed property company. Mr. Jones's directorships include U.K. Care No. 1 Limited, Matrix Property Fund Management (Guernsey) Limited and Threadgreen Industrial Limited. In 1995, Mr. Jones founded Jones & Partners Limited. Mr. Jones has been a member of the Royal Institution of Chartered Surveyors since 1989. He sits on the Audit and Nominations Committees.



**Elisha Flax**, 18 February 1962  
Non-Executive Director  
Date of appointment 26 June 2007

Elisha Flax is a real estate entrepreneur engaged in various property activities in Eastern Europe. Mr. Flax is currently a Non-Executive Director of Delek Global Real Estate plc, an AIM-listed company. Mr. Flax was previously employed as a solicitor at the London offices of U.S. law firms Chadbourne & Parke and Akin, Gump, Strauss, Hauer & Feld and general counsel at PlaneStation Limited. Mr. Flax holds an LLB degree from Keio University in Tokyo, Japan and is a qualified solicitor in England and Wales. Mr. Flax is Chairman of the Nominations Committee and sits on the Audit, Remuneration, Investment and Operational Committees.

# FINANCIAL STATEMENTS

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# CONSOLIDATED BALANCE SHEETS

	Note	As at 31 December	
		2008 €'000	2007 €'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS:</b>			
Intangible assets	5	53,297	56,993
Property, plant and equipment	6	157,472	170,848
Prepaid leasehold payments	7	15,834	20,621
Investment in associate	8	22,680	9,109
Other non-current financial assets	10	31,510	28,029*
		280,793	285,600
<b>CURRENT ASSETS:</b>			
Inventories under construction	11	200,893	-
Restricted deposits	17b	52,780	646
Inventories		520	578
Other current financial assets	9	23,852	-
Trade receivables	12	11,520	10,634
Other receivables and prepayments	13	4,957	3,319*
Cash and cash equivalents	14	33,065	119,376
		327,587	134,553
<b>Total assets</b>		<b>608,380</b>	<b>420,153</b>

\* Reclassified (see Note 10).

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

# CONSOLIDATED BALANCE SHEETS

	Note	As at 31 December	
		2008 €'000	2007 €'000
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY:</b>			
	15		
Issued capital		-	-
Share premium		236,016	232,879
Other reserve		(37,205)	(36,985)
Foreign currency translation reserve		(32,169)	(11,009)
Hedging reserve		(6,381)	1,759
Accumulated deficit		(13,464)	(21,377)
<b>Total equity</b>		<b>146,797</b>	<b>165,267</b>
<b>NON-CURRENT LIABILITIES:</b>			
Bank borrowings	18	124,065	177,912
Other liabilities	19	37,164	26,087*
Deferred income taxes	26	9,970	2,061
		<b>171,199</b>	<b>260,060</b>
<b>CURRENT LIABILITIES:</b>			
Trade payables		9,594	4,502
Deposits received from unit holders	17b	53,580	-
Other payables and accruals	20	13,491	15,668
Bank borrowings	18	213,719	28,656
		<b>290,384</b>	<b>48,826</b>
<b>Total liabilities</b>		<b>461,583</b>	<b>254,886</b>
<b>Total equity and liabilities</b>		<b>608,380</b>	<b>420,153</b>

\* Reclassified (see Note 19).

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

Date of approval of the financial statements 24 April 2009.



Boris Ivesha, President and Chief Executive Officer



Chen Moravsky, Chief Financial Officer

# CONSOLIDATED INCOME STATEMENTS

	Note	Year ended 31 December	
		2008 €'000 <sup>1</sup>	2007 €'000 <sup>1</sup>
Revenues	21	93,385	75,039
Operating expenses	22	(57,528)	(44,503)
<b>EBITDAR</b>		<b>35,857</b>	<b>30,536</b>
Rental expenses		(11,200)	(6,102)
<b>EBITDA</b>		<b>24,657</b>	<b>24,434</b>
Depreciation and amortisation		(9,050)	(7,252)
Impairment loss	5, 6	(2,284)	-
<b>EBIT</b>		<b>13,323</b>	<b>17,182</b>
Financial expenses	23	(17,537)	(20,831)
Financial income	24	6,684	3,782
Share in loss of associate		(1,037)	(40)
Other income	25	6,507	22,184
Profit before tax		7,940	22,277
Income tax expense (benefit)	26	27	(21)
<b>Profit for the year</b>		<b>7,913</b>	<b>22,298</b>
Basic and diluted earnings per share (in Euro)	27	0.19	0.78

1 Except earnings per share.

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

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Issued capital* €'000	Share premium €'000	Other reserves €'000	Foreign currency translation reserve €'000	Hedging reserve €'000	Accumulated deficit €'000	Total €'000	Total recognised income (expense) €'000
Balance as at 1 January 2007	-	14,401**	-	(3,332)	4,349	(28,675)	(13,257)	-
Cash dividend prior to IPO	-	-	-	-	-	(15,000)	(15,000)	-
Issue of shares upon acquisition of the Park Plaza Group	-	97,920**	(36,985)**	-	-	-	60,935	-
Issue of shares upon IPO on AIM	-	125,508	-	-	-	-	125,508	-
IPO expenses	-	(9,018)	-	-	-	-	(9,018)	-
Issue of shares to acquire art'otel rights	-	4,000	-	-	-	-	4,000	-
Change in fair value of hedging derivatives	-	-	-	-	(2,590)	-	(2,590)	(2,590)
Foreign currency translation adjustments	-	-	-	(7,677)	-	-	(7,677)	(7,677)
Share-based payments	-	68	-	-	-	-	68	-
Profit for the year	-	-	-	-	-	22,298	22,298	22,298
Balance as at 31 December 2007	-	232,879	(36,985)	(11,009)	1,759	(21,377)	165,267	12,031
Issue upon acquisition of Marlbray	-	3,121	-	-	-	-	3,121	-
Revaluation upon acquisition of Marlbray	-	-	29	-	-	-	29	29
Change in fair value of hedging derivatives	-	-	-	-	(8,140)	-	(8,140)	(8,140)
Foreign currency translation adjustments	-	-	-	(21,160)	-	-	(21,160)	(21,160)
Net loss on available for sale securities	-	-	(249)	-	-	-	(249)	(249)
Share-based payments	-	16	-	-	-	-	16	-
Profit for the year	-	-	-	-	-	7,913	7,913	7,913
Balance as at 31 December 2008	-	236,016	(37,205)	(32,169)	(6,381)	(13,464)	146,797	(21,607)

\* No par value.

\*\* Reclassification between share premium and other reserves.

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December	
	2008 €'000	2007 €'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Profit for the year	7,913	22,298
Adjustment to reconcile profit to net cash provided by (used in) operating activities (A)	(83,267)	(17,466)
Net cash provided by (used in) operating activities	(75,354)	4,832
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(5,818)	(8,637)
Net change in cash upon acquisition of the Park Plaza Group (B)	-	6,735
Net change in cash upon disposal of joint venture (E)	-	14,930
Net change in cash upon acquisition of Marlbray (C)	(13,756)	-
Net change in cash upon acquisition of Aspirations (D)	(14,589)	-
Loans to an associate	(22,094)	-
Loans to jointly controlled entities	(9,842)	(4,746)
Investment in associate	(745)	-
Net change in restricted deposits	(2,268)	-
Net change in short-term deposits	-	3,459
Investments in held to maturity bonds	(23,681)	-
Investment in available for sale marketable shares	(3,013)	-
Decrease (increase) in restricted cash	(212)	375
Net cash provided by (used in) investing activities	(96,018)	12,116
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of new shares	-	116,490
Dividend distribution	-	(15,000)
Proceeds from long-term loans	20,017	720
Repayment of long-term loans	(21,860)	(3,068)
Increase in short-term loans	1	67
Loans to jointly controlled entities	9,985	4,746
Increase in construction loan	89,003	-
Repayment of loans from related parties	-	687
Net cash provided by financing activities	97,146	104,642
Increase (decrease) in cash and cash equivalents	(74,369)	121,590
Net foreign exchange differences of cash and cash equivalents	(11,942)	(8,426)
Cash and cash equivalents at beginning of year	119,376	6,212
Cash and cash equivalents at end of year	33,065	119,376

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December	
	2008 €'000	2007 €'000
<b>(A) ADJUSTMENT TO RECONCILE PROFIT TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Gain on sale of investments	-	(9,148)
Share in loss of associate	1,037	40
Negative goodwill on acquisition of Park Plaza Group	-	(13,036)
Negative goodwill on acquisition of Marlbray	(6,500)	-
Interest on loan to an associate	(665)	-
Deferred income taxes	(362)	682
Depreciation and amortisation	10,206	9,360
Share-based payments	16	68
Impairment of property, plant and equipment	1,257	-
Impairment of art'otel rights	1,027	-
Interest on deposits, net	2,414	-
<i>Changes in operating assets and liabilities:</i>		
Increase in inventories under construction	(87,274)	-
Decrease (increase) in inventories	20	(65)
Decrease (increase) in trade and other receivables	(2,037)	199
Decrease in trade and other payables	(2,406)	(5,566)
	<b>(83,267)</b>	<b>(17,466)</b>
<b>(B) NET CHANGE IN CASH UPON ACQUISITION OF THE PARK PLAZA GROUP:</b>		
Current assets (excluding cash and cash equivalents)	-	(12,922)
Current liabilities	-	29,889
Non-current assets	-	(112,734)
Non-current liabilities	-	28,531
Fair value of the shares issued as consideration for acquisition	-	60,935
Negative goodwill	-	13,036
	<b>-</b>	<b>6,735</b>

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December	
	2008 €'000	2007 €'000
<b>(C) NET CHANGE IN CASH UPON ACQUISITION OF MARLBRAY:</b>		
Current assets (excluding cash and cash equivalents)	(198,873)	-
Current liabilities	164,301	-
Non-current liabilities	11,166	-
Revaluation of existing interest upon acquisition	29	-
Fair value of the shares issued as consideration for acquisition	3,121	-
Negative goodwill	6,500	-
Net change in cash	(13,756)	-
<b>(D) NET CHANGE IN CASH UPON ACQUISITION OF ASPIRATIONS:</b>		
Current assets (excluding cash and cash equivalents)	88	-
Current liabilities	(88)	-
Non-current assets	(14,589)	-
Net change in cash	(14,589)	-
<b>(E) NET CHANGE IN CASH UPON DISPOSAL OF A JOINT VENTURE:</b>		
Current assets (excluding cash and cash equivalents)	-	307
Current liabilities	-	(104)
Non-current assets	-	5,579
Non-current liabilities	-	-
Gain on sale	-	9,148
	-	14,930
<b>(F) SUPPLEMENTAL DISCLOSURE OF CASH FLOWS:</b>		
Cash paid during the year:		
Income taxes	201	294
Interest	11,964	13,009
Cash received during the year:		
Interest	4,839	2,996
<b>(G) SIGNIFICANT NON-CASH TRANSACTIONS:</b>		
Shares issued to acquire the Park Plaza Group	-	60,935
Shares issued to acquire intangibles	-	4,000
Shares issued to acquire Marlbray	3,121	-

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 GENERAL

a. The Consolidated financial statements of Park Plaza Hotels Limited (“the Company”) for the year ended 31 December 2008 were authorised for issuance in accordance with a resolution of the Directors on 24 April 2009.

b. Description of business and formation of the Company:

The Company was incorporated and registered in Guernsey on 14 June 2007.

The Company through its subsidiaries owns, develops, constructs, operates, franchises and manages hotels in Europe, the Middle East and Africa under two primary brands: Park Plaza Hotels & Resorts and art’otel.

On 14 July 2007 the Company entered into an agreement to acquire the Euro Sea Group. For periods prior to the legal formation of the Company, the assets, liabilities, revenues and expenses of Euro Sea Group were consolidated in these financial statements. Also on 14 July 2007, as part of the initial public offering (IPO), the Euro Sea Group acquired 100% of the voting shares of Park Plaza Hotels Europe Holding B.V., its subsidiaries and other investments (“Park Plaza Group”). Commencing from this date, the assets, liabilities, revenues and expenses of the Park Plaza Group were included in the Consolidated financial statements.

c. On 17 July 2007 all of the Company’s Ordinary Shares were admitted for trading on the Alternative Investment Market (AIM) of the London Stock Exchange. In addition, the Company completed an IPO of 15,450,000 Ordinary Shares, at a price of £5.50 per share (€8.125 at the exchange rate on the date of issuance). The net proceeds received from the IPO amounted to €116.5 million (net of issuance expenses of €9 million).

d. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher inter-bank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed, the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

In response to this global economic crisis, the Board of Directors has undertaken a recent thorough review of the Group’s cash flow forecasts and associated risks; these forecasts extend for a period of one year as from the date of approval of these financial statements. As part of the review, the Board verified the Group’s compliance with the loan covenants as set forth in its debt facilities (see Note 17) and considered the liquidity risk arising from the maturities of its loans (see Note 31).

Two of the Group’s loans funding the Dutch portfolio are maturing during 2009. The credit markets and funding environment were unfavourable in 2008 and are currently continuing to be so in 2009. However, the Board believes the Group will be able to secure refinancing for this well established, performing portfolio, which is currently leveraged at approximately 50% of its most recent performance valuation, which was made in July 2007.

Marlbray Limited, a Group 100% held subsidiary is required to repay their loan drawn under the Marlbray facility 30 days after completion of the construction which is expected to happen mid 2010, see Note 17a(5). This facility has recently been increased to £248 million which covers the whole of the total project development cost. The Company intends that the loan will be repaid from the proceeds of the sales of the apartment units. As at 31 December 2008, 818 (80%) of the 1,021 apart-hotel units had been pre-sold or contracted to pre-sell and €53.6 million deposits had been received (approximately 21% of the total sales value).

In 2009, as in prior years, the Group ensures that there is sufficient capital in order to meet short-term business requirements, taking into account cash flows from operations and the Group’s holdings of liquid assets. According to the budgets, all of the hotels are expected to have enough working capital to continue their operations and generate enough operating profit to serve their financial obligations. The Group has adequate resources to continue its operations for the foreseeable future, even in the event that the Group will have to re-finance its Dutch portfolio loans due in 2009 from its own capital.

Management is taking all the necessary measures to support the sustainability and growth of the Company’s business in the current economic circumstances. Given these circumstances, the Board has held detailed discussions around the concept of going concern. Following these discussions and based, among others, on the review discussed above, the Board has come to the conclusion that there are no material uncertainties regarding the Group’s ability to continue as a going concern.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Basis of preparation:**

The Consolidated financial statements of Park Plaza Hotels Limited and all its subsidiaries (“the Group”) have been prepared in accordance with International Financial Reporting Standards (IFRS).

On 14 July 2007 the Company entered into an agreement to acquire the Euro Sea Group. The Euro Sea Group represents a group of companies under common control of the former controlling shareholder of the Company. These companies are principally engaged in the development, construction, management and operation of hotels in Europe.

In consideration for the acquisition of the Euro Sea Group, the Company issued 17,499,999 shares to the former shareholders of the Euro Sea Group. As this transaction involved the combination of businesses under common control, it is not a business combination in the scope of International Financial Reporting Standard 3, and the pooling of interests method of accounting has been applied in the presentation of the Consolidated financial statements. Accordingly, the assets and liabilities of the Euro Sea Group transferred to the Company have been recognised at historical amounts. For periods prior to the legal formation of the Company, the assets, liabilities, revenues and expenses of the Euro Sea Group were consolidated in these financial statements. The Consolidated financial statements present the results and changes in equity of the Company and its subsidiaries as if the Group had been in existence throughout the years presented and as if the Euro Sea Group operations were transferred to the Company as of 1 January 2006.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

The accounting policies used in preparing the Consolidated financial statements for the years ended 31 December 2008 and 2007 are set out below. These accounting policies have been consistently applied to the periods presented unless otherwise stated.

The financial statements have been prepared on a historical cost basis, except for certain financial instruments which have been measured at fair value – see l. below and p (on pages 44-46).

**b. Presentation currency:**

The financial statements are presented in Euro.

**c. Basis of consolidation:**

The financial statements of the subsidiaries and joint ventures are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, income and expenses, and profits and losses resulting from intra-Group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The Group has interests in hotels in The Netherlands, United Kingdom, Germany and Hungary, through subsidiaries and jointly controlled entities. For details on the Group's wholly-owned subsidiaries as at 31 December 2008, see Appendix A.

For details on the Group's interests in jointly controlled entities (proportionally consolidated as at 31 December 2008), see Appendix B.

**d. Significant accounting judgements, estimates and assumptions:**

**Judgements:**

In the process of applying the Group's accounting policies, management has made the following judgements which have a significant effect on the amounts recognised in the financial statements:

**Acquisition of subsidiaries that are not business combinations:**

At the acquisition date of subsidiaries and operations, the Company determines whether the transaction constitutes an acquisition of a business in a business combination transaction pursuant to IFRS 3. If the acquisition does not constitute a business as defined in IFRS 3, the cost of purchase is allocated only to the identifiable assets and liabilities of the acquired company on the basis of their relative fair values at the date of purchase without allocating any amount to goodwill or deferred taxes, and including any minority interest according to its share of the fair value of net identifiable assets at the acquisition date.

In determining whether a business was acquired the Company evaluates whether the entity which was acquired is an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors.

**Estimates and assumptions:**

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The basis of the estimates and assumptions is reviewed regularly. The changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the balance sheet date and the critical estimates computed by the Group, for which there is a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

- **Impairment of non-financial assets:**

The Group's impairment test for tangible and intangible assets with indefinite useful lives is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. See Notes 5 and 6 for further details including the carrying amounts of these assets at balance sheet date and key assumptions used.

- **Fair value of financial instruments:**

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

- **Deferred tax assets:**

Deferred tax assets are recognised for unused carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Additional information is provided in Note 26.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

**e. Business combinations:**

Business combinations, other than the Euro Sea Group transaction, are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill, if identified, is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's net identifiable assets, liabilities and contingent liabilities. In the situation that the net fair value of the acquirer's identifiable assets exceeds the cost of the business combination (negative goodwill), this excess is recorded in the income statement as other income.

**f. Investment in an associate:**

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor a jointly controlled entity.

Investments in associates are accounted for under the equity method. Under the equity method, the investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. According to IAS 28, the carrying value of the investment in associates includes long-term loans. The income statement reflects the Group's share in the results of operations of the associate. The accounting policies of the associates conform to those used by the Group. After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in its associates. The Company determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

**g. Jointly controlled entities:**

The Group reports its interests in jointly controlled entities using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the Consolidated financial statements on a line-by-line basis.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

**h. Foreign currency translation:**

The functional currency of the Company is Great British Pounds. The Consolidated financial statements are presented in Euro as a significant portion of the Group's operations are conducted in Euro. Each entity of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising from exchange differences are included in the income statement.

The assets and liabilities of the entities whose functional currency is other than the Euro are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising on the translation are classified as a separate component of equity (foreign currency translation reserve). Such translation differences are recognised in the income statement in the period in which the entity is disposed of.

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

The following exchange rates in relation to the Euro were prevailing at balance-sheet dates:

Exchange differences due to loans stated in Euro which were granted by the Company to its subsidiaries are reflected in the foreign translation reserve in equity.

	As at 31 December	
	2008 In Euro	2007 In Euro
Great British Pound	1.048	1.363
Hungarian Forint	0.004	0.004

Percentage increase (decrease) in exchange rates during the year:

	2008	2007
	%	%
Great British Pound	(23.1)	(8.5)
Hungarian Forint	-	-

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

**i. Intangible assets:**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair valued at date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised using the straight-line method over their estimated useful life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense for intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and recognised in the income statement when the asset is derecognised.

**j. 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 estimated useful life of the assets as follows:

	Years
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.

**k. Impairment of non-financial assets:**

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the asset is considered impaired and carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been determined had no impairment loss been previously recognised for the asset (cash-generating unit). A reversal of an impairment loss is recognised as income immediately.

**l. Financial instruments:**

Financial assets within the scope of IAS 39 are initially recognised at fair value plus directly attributable transaction costs, except for investments at fair value through profit or loss in respect of which transaction costs are carried to the income statement.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following four categories:

- Financial assets at fair value through profit or loss;
- Held-to-maturity investments;
- Loans and receivables; and
- Available-for-sale financial assets.

**1. Held-to-maturity investments:**

The Group has held-to-maturity investments that are financial assets (non-derivative) with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. After initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method taking into account transaction costs. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the systematic amortisation process.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### I. Financial instruments continued:

#### 2. Loans and receivables:

The Group has loans and receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method taking into account transaction costs and less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the systematic amortisation process.

#### 3. Available-for-sale financial assets:

The Group has available-for-sale marketable shares that are financial assets (non-derivative) that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except exchange differences that relate to monetary debt instruments that are carried to the statement of income in financing, are recognised directly in equity in the net unrealised gains reserve. When the investment is disposed of or in case of impairment, the cumulative gain or loss previously recorded in equity is recognised in the statement of income. Interest income on investments in debt instruments is recognised in the statement of income using the effective interest method. Dividends earned on investments are recognised in the statement of income when the right of payment has been established.

#### 4. Fair value:

The fair value of investments that are actively traded in organised financial markets is determined by reference to market prices on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow or other valuation models.

#### 5. Financial liabilities:

Interest-bearing loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method which also accounts for directly attributable transaction costs. Gains and losses are recognised in the income statement when the loan is derecognised as well as through the systematic amortisation process.

#### 6. Derecognition of financial instruments:

##### Financial assets:

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

##### Financial liabilities:

A financial liability is derecognised when it is extinguished, i.e. when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognised in the income statement.

##### Financial guarantee contracts:

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount recognised less cumulative amortisation.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### l. Financial instruments continued:

#### 7. Impairment of financial assets:

The Group assesses at each balance sheet date whether the following financial asset or group of financial assets is impaired.

- Assets carried at amortised cost:

Evidence of impairment may include indications that the debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments or other observable date of a measurable decrease in the estimated future cash flows. If there is objective evidence that an impairment loss on loans and receivables and held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss carried to the income statement is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the income statement.

- Available for sale financial assets:

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement increase in their fair value after impairment are recognised directly in equity.

### m. Inventories:

Inventories include food and beverages and are valued at the lower of cost and net realisable value. Cost includes purchase cost on a first-in-first out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### n. Inventories under construction:

Inventories under construction are measured at the lower of cost or net realisable value. Cost of inventories includes direct identifiable construction costs, indirect costs and capitalised borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### o. Cash and cash equivalents:

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

### p. Derivative financial instruments and hedge accounting:

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of interest rate swap contracts is determined using valuation techniques, including the discounted cash flow model.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised.

### q. Trade receivables:

Trade receivables recognised under current assets are stated at their nominal value as reduced by appropriate allowances for estimated uncollectible amounts.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### r. 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.

For directly owned and leased hotels, revenue received from customers for accommodation, catering and other services are recognised as the services are performed.

For managed and franchised hotels, all management and franchise fees are recognised on an accrued basis in accordance with the substance of the agreement.

Revenue is measured at the fair value of the consideration received or receivable, net of all discounts and rebates, VAT and other sales taxes.

Revenues from sale of apart-hotel units:

Revenues from the sale of apart-hotel units are recognised when the principal risks and rewards of ownership have been passed to the buyer. Revenues are recognised when significant uncertainties regarding the collection of the consideration no longer exist, the related costs are known and if there is no continuing managerial involvement with the apart-hotel units delivered. These criteria are usually met once a significant portion of construction has been completed, the apart-hotel unit has been delivered to the buyer and the buyer has fully paid the consideration for the apart-hotel unit.

EBITDAR

Earnings before interest, tax, depreciation, amortisation, impairment loss and rental expenses and share of associate and tax (EBITDAR) corresponds to revenue less operating expenses. EBITDAR, together with EBITDA is used as a key management indicator.

EBITDA

Earnings before interest, tax, depreciation, amortisation and impairment loss (EBITDA) corresponds to gross profit after the operating costs of holding leased hotels.

EBIT

Earnings before interest and tax (EBIT) corresponds to gross operating profit after the operating costs of holding both leased and owned assets.

### s. Leases:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

*The Group as lessee*

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the lease.

*Prepaid leasehold payments*

Prepaid leasehold payments are up-front payments to acquire a long-term leasehold interest in land and building. These payments are stated at cost and are amortised on a straight-line basis over the respective period of the leases (between 95 and 125 years).

### t. Employee benefits:

*Share based payments*

The Board has adopted a "Share Option Plan", under which employees and directors of the Company, its subsidiaries and jointly owned companies receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity settled transactions). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest.

*Pension*

The Group has a defined contribution pension plan where the employer is liable only for the employer's part of the contribution towards the individual's pension plans.

### u. Borrowing costs for qualifying assets:

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

**v. Taxation:**

*Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

**Deferred income tax**

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences; and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities and changes in them relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**w. Earnings per share:**

Basic earnings per share amounts are calculated by dividing net profit for the year by the weighted average number of Ordinary Shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit for the year by the weighted average number of Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on the conversion of all the dilutive potential Ordinary Shares into Ordinary Shares.

**x. Operating cycle:**

The normal operating cycle of Marlbray is greater than one year, due to the operating cycle of the project under construction. As a result, current assets and liabilities include items the realisation of which is intended and anticipated to take place over Marlbray's normal operating cycle.

**y. Disclosure of new IFRS in the period prior to their adoption:**

**1. IFRS 8 – Operating Segments:**

IFRS 8 (“the Standard”) discusses operating segments and replaces IAS 14. The Standard is effective for financial years beginning 1 January 2009. Earlier application is permitted. The provisions of the Standard will be applied retrospectively, by restatement, unless the necessary information is not available or impractical to obtain.

The Standard determines that an entity will adopt a management approach in reporting on the financial performance of the operating segments. The segment information would be the information that is internally used by management in order to assess its performance and allocate resources to the operating segments.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### y. Disclosure of new IFRS in the period prior to their adoption continued:

#### 1. IFRS 8 – Operating Segments continued:

Furthermore, information is required to be disclosed about the products or services (or group of products and similar services) from which the entity derives its revenues, the countries in which these revenues or assets are derived and major customers, irrespective of whether management uses this information for making operating decisions.

The Company believes that the effect of the new Standard on the current presentation of segments is not expected to be material.

#### 2. IAS 23 (Revised) – Borrowing Costs:

In accordance with the revised IAS 23, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset must be capitalised. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and includes fixed assets and inventories that take a substantial period of time to get ready for sale. The option of immediately recording these costs as an expense has been eliminated.

The revised Standard is effective for financial years beginning 1 January 2009. Earlier application is permitted.

The Company believes that the effect of the revised Standard on its financial position, operating results and cash flows is not expected to be material.

#### 3. IAS 1 (Revised) – Presentation of Financial Statements:

IAS 1 (Revised) requires entities to present a second statement, a separate “statement of comprehensive income” displaying, other than the net income taken from the statement of income, all the items carried in the reported period directly to equity that do not result from transactions with the shareholders in their capacity as shareholders (other comprehensive income) such as adjustments arising from translating the financial statements of foreign operations, fair value adjustments of available-for-sale financial assets, changes in revaluation surplus of fixed assets and the tax effect of these items carried directly to equity, while properly allocated between the Company and the minority interests. Alternatively, the items of other comprehensive income may be displayed along with the items of the statement of income in a single statement entitled “statement of comprehensive income” which replaces the statement of income, while properly allocated between the Company and the minority interests. Items carried to equity resulting from transactions with the shareholders in their capacity as shareholders (such as capital issuances, dividend distribution etc.) will be disclosed in the statement of changes in equity as will the summary line carried forward from the statement of comprehensive income, while properly allocated between the Company and the minority interests.

IAS 1 (Revised) also prescribes that in cases of restatement of comparative figures as a result of the retroactive adoption of a change in accounting policy, the entity must include an opening balance sheet disclosing the restated comparative figures.

IAS 1 (Revised) is effective for financial years beginning 1 January 2009. Earlier application is permitted.

The effect of the adoption of IAS 1 (Revised) will require the Company to disclose the above items in the financial statements.

#### 4. IFRS 3 (Revised) – Business Combinations and IAS 27 (Revised) – Consolidated and Separate Financial Statements:

IFRS 3 (Revised) and IAS 27 (Revised) (“the Standards”) will be effective for financial years beginning 1 January 2010. Combined early adoption of the two Standards is permitted.

The principal changes resulting from the adoption of the Standards are:

- IFRS 3 currently prescribes that goodwill, as opposed to the acquirer’s other identifiable assets and liabilities, will be measured as the excess of the cost of the acquisition over the acquirer’s share in the fair value of the identifiable net assets on the acquisition date. According to the Standards, goodwill can be measured at its full fair value and not only based on the acquired part, this in respect of each business combination transaction measured separately.
- Contingent consideration in a business combination will be 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, will not be simultaneously recognised as a goodwill adjustment. Normally, the contingent consideration will be considered a financial derivative within the scope of IAS 39 and will be presented at fair value through profit or loss.
- Direct acquisition costs attributed to a business combination transaction will be recognised in the income statement as incurred as opposed to the previous requirement of carrying them as part of the consideration of the cost of the business combination.
- A transaction, with a minority interest whether a sale or an acquisition, will be accounted for as an equity transaction and will therefore not be recognised in the income statement or have any effect on the amount of goodwill, respectively.
- A subsidiary’s losses, in excess of the subsidiary’s equity, will be allocated between the parent company and minority interests, even if the minority has not guaranteed or has no contractual obligation to cover the losses of the subsidiary or make an additional investment.
- On the loss of control of a subsidiary, any remaining investment in the subsidiary, will be revalued to fair value and the revaluation will be included as part of the gain or loss from the sale.

As the Standards primarily effect future acquisitions, the Company believes that the effect of the Standards on its financial condition, results of operations and cash flows is not expected to be material.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

**y. Disclosure of new IFRS in the period prior to their adoption continued:**

**5. IFRS 2 (Revised) – Share-based Payment:**

Pursuant to IFRS 2 (Revised) (“the revised Standard”), the definition of vesting terms will only include service conditions and performance conditions, and the settlement of a grant that includes non-vesting conditions by the Company or the counterparty, will be accounted for by way of vesting acceleration and not by forfeiture. The Standard is to be applied in financial years beginning on 1 January 2009 with retrospective application. Earlier application is permitted.

Vesting conditions include service conditions which require the counterparty to complete a specified period of service and performance conditions which require specified performance targets to be met. Conditions that are other than service and performance conditions will be viewed as non-vesting conditions and must therefore be taken into account when estimating the fair value of the instrument granted.

The Company believes that the revised Standard will have no effect on its financial position, results of operations and cash flows.

**6. IAS 28 (Revised) – Investment in Associates:**

Pursuant to IAS 28 (Revised), the test of impairment of an investment in an associate will be carried out with reference to the entire investment. Accordingly, a recognised impairment loss is not allocated specifically to goodwill that forms part of the investment but rather attributed to the investment as a whole and, therefore, the entire impairment loss previously recognised may be reversed to the extent that the relevant conditions are satisfied. The Standard may be adopted retrospectively or prospectively starting from the financial statements for periods beginning on 1 January 2009. Earlier application is permitted.

The Company believes that the effect of the revised Standard on its financial position, operating results and cash flows is not expected to be material.

**7. IAS 38 (Revised) – Intangible Assets:**

Pursuant to IAS 38 (Revised), expenses incurred from advertising, marketing or promotional activities will be recognised as an expense when the company has the right to access to the advertising goods or when the company receives those services. For these purposes, the activities also include production of catalogues and promotional pamphlets. Also, IAS 38 is amended to avoid giving the impression that the unit of production amortisation method is not allowed for all intangible assets if it results in a lower amount of accumulated amortisation than under the straight-line method. The Standard will be adopted retrospectively starting from the financial statements for periods beginning on 1 January 2009. Earlier application is permitted.

The Company believes that the effect of the revised Standard on its financial position, operating results and cash flows is not expected to be material.

**8. IAS 19 – Employee Benefits:**

Pursuant to an amendment to IAS 19, a group of other long-term benefits will also include employee benefits that are due in the short-term and are expected to be utilised within one year of the end of the period qualifying for the benefits, such as cumulative benefits in respect of vacation pay and sick leave that are expected to be used within one year of the balance sheet date. Accordingly, these benefits are now required to be recognised in the financial statements based on an actuarial calculation taking into account future salaries and discounted to present value. The amendments will be retrospectively adopted starting from the financial statements for periods beginning on 1 January 2009. Earlier application is permitted.

The Company believes that the effect of the new interpretation on its financial position, operating results and cash flows is not expected to be material.

**9. IFRIC 15 – Agreements for the Construction of Real Estate:**

IFRIC 15 (“the Interpretation”) establishes rules for distinguishing between agreements for the construction of real estate under the scope of IAS 11 and similar agreements under the scope of IAS 18. When an agreement is specifically negotiated for the construction of an asset or a combination of assets when the buyer is able to specify the major structural elements and specify any changes therein, the agreement is within the scope of IAS 11. Accordingly, revenue will be recognised by reference to the stage of completion. In contrast, when the buyer has only limited ability to influence the design or to specify only minor variations the agreement is an agreement for the sale of real estate within the scope of IAS 18. The Interpretation applies to annual financial statements for periods beginning on or after 1 January 2009 and will be adopted retrospectively. Earlier application is permitted.

The Company believes that the effect of the new interpretation on its financial position, operating results and cash flows is not expected to be material.

**10. Amendments to IFRS 7, financial instruments: Disclosures**

The amendments to IFRS 7, issued in March 2009, will require enhanced disclosures about fair value measurements and liquidity risk. The amendments are effective for annual financial statements for periods beginning on or after 1 January 2009. The Group is presently evaluating the extent of the additional disclosures that will be required.

### NOTE 3 BUSINESS COMBINATIONS

- a. On 14 July 2007, as part of the IPO (Note 1c), the Group acquired 100% of the voting shares of Park Plaza Hotels Europe Holding B.V., its subsidiaries and other investments (the Park Plaza Group). A list of subsidiaries and investment of the Park Plaza Group is included in Appendix B. The Park Plaza Group is principally engaged in holding hotels and providing management and franchise services, for hotels in Europe, the Middle East and Africa. Park Plaza Group operates primarily under two brands: Park Plaza Hotels & Resorts and art'otel.

The fair value of the identifiable assets and liabilities of the Park Plaza Group as at the date of acquisition (based on an independent appraisal) and the corresponding carrying amounts immediately before the acquisition were:

	Fair value recognised on acquisition €'000	Previous carrying amount €'000
Intangible assets	54,351	6,375
Property, plant and equipment	49,310	40,353
Prepaid leasehold payments	4,049	4,049
Loans to joint ventures	2,653	-
Other financial assets	2,231	2,231
Trade receivables	8,680	8,680
Short-term deposits	1,903	1,903
Cash and cash equivalents	6,735	6,734
Other current assets and receivables	2,479	2,480
	132,391	72,805
Bank loans	(41,909)	(41,909)
Other financial liabilities	(4,427)	(4,427)
Deferred income taxes	(187)	1,364
Trade payables	(3,305)	(3,305)
Related parties	(830)	(830)
Payables and other current liabilities	(7,762)	(7,762)
	(58,420)	(56,869)
	73,971	15,936
Negative goodwill on acquisition	(13,036)	
Total consideration	60,935	

The sale and purchase agreement to acquire Park Plaza Group set the consideration as a percentage of the combined company value at the time of the IPO. Due to market conditions, the placing price was set at the bottom of the range and the number of placing shares issued was reduced (compared to the published placing price range and placing shares issued in the pathfinder admission document). As a result, the value attributed to Park Plaza Group was lower than expected, resulting in negative goodwill.

The profit arising from the immediate recognition of negative goodwill in the income statement is included in the line item "other income".

The total cost of the acquisition was €60,935 thousand and comprised an issue of equity instruments and costs directly attributable to the acquisition. The Company issued 7,500,000 Ordinary Shares with a fair value of £5.50 each (€8.125 at the exchange rate on date of acquisition), which was the published price of the shares of the Company at the date of acquisition.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### NOTE 3 BUSINESS COMBINATIONS *continued*

From the date of the acquisition, the Park Plaza Group contributed €2.9 million to the net profit of the Group for the year 2007. If the combination had taken place at the beginning of 2007, the income statement of the Group would have been as follows:

	2007 €'000
Revenues	97,058
Operating expenses	(57,677)
<b>EBITDAR</b>	<b>39,381</b>
Rental expenses	(11,007)
<b>EBITDA</b>	<b>28,374</b>
Depreciation and amortisation	(9,353)
<b>EBIT</b>	<b>19,021</b>
Finance expenses, net	(19,025)
Share in loss of associate	(40)
Other income	22,184
<b>PROFIT BEFORE TAX</b>	<b>22,140</b>
Tax benefit	923
Profit for the year	23,063

- b. In February 2008, Euro Sea Hotels N.V., a wholly owned subsidiary of the Company, acquired 67% of the shares of Marlbray Limited ("Marlbray"), increasing the Group's ownership interest in Marlbray to 100%. Marlbray is the owner of the Park Plaza Westminster Bridge London project (see Note 11).

The fair value of the identifiable assets and liabilities of Marlbray as at the date of acquisition (based on an independent appraisal) and the corresponding carrying amounts immediately before the acquisition are:

	Fair value recognised on acquisition €'000	Previous carrying amount €'000
Inventories under construction	153,705	115,971
Restricted deposits	52,854	52,854
Other current assets and receivables	1,660	1,660
Cash and cash equivalents	456	456
	<b>208,675</b>	<b>170,941</b>
Bank borrowings	102,577	102,577
Shareholders' loans	-	620
Other financial liabilities	54,180	54,180
Deferred income taxes	10,562	-
Trade payables	1,564	1,563
Other payables and accruals	7,192	7,192
Liability to Irish Nationwide Building Society	-	5,339
	<b>176,075</b>	<b>171,471</b>
	<b>32,600</b>	<b>(530)</b>
Carrying amount of investment in Marlbray as an associate	(8,738)	
Revaluation of existing interest (33%) upon acquisition	(29)	
Negative goodwill on acquisition	(6,500)	
Total consideration	17,333	

### NOTE 3 BUSINESS COMBINATIONS continued

The total consideration for the 67% interest acquired, in the amount of €17.3 million, consists of £10.6 million (€14.2 million) in cash and the issue of 735,000 Ordinary Shares of the Company (490,000 of which were issued to the sellers of Marlbray). The market price of the shares on the date of acquisition was £3.16 (€4.24). As part of the consideration, the Company funded the repayment of approximately £472 thousand (€620 thousand) of loans made to Marlbray by the selling shareholders and a fee payable by Marlbray to Irish Nationwide Building Society, (which provided finance for the early stages of the project), which was satisfied by approximately £3.2 million (€4.3 million) in cash and the issue of 245,000 Ordinary Shares.

From the date of the acquisition, the contribution of Marlbray to the net profit of the Group is not material. If the combination had taken place at the beginning of the year, the net profit of the Group would be €346 thousand lower. Marlbray does not generate revenue as the Park Plaza Westminster Bridge apart-hotel is still under construction.

### NOTE 4 OTHER ACQUISITIONS

#### a. Acquisition of Aspirations Limited:

In March 2008, Apex Holdings (UK) Limited ("Apex"), a wholly owned subsidiary of the Company, acquired 50% of the issued share capital of Aspirations Limited ("Aspirations"), the owner of a site (Hoxton, London) on which the Company plans to develop a new apart-hotel under the art'otel brand.

The consideration for the 50% interest in Aspirations was £3 million (€4 million) in cash. In addition, Apex advanced a loan of approximately £8 million (€10.6 million) to Aspirations. Following completion, Aspirations will be indebted to each of its shareholders for the same amount and on the same terms. The consideration for the shares and the loan from Apex to Aspirations was funded by the Company from its existing cash resources. Park Plaza Hotels Europe B.V. (a subsidiary of the Company) has entered into an agreement with Aspirations to operate and manage the hotel for an initial term of 20 years from the opening of the hotel onwards (see Note 17c(1)(ii)).

The Group reports its interest in Aspirations using proportionate consolidation.

#### b. As for the acquisition of WH/DMREF Bora B.V., see Note 8.

### NOTE 5 INTANGIBLE ASSETS

	Park Plaza Hotels & Resorts management and franchise rights (A) €'000	Lease rights (A) €'000	art'otel rights (B) €'000	Total
<b>COST:</b>				
Balance as at 1 January 2007	-	-	-	-
Acquisitions during the year	48,404	5,947	4,000	58,351
Balance as at 31 December 2007	48,404	5,947	4,000	58,351
<b>ACCUMULATED AMORTISATION:</b>				
Balance as at 1 January 2007	-	-	-	-
Provision for amortisation	1,209	49	100	1,358
Balance as at 31 December 2007	1,209	49	100	1,358
Amortised cost as at 31 December 2007	47,195	5,898	3,900	56,993

	Park Plaza Hotels & Resorts management and franchise rights €'000	Lease rights €'000	art'otel rights €'000	Total
<b>COST:</b>				
Balance as at 1 January 2008	48,404	5,947	4,000	58,351
Acquisitions during the year	-	-	-	-
Balance as at 31 December 2008	48,404	5,947	4,000	58,351
<b>ACCUMULATED AMORTISATION:</b>				
Balance as at 1 January 2008	1,209	49	100	1,358
Provision for impairment	-	-	1,027	1,027
Provision for amortisation	2,421	48	200	2,669
Balance as at 31 December 2008	3,630	97	1,327	5,054
Amortised cost as at 31 December 2008	44,774	5,850	2,673	53,297

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### NOTE 5 INTANGIBLE ASSETS *continued*

#### A. Acquisition of Park Plaza Hotel & Resorts management and franchise rights and lease rights (Note 3):

1. Management rights – rights held by Park Plaza Group relating to the management of Park Plaza Hotels & Resorts in Europe, Africa and the Middle East. The management rights are included in the Consolidated financial statements at their fair value as of the date of acquisition of Park Plaza Group by the Company, and are being amortised over a period of 20 years, based on the terms of the existing contracts and management estimation of their useful life. The remaining amortisation period is 18.5 years.
2. Franchise rights – relating to the brand Park Plaza Hotel & Resorts, are included in the Consolidated financial statements at their fair value as of the date of acquisition of Park Plaza Group by the Company, and are being amortised over 20 years, based on management estimation of their useful life. The remaining amortisation period is 18.5 years.
3. Lease rights – intangible asset relating to the terms of operating leases that at the date of acquisition of Park Plaza Group are favourable relative to market conditions at that date. These rights are being amortised over the terms of the related leases (Note 7).

#### B. Acquisition of art'otel rights:

The Company acquired in July 2007, as part of the IPO (Note 1c), the worldwide rights to use the art'otel brand name for an unlimited period of time. The consideration amounted to €4 million and was settled by the issuance of shares of the Company to the seller. The consideration was based on the published price of the shares (£5.50 per share) on the date of acquisition. The rights are being amortised over 20 years based on management's estimation of their useful life. The remaining amortisation period is 18.5 years.

#### C. Impairment testing of intangible assets

The recoverable amounts of the intangible assets have been determined by an independent valuer based on value in use calculations using cash flow projections for the relevant cash generating units from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 9.5% and cash flows beyond the five-year period are extrapolated using a 2.5% growth rate.

In 2008, the Group recorded an impairment loss in respect of the art'otel rights in the amount of €1,027 thousand which is included in other expenses.

### NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	Land €'000	Hotel buildings €'000	Furniture and equipment €'000	Total
<b>COST:</b>				
Balance as at 1 January 2007	13,752	100,234	41,766	155,752
Additions during the year	–	5,449	3,188	8,637
Acquisition of the Park Plaza Group (Note 3)	10,113	33,056	6,141	49,310
Disposals during the year	–	(5,554)	–	(5,554)
Adjustment for exchange rate differences	(876)	(7,165)	(3,604)	(11,645)
Balance as at 31 December 2007	22,989	126,020	47,491	196,500
<b>ACCUMULATED DEPRECIATION:</b>				
Balance as at 1 January 2007	–	7,441	13,868	21,309
Adjustment for exchange rate differences	–	(277)	(1,274)	(1,551)
Provision for depreciation	–	1,408	4,486	5,894
Balance as at 31 December 2007	–	8,572	17,080	25,652
Depreciated cost as at 31 December 2007	22,989	117,448	30,411	170,848
<b>COST:</b>				
Balance as at 1 January 2008	22,989	126,020	47,491	196,500
Additions during the year	168	2,501	3,149	5,818
Acquisition of Aspiration (Note 4)	14,607	–	–	14,607
Adjustment for exchange rate differences	(4,920)	(17,038)	(8,743)	(30,701)
Balance as at 31 December 2008	32,844	110,520	41,897	186,224
<b>ACCUMULATED DEPRECIATION:</b>				
Balance as at 1 January 2008	–	8,572	17,080	25,652
Adjustment for exchange rate differences	–	(891)	(3,648)	(4,539)
Provision for depreciation	–	1,573	4,809	6,382
Provision for impairment	–	1,257	–	1,257
Balance as at 31 December 2008	–	10,511	18,241	28,752
Depreciated cost as at 31 December 2008	32,844	100,972	23,656	157,472

#### NOTE 6 PROPERTY, PLANT AND EQUIPMENT *continued*

(1) The recoverable amount of property, plant and equipment has been determined based on internal value in use calculations using discounted cash flow projections for the relevant cash generating units. These projections are based on financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 9.7% and cash flows beyond the five-year period are extrapolated using growth rate of 2.0-2.5%. In 2008, the Group recorded an impairment loss in respect of one hotel building in the amount of €1,257 thousand which is included in other expenses.

	31 December	
	2008 €'000	2007 €'000
(2) Cumulative expenditures for hotels under construction included in cost balances	2,098	1,297

The cumulative expenditure for hotels under construction relates to the renovation and conversion of the Victoria Monument building (located in Amsterdam, The Netherlands) into a hotel and to the acquisition of Aspirations (located in London, the United Kingdom).

(3) For information regarding liens, see Note 17.

#### NOTE 7 PREPAID LEASEHOLD PAYMENTS

	Year ended 31 December	
	2008 €'000	2007 €'000
Cost:		
Balance as at 1 January	21,462	19,440
Acquisition of the Park Plaza Group	-	4,049
Adjustment for exchange rate differences	(4,668)	(2,027)
Balance as at 31 December	16,794	21,462
Accumulated amortisation:		
Balance as at 1 January	841	762
Provision for amortisation	166	182
Adjustment for exchange rate differences	(47)	(103)
Balance as at 31 December	960	841
Amortised cost as at 31 December	15,834	20,621

The prepaid leasehold payments relate to the following lease agreements (see also Note 17c2 (i)):

- In September 2000, Grandis Netherlands Holding B.V., a jointly controlled company, acquired a land leasehold interest expiring in 2095, of the Park Plaza Sherlock Holmes London, for a sum of £10 million (€13.6 million) plus an initial annual rent of £400 thousand (€545 thousand) (subject to "open market value" rent review every five years). The Company has an option to extend the lease to a total of 125 years, expiring in 2121. The Company also has an option to terminate the lease in 2059.
- In May 2000, Riverbank Hotel Holding B.V., a jointly controlled company, acquired a land leasehold interest expiring in 2125, of the Park Plaza Riverbank, situated on Albert Embankment, London, for a sum of £18 million (€24.5 million) plus an initial annual rent of £500 thousand (€681 thousand), subject to rent review every five years.
- In 1988 Utrecht Victoria Hotel B.V., a jointly controlled company, has entered into a land lease agreement for a period of 50 years ending in 2038, for a lump sum payment of €448 thousand at commencement of the lease.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### NOTE 8 INVESTMENT IN ASSOCIATE

#### a. Acquisition of WM/DMREF Bora B.V.:

In April 2008, Euro Sea Hotels N.V., a wholly-owned subsidiary of the Company, acquired 20% of the shares of WM/DMREF Bora B.V. ("Bora") from a group of real estate investment funds. Bora currently owns approximately 74% of Arenaturist d.d., a public company listed on the Zagreb (Croatia) Stock Exchange, and 100% of three related private companies. These companies together own eight hotels and five apartment complexes in and around Pula on the Istrian coast of Croatia. As part of the transaction, the Company also acquired 20% of the debt currently provided to Bora by its shareholders.

The total consideration of the acquisition, including the debt acquired, was €22.4 million, which was funded by the Company from its existing cash resources.

The investment in Bora is accounted for under the equity method in accordance with IAS 28.

The loan of €22,759 thousand bears interest at the rate of 4.037%. The repayment date of the loan is 15 July 2017.

#### b. In February 2008, Euro Sea Hotels N.V., a wholly-owned subsidiary of the Company, acquired 67% of the shares of Marlbray, increasing the Group's ownership interest in Marlbray to 100% (see Note 3). Prior to this acquisition, Marlbray was accounted for as an associate.

#### c. Share of the associate's balance sheet:

	As at 31 December	
	2008 €'000	2007 €'000
Current assets	1,311	1,141
Non-current assets	32,331	41,423
Current liabilities	(6,760)	(1,147)
Non-current liabilities	(26,961)	(32,308)
Net assets	(79)	9,109
Loans given	21,779	-
Additions during the period	315	-
Interest on loans	665	-
	22,759	-
Share of the associate's revenue and profit:		
Revenue	5,932	-
Loss	(1,037)	(40)

### NOTE 9 OTHER CURRENT FINANCIAL ASSETS

	As at 31 December	
	2008 €'000	2007 €'000
Available-for-sale investment shares (1)(3)	2,265	-
Investment in held-to-maturity bonds in GBP (2)(3)	21,587	-
	23,852	-

#### (1) Available-for-sale investment in shares:

Currency	Balance €'000
GBP	302
ILS	164
USD	1,574
JPY	81
CHF	144
	2,265

(2) UK government bonds of €21,414 thousand principal amount bear interest at an annual rate of 4% and an effective annual rate of 2.1%. The bonds mature in 2009. The fair value of the bonds as at 31 December 2008 is €21.6 million.

(3) The fair value of the investment in shares and bonds is based on quoted market prices.

## NOTE 10 OTHER NON-CURRENT FINANCIAL ASSETS

	As at 31 December	
	2008 €'000	2007 €'000
Loans to jointly controlled entities (see Note 29)	30,222	23,480*
Derivative financial instruments (see Note 31)	-	3,707
Rent security deposits	1,288	842**
	31,510	28,029

\* Reclassified due to gross up balances with jointly controlled entities.

\*\* Reclassified due to misclassification of deposit in the amount of 842 to long-term.

(1) Relates to leases described in Note 17c(2).

## NOTE 11 INVENTORIES UNDER CONSTRUCTION

Marlbray is developing a 1,021 room apart-hotel. The apartments are being sold on an individual basis to private investors (see Note 3b).

As of 31 December 2008, 818 of the 1,021 (80%) apart-hotel units had been pre-sold or contracted to pre-sell. Completion of the construction is expected in 2010.

During the reported periods there were no write downs of inventories under construction.

## NOTE 12 TRADE RECEIVABLES

a. Composition:

	As at 31 December	
	2008 €'000	2007 €'000
Trade receivables	8,176	8,280
Related parties	3,588	2,650
Less - allowance for doubtful debts	(244)	(296)
	11,520	10,634

Trade receivables are non-interest-bearing and are generally on 30 days' terms.

b. Movements in the allowance for doubtful accounts were as follows:

As at 1 January 2007	159
Charge for the year	60
Acquisition of the Park Plaza Group	77
As at 31 December 2007	296
Release for the year	(42)
Exchange rate differences	(10)
As at 31 December 2008	244

c. As at 31 December the ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired			
			< 30 days	30-60 days	60-90 days	> 90 day
2008	11,520	1,827	4,424	1,111	548	3,610
2007	10,634	1,716	2,584	1,699	836	3,799

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### NOTE 13 OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2008 €'000	2007 €'000
Prepaid expenses	1,566	1,126
VAT and taxes	2,408	191
Related parties*	568	1,291
Others	415	711
	4,957	3,319

\* The amount owed by related parties bears no interest and has no repayment date.

### NOTE 14 CASH AND CASH EQUIVALENTS

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

### NOTE 15 EQUITY

#### a. Share capital

The authorised share capital of the Company is represented by an unlimited number of Ordinary Shares with no par value.

As at 31 December 2008, the number of Ordinary Shares issued was 41,677,292 (2007: 40,942,292).

#### b. Nature and purpose of reserves:

##### Hedging reserve

This reserve is comprised of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

The net loss on cash flow hedges during the year, recognised in equity was €8,140 thousand (2007: loss of €2,590 thousand).

##### Currency translation reserve

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

#### c. Dividends paid:

	2008 €'000	2007 €'000
Declared and paid during the year (€0.86 per share)	-	15,000

### NOTE 16 SHARE-BASED PAYMENTS

During 2007 the Company established a Share Option Plan with the following principal terms:

- The Plan has two types of options: Option A and Option B. Both options have an exercise price per share of £5.50 (€7.50). Option A vests over a period of three years from date of grant and Option B vests at the end of three years from grant date. Unexercised options expire ten years after the date of grant. The plan does not include any performance conditions.
- At any time, the total number of shares issued and/or available for grant (in a ten-year period) under the Share Option Plan or under any other employee share scheme which the Company may establish in the future may not exceed 5% of the Company's issued share capital at that time. For the purpose of this calculation, any option granted under the Share Option Plan immediately following Admission to the AIM in July 2007 is disregarded.

The expense arising from equity-settled share based payment transactions during 2008 is €16 thousand (2007: €68 thousand).

As at 31 December 2008 amount of 98,078 options are exercisable.

## NOTE 16 SHARE-BASED PAYMENTS continued

### Movements during the year

The following table illustrates the number (No.) and exercise prices (EP) of, and movements in, share options during 2008 and 2007.

	No. of options	2008	2007
		EP £	
Outstanding at 1 January 2007	-	5.50	(€7.50)
Options A granted during the year	296,634	5.50	(€7.50)
Options B granted during the year	90,660	5.50	(€7.50)
Outstanding at 31 December 2007	387,294		
Options granted/exercised during the year	-		
Outstanding at 31 December 2008	387,294	5.50	(€7.50)

The weighted average remaining contractual life for the share options outstanding as at 31 December 2008 is 8.5 years (2007: 9.5 years).

The weighted average fair value of the options granted in 2007 was €0.51.

The following table lists the inputs to the model used for the Option plan:

	2007
Dividend yield (%)	0
Expected volatility (%)	30.00
Risk-free interest rate	5.04
Expected life of options (years)	6.00
Weighted average share price	£3.50 (€4.77)
Model used	Black Scholes Binomial

## NOTE 17 PLEDGES, CONTINGENT LIABILITIES AND COMMITMENTS

### a. Pledges, collateral and securities:

Substantially all of the Group's assets and all of the rights connected or related to the ownership of the assets (including shares of subsidiaries and restricted deposits) are pledged in favour of banks and financial institutions as a security for loans received. For most of the loans, specific assets are pledged as the sole security provided. For certain loans, the Group companies are required to comply with certain financial and operating covenants.

1. On 3 March 2006 three jointly controlled companies, Riverbank Hotel Holding B.V., Victoria Hotel Holding B.V. and Grandis Netherlands Holding B.V. ("Holding Companies") entered into a loan agreement as joint and several borrowers ("Borrowers") and Goldman Sachs International Bank as lender ("Lender") for the grant of a non recourse refinancing loan in the amount of £195 million (€205 million) ("the Loan"). The loan term ends on 3 March 2011 or, if the Borrowers have exercised a Term-out Option, on 3 March 2013.

In the event of cash distributions deriving from the sale, disposal of refinancing of the Holding Companies' hotels or upon repayment of the loan ("Transaction"), the Borrowers shall pay the Lender an amount ("Exit Fee") equivalent to 15% of the difference between the market value of the hotels at the Transaction date and the base value of the hotels for the purposes of the Loan. The payment amortisation schedule of the Loan includes an amount of €2.9 million in respect of the exit fee.

The Borrowers have undertaken that the ratio of the aggregate Net Operating Income and Management Borrower Operating Income to Debt service shall be no less than 1.05 on any two consecutive payment dates. As of 31 December 2008 the Borrowers are in compliance with the covenants.

2. On 1 October 2004, two jointly controlled companies, Utrecht Victoria Hotel B.V. and Victoria Hotel C.V., and a wholly-owned company, Mandarin Hotel B.V., as Borrowers and Guarantors entered into a €80 million term loan facility with Merrill Lynch International. The loan term ends on September 2009.

The Borrowers have undertaken that the amount of the loans at any time does not exceed 75% of the total value of the properties at that time recorded in the most recent valuation. In addition, the Borrowers shall ensure that, on each Interest date, Net Operating Income for each of the previous four financial quarters was not less than 135% of the Interest Service Costs for those four previous financial quarters. As of 31 December 2008 the Borrowers are in compliance with covenants.

**NOTE 17 PLEDGES, CONTINGENT LIABILITIES AND COMMITMENTS continued**

3. On 25 January 2006 three wholly-owned companies, Parkvondel Hotel Real Estate B.V. (“PHRE”) as Borrower, Parkvondel Hotel Holding B.V. (“PHH”) and Parkvondel Hotel Management B.V. (“PHM”) as Guarantors entered into a €18.5 million secured term facility agreement with NIBC Bank N.V. (“NIBC”) as Lender. The loan term ends on 25 January 2013.

In September 2008, PHRE and PHM refinanced the secured term facility agreement with NIBC and entered into a €21 million secured term facility agreement with Aareal Bank A.G. as Lender. The loan term ends on September 2013.

The Borrower must ensure that the loan to value ratio does not exceed 70% at any Covenants Test Date (the last of any quarter). Furthermore, the Borrower must ensure that the net operating income as a percentage of the annual finance costs (“Debt Service Cover Ratio”) is not at any Covenant Test Date lower than 120%. As of 31 December 2008 the Borrower is in compliance with the covenants.

4. On 14 December 2006 a jointly controlled company, Victoria Monument B.V. (the “Borrower”) and Bank Hapoalim B.M. (the “Lender”) entered into a €14 million facility agreement (the “Bank Hapoalim Facility”). This facility was made available to finance the purchase of a building located adjacent to the Park Plaza Victoria Amsterdam hotel (the “Property”). The facility is repayable in full on 30 November 2009.

The Borrower has taken upon itself to comply with a number of financial and operational covenants. As of 31 December 2008 the Borrower is in compliance with the covenants.

5. On 19 April 2007, Marlbray (the “Borrower”) entered into a £221 million (€232 million) facility agreement (the “Marlbray Facility Agreement”) with Bank Hapoalim B.M. (the “Lender”). The total drawdown as of 31 December 2008 is £155 million (€163 million).

The Loan drawn under the Marlbray Facility Agreement is repayable in full on the earlier of: (a) 30 business days of the date of Practical Completion of building (Practical Completion takes place when the last certificate required in connection with practical completion of the project and the costs of such certificate have been paid); and (b) the Final Maturity Date, being four years from the date of the Marlbray Facility Agreement. The interest rate on the Loan is LIBOR plus 2.15%.

As part of the loan agreement, the Lender was provided with Cost Overrun and Completion Guarantees given by the subsidiary, Euro Sea Hotels N.V. with a maximum amount payable of £6 million (€6.3 million), and a Sponsor Guarantee for the entire amount of the Loan.

In addition, the borrower has taken upon itself to comply with a number of financial covenants as specified in the loan agreement. As of 31 December 2008 the Borrowers are in compliance with the covenants.

b. Restricted deposits:

In connection with the development and sale by Marlbray of an apart-hotel (see Note 11), the Company has received deposits from unit holders in respect of pre-sold units (up to 25% of the contract sales price). The Group is committed to pay the unit holders interest on these deposits of 6% per annum, until the date of completion of construction of the units (expected in 2010).

As of 31 December 2008, the total amount of deposits received for the pre-sold contracts is approximately £46.2 million (€48 million). The total amount of deposits including accrued interest is approximately £51 million (€53.6 million). These deposits are restricted and are held in a separate interest-bearing bank account.

c. Commitments:

1. Management and Franchise agreements:

- (i) (iii) The Group entered into a Territorial Licence Agreement (the “Master Agreement”) with Carlson Hotels Worldwide, Inc. (“Carlson”). Under the Master Agreement, the Group, amongst other rights, is granted an exclusive licence to use the brand, Park Plaza Hotels & Resorts in 56 territories throughout Europe, the Middle East and Africa in perpetuity (the “Territory”). The Master Agreement also allows the Group to use, and licence others to use, the Carlson Systems within the Territory which right includes the right to utilise the System’s international marketing and reservations facilities and to receive other promotional assistance. The Group pays Carlson a fee based on a percentage of the hotels’ gross room revenue.
- (ii) The Group entered into several management agreements with operated hotels and developed hotels located in The Netherlands, and the United Kingdom, (“the hotels”) in consideration for an annual fee of 2%-3% of the hotels’ gross room revenues, as well as 7%-10% of the gross operating profit. The Group is also partially reimbursed for certain portions of the expenses incurred, up to 3% of the gross operating profit. The management agreements are for periods of 15-20 years. The Group is vested with ownership rights at a rate of 50% or 55%, as the case may be, in several of these hotels.
- (iii) Within the terms of the management agreements, the hotels were granted by the Group a sub-franchise licence allowing them the utilisation, throughout the term of the management agreements, of the Park Plaza Hotels & Resorts name, in consideration for royalties of a certain percentage of the gross room revenues.

## NOTE 17 PLEDGES, CONTINGENT LIABILITIES AND COMMITMENTS continued

### 2. Lease agreements:

- (i) The Group has entered into several operating lease agreements for the rental of land (see Note 7). Certain leases are subject to periodic rent reviews. The future minimum rental payments under non-cancellable leases are as follows:

	2008 €'000	2007 €'000
Within one year	727	942
After one year but not more than five years	2,908	3,767
More than five years	67,255	88,055
	70,890	92,764

- (ii) The Group operates hotels under various lease agreements in which the building, fixtures, furniture and equipment are leased. These leases have an average life of between 10-20 years, with renewal options. The lease payments are the higher of a minimum agreed amount and a percentage of the hotel turnover. The rental expenses presented in the income statements mainly consist of minimum lease payments.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2008 €'000	2007 €'000
Within one year	9,254	9,174
After one year but not more than five years	37,019	37,019
More than five years	112,623	121,877
	158,896	168,070

### 3. Construction contract commitment:

In March 2007, Marlbray entered into a construction contract with WW Gear Construction Limited and WW Gear – FF&E. The contract work comprises the design and construction on a “turnkey” basis of a hotel complex of 1,021 units (see Note 11). The total construction costs are approximately £173 million (€181 million). The construction is expected to be completed mid 2010. The balance of the construction cost commitment as of 31 December 2008 is £73 million (€77 million).

WW Gear Construction Limited and WW Gear – FF&E are companies under the control of the principal shareholder of the Company, who is also the chairman of the Board of Directors (see Note 29).

### 4. Guarantees

- a. In June 2005, Euro Sea Hotels N.V. (a wholly-owned subsidiary of the Company) acquired a 33.33% interest in Marlbray Limited from the founder shareholders. In February 2008, Euro Sea Hotels N.V., acquired the remaining 67% of the shares of Marlbray Limited (see Note 3).

One of the founder shareholders (Galliard Homes Limited), entered into Minimum Annual Yield Agreement with each of the apart-hotel units purchasers, which guarantees to the purchasers a fixed 6% annual yield on their investment for a period of five years from completion of the construction, which is expected in 2010.

As part of the February 2008 acquisition, the Company took upon itself the liability arising under this guarantee and recorded a provision (see Note 19) in respect thereof. As of 31 December 2008 the balance of the provision is approximately £25 million (€26 million).

## NOTE 18 BANK BORROWINGS

- a. Composed as follows:

Current:

	Average interest rate* %	As at 31 December	
		2008 €'000	2007 €'000
Bank loan in €	LIBOR + 1.5%	7,000	6,999
Bank loan in GBP (1)	LIBOR + 2.15%	163,022	-
Current maturities of long-term bank loans		43,697	21,657
		213,719	28,656

\* As at 31 December 2008.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### NOTE 18 BANK BORROWINGS continued

	Average interest rate* %	As at 31 December	
		2008 €'000	2007 €'000
Loans in €	5.26	62,956	61,494
Loans in GBP	7.72	104,806	138,075
		167,762	199,569
Less – current maturities		(43,697)	(21,657)
		124,065	177,912

(1) For maturity of the loan is with the completion of the construction in the beginning of 2010. For further details, see Note 17a.

\* For details of interest rate swap, see Note 31.

b. The loans are payable in future years, as follows:

	As at 31 December	
	2008 €'000	2007 €'000
1. Loan in €:		
First year – current maturities	42,061	19,537
Second year	210	41,957
Third year	210	–
Fourth year	420	–
Fifth year	20,055	–
	62,956	61,494
2. Loan in GBP:		
First year – current maturities	1,636	2,120
Second year	1,636	2,120
Third year	1,636	2,120
Fourth year	1,636	2,120
Fifth year	98,262	2,120
Thereafter	–	127,475
	104,806	138,075

For securities and pledges, see Note 17.

### NOTE 19 OTHER LIABILITIES

	As at 31 December	
	2008 €'000	2007 €'000
Derivative financial instruments (see Note 31)	4,628	–
Loans from jointly controlled entities	32,094	25,650*
Other	442	437
	37,164	26,087

\* Reclassified due to gross up of balances with jointly controlled entities.

## NOTE 20 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2008 €'000	2007 €'000
Employees	926	968
VAT and taxes (2)	2,123	2,037
Accrued interest	1,164	1,879
Accrued expenses	5,126	6,363
Accrued rent	2,415	1,984
Derivative financial instruments (see Note 31)	378	-
Related parties (1)	1,359	2,437
	13,491	15,668

(1) The amount owed to related parties bears no interest and has no repayment date.

(2) Includes corporate income taxes in 2008 of 241 (2007: 83)

## NOTE 21 REVENUES

	As at 31 December	
	2008 €'000	2007 €'000
Hotel operations in The Netherlands	22,950	20,434
Hotel operations in the United Kingdom	33,175	34,855
Hotel operations in Germany	22,875	12,800*
Hotel operations in Hungary	5,101	2,723*
Management fees (see Note 17c(1))	5,330	2,296
Franchise fees (see Note 17c(1))	2,847	1,393
Marketing fees	885	513**
Other	222	52**
	93,385	75,039

\* Separation of the hotel operations in Germany and in Hungary.

\*\* In 2007 was not material therefore included in "other".

## NOTE 22 OPERATING EXPENSES

	As at 31 December	
	2008 €'000	2007 €'000
Salaries and related expenses	26,451	20,424
Department expenses	19,737	13,717
Food and beverages	4,318	4,054
Franchise fees	3,621	1,801
Management fees	-	1,105
Insurance	2,429	1,910
Other expenses	972	1,492
	57,528	44,503

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### NOTE 23 FINANCIAL EXPENSES

	Year ended 31 December	
	2008 €'000	2007 €'000
Interest on bank loans	23,845	15,869
Loan facility amendment fee	-	2,914
Interest and other finance expenses to related parties (see Note 29 (b))	-	1,957
Interest and other finance expenses to jointly controlled entities	172	-
Interest on restricted deposits	2,772	-
Other	957	468
	27,746	21,208
Less – borrowing costs capitalised	(10,209)	(377)
	17,537	20,831

### NOTE 24 FINANCIAL INCOME

	Year ended 31 December	
	2008 €'000	2007 €'000
Interest on restricted deposit	2,619	-
Interest on bank deposits	3,371	3,335
Interest from related parties (see Note 29 (b))	665	370
Other	29	77
	6,684	3,782

### NOTE 25 OTHER INCOME

	Year ended 31 December	
	2008 €'000	2007 €'000
Negative goodwill upon acquisition of Park Plaza Group (Note 3)	-	13,036
Gain on sale of interest in joint venture (Andrassy ut 25 Kft.)	-	9,148
Negative goodwill upon acquisition of Marlbray (Note 3)	6,500	-
Other	7	-
	6,507	22,184

### NOTE 26 INCOME TAXES

a. Taxes on income (tax benefit) included in the income statements:

	Year ended 31 December	
	2008 €'000	2007 €'000
Current taxes	389	263
Taxes in respect of previous years	-	(966)
Deferred taxes	(362)	682
	27	(21)

**NOTE 26 INCOME TAXES continued**

b. The following are the major deferred tax liabilities and assets recognised by the Group and changes therein during the period:

	Tax loss carry forward €'000	Property, plant and equipment and intangible assets €'000	Inventories under construction €'000	Other €'000	Total €'000
Balance as at 1 January 2007	-	(1,192)	-	-	(1,192)
Acquisition of Park Plaza Group	3,870	(3,512)	-	(545)	(187)
Amounts charged to income statement	(800)	93	-	25	(682)
Balance as at 31 December 2007	3,070	(4,611)	-	(520)	(2,061)
Acquisition of Marlbray	-	-	(10,562)	-	(10,562)
Amounts charged to income statement	(542)	503	-	401	362
Adjustments for exchange rate differences	-	-	2,291	-	2,291
Balance as of 31 December 2008	2,528	(4,108)	(8,271)	(119)	(9,970)

c. Reconciliation between tax expense and the product of accounting profit multiplied by the Group's tax rate is as follows:

	Year ended 31 December	
	2008 €'000	2007 €'000
Profit before income taxes	7,940	22,277
Expected tax at the tax rate of The Netherlands 25.5% (1)	2,025	5,681
Adjustments in respect of:		
Income at 0% tax rate	(5,122)	(1,619)
Taxes of previous years	-	(966)
Non-deductible expenses	580	364
Non-taxable income	(1,391)	(6,481)
Tax losses for which no deferred tax was recorded	3,935	3,164
Other	-	(164)
Income tax expense (benefit) reported in the income statement of operations	27	(21)

(1) The tax rate that was used is the tax rate of The Netherlands, since the majority of the tax exposure is in this tax jurisdiction.

d. Tax laws applicable to the Group companies:

1. The Company is subject to taxation under the law of Guernsey. The Company is therefore now taxed at the standard rate of 0%.
2. Foreign subsidiaries are subject to income taxes in their country of domicile in respect of their income, as follows:
  - a. Taxation in The Netherlands: corporate income tax rate for the year 2008 is 25.5% (2007: 25.5%).
  - b. Taxation in the United Kingdom: corporate income tax rate for the year 2008 for domicile companies is 28% and for non-domicile 22.0%.
  - c. Taxation in Germany: corporate income tax rate and business rates is 30.2%.
  - d. Taxation in Hungary: corporate income tax rate is 18.0%.
  - e. Losses carried forward for tax purposes:

The Company and its subsidiaries have carry forward losses for tax purposes estimated at approximately €112.3 million (2007: €93.4 million). The Group did not provide for deferred taxes in respect of losses amounting to €111 million (2007: € 90.8 million). Tax losses are to be used up to eight years from the day they have been recorded.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### NOTE 27 EARNINGS PER SHARE

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

	Year ended 31 December	
	2008 €'000	2007 €'000
Profit (loss)	7,913	22,298
Weighted average number of Ordinary Shares outstanding	41,558	28,611

Potentially dilutive instruments (share options – see Note 16) have not been included in the calculation of diluted earnings per share because they are anti-dilutive for all periods presented.

### NOTE 28 SEGMENTS

The segment reporting format is determined to be geographical segments as the Group's risks and rates of return are affected predominantly by the location of the Group's hotels.

	Year ended 31 December 2008					
	The Netherlands €'000	Germany €'000	United Kingdom €'000	Hungary €'000	Adjustments and eliminations €'000	Consolidated €'000
<b>REVENUE</b>						
Third party	22,950	22,829	33,175	5,101	9,330	93,385
Inter-segment	31	686	97	-	(814)	-
<b>TOTAL REVENUE</b>	<b>22,981</b>	<b>23,515</b>	<b>33,272</b>	<b>5,101</b>	<b>8,516</b>	<b>93,385</b>
<b>OPERATING RESULTS</b>	<b>6,594</b>	<b>(1,206)</b>	<b>4,750</b>	<b>(422)</b>	<b>3,607</b>	<b>13,323</b>
Interest expense (income)	3,709	533	20,504	-	(7,209)	17,537
Share in net losses of associates	-	-	-	-	(1,037)	(1,037)
	2,885	(1,739)	(15,921)	(422)	9,946	(5,251)
Unallocated income (1)						13,191
Profit before tax						7,940
<b>OTHER INFORMATION</b>						
Segment assets	80,655	12,808	366,392	716	125,129 (2)	585,700
Investment in associate	-	-	-	-	22,680	22,680
Consolidated total assets						608,380
Segment liabilities	4,733	5,088	98,673	638	14,667 (2)	123,799
Financial liabilities	69,956	-	267,828	-	-	337,784
	74,689	5,088	366,501	638	14,667	461,583
Capital expenditure	2,747	1,697	15,518	21	442	20,425
Depreciation and amortisation	1,778	165	4,349	55	2,703	9,050
Impairment loss	-	-	1,257	-	1,027	2,284

NOTE 28 SEGMENTS continued

Year ended 31 December 2007

	The Netherlands €'000	Germany €'000	United Kingdom €'000	Hungary €'000	Adjustments and eliminations €'000	Consolidated €'000
<b>REVENUE</b>						
Third party	20,903	12,857	34,867	2,723	3,689	75,039
Inter-segment	-	-	-	-	-	-
<b>TOTAL REVENUE</b>	<b>20,903</b>	<b>12,857</b>	<b>34,867</b>	<b>2,723</b>	<b>3,689</b>	<b>75,039</b>
<b>OPERATING RESULTS</b>	<b>2,928</b>	<b>250</b>	<b>7,409</b>	<b>146</b>	<b>6,449</b>	<b>17,182</b>
Interest expense	3,265	-	15,748	-	1,818	20,831
Share in net losses of associates	-	-	(40)	-	-	(40)
	(337)	250	(8,379)	146	4,631	(3,689)
Unallocated income (1)						25,966
Profit before tax						22,277
<b>OTHER INFORMATION</b>						
<b>SEGMENT ASSETS</b>	<b>85,092</b>	<b>11,772</b>	<b>143,936</b>	<b>1,014</b>	<b>169,230 (2)</b>	<b>411,044</b>
Investment in associate	-	-	9,109	-	-	9,109
Consolidated total assets						420,153
Segment liabilities	8,928	1,466	16,368	759	20,797 (2)	48,318
Financial liabilities	68,493	-	138,075	-	-	206,568
	77,421	1,466	154,443	759	20,797	254,886
Capital expenditure	30,837	4,500	31,175	-	52,404	118,916
<b>DEPRECIATION AND AMORTISATION</b>	<b>1,137</b>	<b>67</b>	<b>4,656</b>	<b>7</b>	<b>1,385</b>	<b>7,252</b>

(1) Consist of finance income and other income.

(2) Consist of corporate's and management companies' assets and liabilities.

**Business segments**

Revenue from external customers:

	Year ended 31 December	
	2008 €'000	2007 €'000
Hotel operations	84,055	71,350
Management and franchise fees	9,330	3,689
<b>Total</b>	<b>93,385</b>	<b>75,039</b>

Operating assets:

	Year ended 31 December	
	2008 €'000	2007 €'000
Hotel operations	178,502	229,391
Management and franchise fees	79,450	63,361
Inventories under construction	281,595	-
Adjustments and eliminations	64,610	103,921
<b>Total</b>	<b>604,157</b>	<b>396,673</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### NOTE 28 SEGMENTS continued

Capital expenditures:

	Year ended 31 December	
	2008 €'000	2007 €'000
Hotel operations	19,983	8,427
Management and franchise fees	442	4,210
Total	20,425	12,637

### NOTE 29 RELATED PARTIES

a. Balances with related parties\*:

	Year ended 31 December	
	2008 €'000	2007 €'000
Loans to jointly controlled entities (3)	30,222	23,480
Loan to associate – WH/DMREF Bora (1)	22,760	–
Short-term receivables	568	1,291
Trade receivables – Park Plaza Leeds and Park Plaza Nottingham	2,645	2,650
Trade receivables – Arenaturist (1)	942	–
Loans from jointly controlled entities (3)	32,044	25,650
Trade payables – WW Gear Construction Limited (see Note 17c(3))	4,144	–
Short-term payables – WW Gear Construction Limited	918	1,931
Short-term payables – other	441	506

b. Transactions with related parties\*:

	Year ended 31 December	
	2008 €'000	2007 €'000
Management fees income – Arenaturist (1)	875	–
Fee income – Park Plaza Leeds and Park Plaza Nottingham (2)		
– Management fee	225	540
– Franchise fees	61	138
– Marketing fees	41	93
– Reservation fees	112	143
– Reimbursement and other fees	73	151
Interest and other financial expense	–	1,957
Interest from associate – (WH/DMREF Bora) (1)	665	–
Interest and other financial expenses to jointly controlled entities	172	–
Interest income – Park Plaza Leeds and Park Plaza Nottingham	–	370
Construction costs incurred and capitalised to inventories	70,236	–

\* Balances and transactions are with shareholders and companies controlled by shareholders, unless otherwise stated.

(1) The Group holds 20% of the equity of WH/DMREF Bora (see Note 8).

(2) See Note 17c(1).

(3) a. Loans to jointly controlled entities in the amount of €6.6 million (loan from jointly controlled entity in the amount of €8 million) is denominated in Euro and bear interest at the annual rate of 6.125%. The loan's period is seven years, commencing 1 January 2003.

b. Loans in the amount of €16 million are denominated in Euro and bear interest at the annual rate of 4%. The loan has no repayment date.

c. Loan in the amount of €4.5 million is denominated in GBP and bears interest at the annual rate of LIBOR +2%. The loan's period is five years.

d. Loan to jointly controlled entity in the amount of €2.5 million (loan from jointly controlled entity in the amount of €2.9 million) is denominated in GBP and bear interest at the annual rate of 6.125%. The loan has no repayment date.

e. Loan in the amount of €0.2 million is denominated in GBP and bear interest at the annual rate of 6.125%. The loan period is seven years, commencing 1 January 2003.

f. Loan in the amount of €0.4 million is denominated in GBP and bear no interest. The loan period is 11 years, commencing 11 July 2002.

**NOTE 29 RELATED PARTIES continued**

c. Compensation to key management personnel (Executive and Non-Executive Board members):

	Year ended 31 December	
	2008 €'000	2007 €'000
Short-term employee benefits	1,211	828
Share-based payments	-	23
<b>Total compensation</b>	<b>1,211</b>	<b>851</b>

**Director's interests in employee share incentive plan**

Share options held by Executive members of the Board of Directors to purchase Ordinary Shares have the following expiry dates and exercises prices:

Issue date	Expiry date	Exercise price	2008 Number
2007	2008	£5.50 (€7.50)	30,909
2007	2009	£5.50 (€7.50)	30,909
2007	2010	£5.50 (€7.50)	61,818

Non-shares options have been granted to Non-Executive members of the Board under this scheme.

**NOTE 30 JOINTLY CONTROLLED ENTITIES**

The Group has an interest in jointly controlled entities (Appendix B) which are engaged in the development, construction, management and operation of hotels. For further information regarding the terms of loans with jointly controlled entities see Note 29. The share of the assets, liabilities, income and expenses of the jointly controlled entities, which are included in the Consolidated financial statements are as follows:

	Year ended 31 December	
	2008 €'000	2007 €'000
Non-current assets	161,208	180,846
Current assets	9,196	11,993
	170,404	192,839
Non-current liabilities	(144,358)	(192,791)
Current liabilities	(54,486)	(23,871)
	(198,844)	(216,662)
	(28,440)	(23,823)

	Year ended 31 December	
	2008 €'000	2007 €'000
Revenues	47,412	51,930
Operating expenses	(30,634)	(33,740)
<b>EBITDAR</b>	<b>16,778</b>	<b>18,190</b>
Rental expenses	(1,248)	(1,157)
<b>EBITDA</b>	<b>15,530</b>	<b>17,033</b>
Depreciation and amortisation	(5,074)	(4,731)
<b>EBIT</b>	<b>10,456</b>	<b>12,302</b>
Financial expenses, net	(17,828)	(16,259)
Loss before income taxes	(7,372)	(3,957)
Income taxes	291	265
<b>Loss for the year</b>	<b>(7,663)</b>	<b>(4,222)</b>

### NOTE 31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swap contracts. The purpose is to manage the interest rate risk arising from the Group's operations and its sources of finance. It is, and has been throughout the years under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, credit risk and liquidity risk. The Board of Directors reviews and agrees on policies for managing each of these risks which are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 2.

The Group is not exposed to significant foreign currency risk due to transactions in foreign currency, as most of the transactions of each of the entities in the Group are denominated in the functional currency of the relevant entity.

#### Interest rate risk

The Group's exposure to the risk for changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using fixed rate debt. To manage its interest costs the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations. After taking into account the effect of interest rate swaps, 100% (2007: 100%) of the Group's long-term borrowings are at a fixed rate of interest. The Group has two variable interest rate debt relating to a short-term loan for the renovation of a hotel building and a GBP short-term loan for the construction of a hotel in the United Kingdom. The interest expense on these loans is capitalised during the construction period. For this reason the Group's profit is not sensitive to possible change in interest rates. Possible changes in interest rates do affect the Group equity as the fair value of the swap agreements changes with interest rate changes.

The fair value of the swaps of the Group as of 31 December 2008 amounts to a liability of €5 million (2007: asset of €3.7 million). The movements in the value have been accounted for in equity. The Group performed a sensitivity analysis for the effect of market interest rate changes on the fair value of the swaps. Based on this sensitivity analysis calculation, the management expects that with an increase/decrease of the three-month market interest rate by 50 bps, the fair value of the swaps, and the hedge reserve in equity, will increase/decrease by €2.5million (2007: €3.7million).

The Group uses short-term deposits (weekly and monthly) to maximise its returns on the cash proceeds from the IPO. Furthermore, in order to secure some of the Group's cash, the Group made an investment in UK government bonds, which are classified as held-to-maturity, in the amount of €21.4 million bearing an effective annual interest rate of 2.1%.

Restricted deposits that are received from unit holders (see Note 17b) are held in bank accounts in the United Kingdom bearing fixed annual rate of 6%.

As of 31 December 2008 the Group has additional deposits in the amount of €12 million. The interest income is subject to changes in the interest rates. In 2008, the average received interest rate was 4.6% (2007: 6.2%). Should the interest rate increase/decrease by an average of 46 bps in 2009, the profit of the Group will increase/decrease by €60 thousand.

#### Credit risk

The Group trades only with recognised, credit worthy third parties. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Company's policies ensure that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Since the Group trades only with recognised third parties, there is no requirement for collateral for debts with third parties. Furthermore, the Group has no dependency on any of its customers. The receivable balances are monitored on an ongoing basis. Management monitors the collectibility of receivables through credit meetings and weekly reports on individual balances of receivables. Impairment of trade receivables is recorded when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of all trade and other receivables has been written down to their recoverable amount. The result of these actions is that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, investment in securities and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

As of 31 December 2008 the Group has a balance of €3.6 million (2007: €2.7 million) from related parties which is collectible based on, among others, the commitment from the shareholders to continue to provide the related parties with necessary financing in order to meet their obligations.

The Group as of 31 December 2008 has an available-for-sale investment in shares, in the amount of €2.2 million. The shares are presented at their quoted market price and changes in market price are recorded in equity. Should the market prices of the shares increase/decrease by an average of 10% in 2009, the equity of the Group will increase/decrease by €220 thousand.

## NOTE 31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The Group's policy is to arrange medium-term bank facilities to finance its construction operation and then to convert them into long-term borrowings.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2008 and 2007 based on contractual undiscounted payments.

	Year ended 31 December 2008					Total €'000
	Less than 3 months €'000	3 to 12 months €'000	1 to 2 years €'000	3 to 5 years €'000	> 5 years €'000	
Interest bearing loans and borrowings	3,061	58,838 (1)	179,545 (2)	138,522 (3)	-	380,506
Deposits received from unit holders	720	2,160	54,300	-	-	57,180
Loans from jointly controlled entities	-	-	28,573	5,915	-	34,488
Other financial liabilities	-	-	-	2,461	293	2,754
Trade payables	9,594	-	-	-	-	9,594
Other liabilities	7,773	4,899	-	-	-	12,672
	21,688	65,897	262,418	146,898	293	497,194

(1) See Notes 1d and 17a(2) for further information.

(2) The Company has an outstanding loan in the amount of €163 million which is due to be repaid upon completion of the Park Plaza Westminster Bridge London project mid 2010 (as described in Notes 3 and 18). The Company expects that the loan will be repaid from the proceeds of the sales of the units upon completion.

(3) The Company has an option, providing certain covenants are met, to extend the term of a loan in the amount of € 104.8 million from 2011 to 2013 (see Note 17a(1)).

	Year ended 31 December 2007				Total €'000
	< 3 months €'000	3 to 12 months €'000	1 to 5 years €'000	> 5 years €'000	
Interest bearing loans and borrowings	4,477	38,126	95,541	131,554	269,698
Other financial liabilities	-	-	2,601	272	2,873
Loans from jointly controlled entities	-	-	27,090	320	27,410
Trade payables	4,502	-	-	-	4,502
Other liabilities	7,724	7,944	-	2,061	17,729
	16,703	46,070	125,232	132,146	320,151

### Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 60% and 70%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents. Capital includes equity less the hedging reserve.

	2008 €'000	2007 €'000
Interest bearing loans and borrowings	337,784	206,568
Less - cash and cash equivalents	(33,065)	(119,376)
Less - other liquid assets	(22,363)	(646)
Net debt	282,356	86,546
Equity	146,797	165,267
Hedging reserve	6,381	(1,759)
Total capital	153,178	163,508
Capital and net debt	435,534	250,054
Gearing ratio	64.8%	34.6%*

\* In 2007, the gearing ratio included the proceeds from the IPO, which had not been invested in projects yet.

### NOTE 31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term deposits, trade receivables, loans to associate, available-for-sale marketable shares, other receivables and prepayments, short-term bank borrowings, other payables and accruals, trade payables and variable rate loans approximate their fair value.

Derivative financial instruments:

1. The majority of the Group's borrowings are at variable interest rates. To limit its exposure to changes in the rates of the LIBOR on its cash flows and interest expense the Group has entered into various interest rate swaps, as described below.
2. In 2004, three subsidiaries of the Company entered into an interest swap agreement with Merrill Lynch. According to the agreement, the subsidiary swapped the floating interest rate of three months LIBOR on a loan in the amount of €43.5 million, received from Merrill Lynch, with a fixed interest rate of 3.41% for a period of five years effective from October 2003 and maturing in October 2009.

The swap is presented at its fair value, as prescribed for such transactions in IAS 39, and changes in the fair value are reflected in the shareholders' equity, net of tax. As of 31 December 2008 the fair value amounted to a liability of €0.4 million (31 December 2007: asset of €0.7 million).

3. In 2006, three jointly controlled companies of the Company entered into an interest rate swap hedge transaction, according to which the companies swapped the variable interest rate of three months LIBOR +3% on a loan in the amount of €138.1 million received from Goldman Sachs International Bank with fixed interest rate of 7.72% for a period until 2011.

The fair value of the swap as of 31 December 2008 is estimated at a liability €7.2 million (2007: asset of 2.5 million).

4. a In 2007, a subsidiary entered into an interest rate swap according to which the subsidiary swapped the variable interest rate of three month EURIBOR on a loan in the amount of €15.75 million received from NIBC with fixed interest payments at rates varying from 2.84% to 3.91% for periods up to 2012.

As of 31 December 2007, the fair value of the swap is estimated at an asset of €0.5 million.

- b In 2008, the subsidiary refinanced the above mentioned loan from NIBC and entered into an interest rate swap, according to which the subsidiary swapped the variable interest rate of three months EURIBOR on a loan in the amount of €21 million received from a Aareal Bank A.G. with fixed interest payments at the rate of 3.77% for the periods up to September 2013.

As of 31 December 2008, the fair value of the swap is estimated at a liability of €0.4 million.

### NOTE 32 POST BALANCE SHEET EVENT

On 3 April 2009 Marlbray has signed an agreement with Bank Hapoalim to increase the existing £221 million (€232 million) facility for construction of the Park Plaza Westminster Bridge London Project to £248 million (€260 million). The loan now covers the total project development cost.

# APPENDICES TO FINANCIAL STATEMENTS

## APPENDIX A: SUBSIDIARIES AND INVESTMENTS INCLUDED IN THE EURO SEA GROUP

	Principal activity	Country of incorporation	Direct and indirect holdings %
<b>EURO SEA GROUP:</b>			
Euro Sea Hotels N.V. (1) (4)	Hotel operation and management	The Netherlands	100
The Mandarin Hotel B.V. (1) (4)	Hotel operation	The Netherlands	100
Suf Holdings B.V. (1) (4)	Holding company	The Netherlands	100
Victory Enterprises I B.V. (1) (4)	Holding company	The Netherlands	100
Victoria Monument B.V. (1) (4)	Holding company	The Netherlands	50
V.H.R.I. B.V. (1) (4)	Holding company	The Netherlands	50
V.H.R.M.S. B.V. (1) (4)	Hotel operation	The Netherlands	50
Utrecht Victoria Hotel B.V. (1) (4)	Hotel operation	The Netherlands	50
Victoria Hotel C.V. (1) (4)	Hotel operation	The Netherlands	50
Riverbank Hotel Operator Ltd. (1) (4)	Hotel operation	United Kingdom	55
Riverbank Hotel Holding B.V. (1) (4)	Hotel operation	The Netherlands	55
Victoria London Hotel Holding B.V. (1) (4)	Hotel operation	The Netherlands	50
Victoria Park Plaza Operator Ltd. (1) (4)	Hotel operation	United Kingdom	50
Victoria Pub Holdings B.V. (1) (4)	Hotel operation	The Netherlands	50
Sherlock Holmes Park Plaza Ltd. (1) (4)	Management	United Kingdom	55
Grandis Netherlands Holding B.V. (1) (4)	Management	The Netherlands	55
Marlbray Limited (4)	Hotel operation	United Kingdom	100 (2007: 33%)
WM/DMREF Bora B.V. (4) (5)	Holding company	The Netherlands	20
Park Plaza Hotels Europe Holdings B.V. (2) (4)	Holding company	The Netherlands	100
Park Plaza Hotels Europe B.V. (2) (4)	Management	The Netherlands	100
Park Plaza Hotels (Germany) Services GmbH (2) (4)	Management	Germany	100
Park Plaza Hotels Europe (Germany) B.V. (2) (4)	Management	The Netherlands	100
Sugarhill Investments B.V. (2) (4)	Holding company	The Netherlands	100
Park Plaza Germany Holdings GmbH (2) (4)	Holding company	Germany	100
Park Plaza Berlin Hotelbetriebsgesellschaft GmbH (2) (4)	Hotel operation	Germany	100
Park Plaza Dresden Hotelbetriebsgesellschaft GmbH (2) (4)	Hotel operation	Germany	100
Park Plaza Wallstrasse Hotelbetriebsgesellschaft GmbH (2) (4)	Hotel operation	Germany	100
art'otel Berlin Mitte/Park Plaza Betriebsgesellschaft GmbH (2) (4)	Hotel operation	Germany	100
art'otel Berlin City Center West GmbH (2) (4)	Hotel operation	Germany	100
art'otel Dresden/Park Plaza Betriebsgesellschaft GmbH (2) (4)	Hotel operation	Germany	100
art'otel Budapest Szállodaüzemelteto Kft (2) (4)	Hotel operation	Hungary	100
Park Plaza Nuremberg GmbH (4)	Hotel operation	Germany	100
Parkvondel Hotel Holding B.V. (2) (4)	Hotel operation	The Netherlands	100
Parkvondel Hotel Real Estate B.V. (2) (4)	Holding company	The Netherlands	100
Parkvondel Hotel Management B.V. (2) (4)	Holding company	The Netherlands	100
Golden Wall Investments Limited (2) (3)	Finance company	British Virgin Islands	100
Apex Holdings Limited (3)	Holding company	United Kingdom	100
Aspirations Limited (4)	Holding company	United Kingdom	50
Park Plaza Coöperatief UA (3)	Holding company	The Netherlands	100
Park Plaza Hotels (UK) Services Limited (4)	Management	United Kingdom	100

(1) Subsidiaries and investments included in the Euro Sea Group.

(2) Subsidiaries and investments included in the Park Plaza Group (before the merger with Euro Sea Group).

(3) Direct holdings.

(4) Indirect holdings.

(5) Investment in an associate.

## APPENDICES TO FINANCIAL STATEMENTS CONTINUED

### APPENDIX B: JOINTLY CONTROLLED ENTITIES

Name of company	Principal activity	Country of incorporation	Proportion of ownership interest %
V.H.R.I. B.V.	Holding company	The Netherlands	50
V.H.R.M.S. B.V.	Hotel operation	The Netherlands	50
Utrecht Victoria Hotel B.V.	Hotel operation	The Netherlands	50
Victoria Hotel C.V.	Hotel operation	The Netherlands	50
Victoria Monument B.V.	Holding company	The Netherlands	50
Riverbank Hotel Operator Limited	Hotel operation	United Kingdom	55 (1)
Riverbank Hotel Holding B.V.	Holding company	The Netherlands	55 (1)
Victoria London Hotel Holding B.V.	Holding company	The Netherlands	50
Victoria Park Plaza Operator Limited	Hotel operation	United Kingdom	50
Sherlock Holmes Park Plaza Limited	Hotel operation	United Kingdom	55 (1)
Grandis Netherlands Holding B.V.	Holding company	The Netherlands	55 (1)
Victoria Pub Holding B.V.	Holding company	The Netherlands	50
Aspirations Limited	Hotel operation	United Kingdom	50

(1) The Company has 50% of the voting rights in the entity.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARK PLAZA HOTELS LIMITED

We have audited the Consolidated financial statements ("the financial statements") for the year ended 31 December 2008 of Park Plaza Hotels Limited and subsidiaries ("the Group") which comprise the Consolidated balance sheet, the Consolidated income statement, the Consolidated statement of changes in equity, the Consolidated statement of cash flow and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the financial statements in accordance with applicable Guernsey law as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the Company has not kept proper accounting records, if the Company's financial statements are not in agreement with the accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements within it. The other information comprises the Group at a glance, Financial highlights, the Chairman's statement, the Chief Executive Officer's review, the Chief Financial Officer's report, Review of 2008, Corporate Social Responsibility and Corporate governance (including the Statement of Directors' responsibilities) and Board of Directors. Our responsibilities do not extend to any other information.

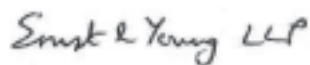
## BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## OPINION

In our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group's affairs as at 31 December 2008 and of its results for the year then ended and have been properly prepared in accordance with the Companies (Guernsey) Law, 2008.



Guernsey, Channel Islands  
24 April 2009

# SHAREHOLDER INFORMATION

## SHAREHOLDER ENQUIRIES

For information about the management of shareholdings please contact our registrar:

Shareholder Services  
Capita Registrars  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
United Kingdom

E: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)

T: UK 0871 664 0300

Calls cost 10p per minute plus network extras.

T: Overseas +44 208 639 3399

## INVESTOR RELATIONS ENQUIRIES

Chen Moravsky  
Chief Financial Officer  
Hasselaerssteeg 11  
1012 MB Amsterdam  
The Netherlands

T: +31 (0) 20 717 8602

F: +31 (0) 20 320 9791

E: [cmoravsky@pphe.com](mailto:cmoravsky@pphe.com)

## WEBSITE

Annual Reports, half year reports and share information are all available on our website [www.parkplazahotels.net](http://www.parkplazahotels.net)

## FINANCIAL CALENDAR

Financial year: 1 January to 31 December

Earnings releases: 30 June, 31 December

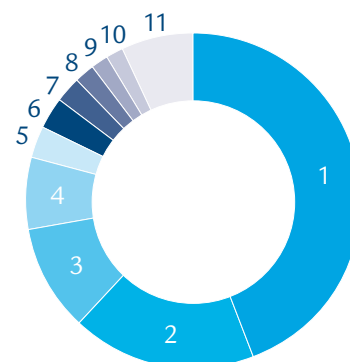
Annual General Meeting: 10 June 2009

LONDON STOCK EXCHANGE TRADING CODE: PPH.L

## LARGEST SHAREHOLDERS

NAME	Number of shares	Percentage of issued share capital
1 Euro Plaza Holdings B.V.	18,669,141	44.79%
2 Molteno Limited	7,500,000	18.00%
3 Goldman Sachs Securities	4,268,432	10.24%
4 Vidacos Nominees Limited	2,924,863	7.02%
5 Chase Nominees Limited	1,375,888	3.30%
6 Royal Bank of Canada Europe Limited	1,293,712	3.10%
7 Credit Suisse Securities (Europe) Limited	1,028,037	2.47%
8 The Bank of New York	781,907	1.88%
9 Nortrust Nominees Limited	737,653	1.77%
10 Morstan Nominees Limited	655,919	1.57%
11 Other	2,885,581	6.92%
<b>Total</b>	<b>41,677,292</b>	<b>100.00%</b>

\* 443,841 shares of the total shares owned by Euro Plaza Holdings B.V. are held through Red Seas Club Limited and PPHL Holding B.V. These shares are held by a Nominee and are counted in both the total for Euro Plaza Holdings B.V. and as part of one of the Nominees.



# CURRENT AND COMMITTED PROJECTS

PROJECT	LOCATION	OPERATING STRUCTURE	NO OF ROOMS	EXPECTED TO OPEN
art'otel cologne	Cologne, Germany	Operating lease	220	2009
art'otel marrakech	Marrakech, Morocco	Franchise agreement	70	2009
Park Plaza Marrakech	Marrakech, Morocco	Franchise agreement	114	2009
art'otel london hoxton	London, United Kingdom	Joint venture/management contract	370	Planning application to be submitted 2009
Redevelopment of eight hotels and five apartments	Croatia	Management contract and equity investment	2,810*	2009 onwards
Park Plaza Westminster Bridge London	London, United Kingdom	Owned	1,021**	2010
art'otel amsterdam	Amsterdam, The Netherlands	Co-owned	100	2010
Park Plaza Nuremberg	Nuremberg, Germany	Owned	175	2010
Chain of new hotels	Russia	Management contract	3,500-4,000	2010 onwards
Number of rooms in development pipeline			Up to 6,070	
Current number of rooms			7,102	
Total number of rooms expected by 31 December 2012			Up to 13,172	

\* Park Plaza Hotels currently manages and operates 2,810 rooms in Croatia which have been included in the current number of rooms in the Group's portfolio. They have not been included in the calculation of rooms in the development pipeline.

\*\* Of which 818 rooms have already been sold to investors.

# NOTICE OF ANNUAL GENERAL MEETING

## PARK PLAZA HOTELS LIMITED

(Registered in Guernsey under number 47131)

NOTICE IS HEREBY GIVEN that the second Annual General Meeting of the Company will be held at St Pierre Park Hotel, Rohais, St Peter Port, Guernsey GY1 1FD on 10 June 2009 at 12.00 noon for the following purposes:

### ORDINARY BUSINESS

To consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:

1. That the Report of the Directors and the Accounts of the Company for the year ended 31 December 2008 together with the report of the auditors be received;
2. That Ernst & Young LLP be re-appointed as auditors of the Company for the ensuing year and the Directors be authorised to determine their remuneration;
3. That Boris Ivesha, who retires by rotation in accordance with the Company's Articles of Incorporation and, being eligible, offers himself for re-appointment as a Director of the Company, be re-elected; and
4. That Chen Moravsky, who retires by rotation in accordance with the Company's Articles of Incorporation and, being eligible, offers himself for re-appointment as a Director of the Company, be re-elected.

### SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions as Special Resolutions:

5. That the Articles of Incorporation produced to the meeting and initialled by the Chairman of the meeting for the purposes of identification be adopted as the Articles of Incorporation of the Company in substitution for, and to the exclusion of, the existing Articles of Incorporation; and
6. That the Directors of the Company be and they are hereby empowered pursuant to Article 4.22 of the Company's Articles of Incorporation to allot shares of the Company for cash as if Article 4.14 of the Company's Articles of Incorporation did not apply to any such allotment provided that this authority shall be limited to the allotment of shares of the Company:
  - (a) in connection with a rights issue, open offer or other offer of securities in favour of the holders shares of the Company on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory; and
  - (b) (otherwise than pursuant to sub-paragraph (a) of this resolution) up to a maximum aggregate number of 4,166,729 shares of the Company.

To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

7. That the Company be and is hereby unconditionally and generally authorised for the purpose of Article 4.13 of the Company's Articles of Incorporation at any time at the absolute discretion of the Directors in accordance with The Companies (Guernsey) Law, 2008 (as amended) to make market purchases (as defined in that Law) of the Company's Ordinary Shares on such terms and in such manner as the Directors of the Company shall from time to time determine provided that:
  - (a) the maximum aggregate number of shares hereby authorised to be acquired is 6,250,093;
  - (b) the minimum price that may be paid for each share is €0.01 (exclusive of expenses);
  - (c) the maximum price (exclusive of expenses) that may be paid for each share is an amount equal to 105% of the average of the middle market quotations for a share as derived from AIM for the five business days immediately preceding the day on which the share is contracted to be purchased;
  - (d) the authority conferred shall expire at the conclusion of the next annual general meeting of the Company, unless revoked, varied or renewed by the Company in general meeting; and
  - (e) the Company may make a contract to acquire its shares under the authority conferred prior to the expiry of such authority, which will be executed wholly or partly after the expiry of such authority, and may purchase its shares in pursuance of any such contract.

Dated: 8 May 2009

By Order of the Board  
C.L. Secretaries Limited  
Company Secretary

### Registered office

1st and 2nd Floors  
Elizabeth House  
Les Ruettes Brayes  
St Peter Port  
Guernsey GY1 1EW

## Notes

- 1 Any member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, vote in his stead. Such proxy need not be a member of the Company.
- 2 To be valid, the form of proxy must be returned in accordance with the instructions printed thereon not later than 12.00 noon on 8 June 2009.
- 3 Completion and return of a form of proxy will not prevent a member from attending and voting at the Meeting should he so wish.
- 4 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (formerly CRESTCo's) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must in order to be valid, be transmitted so as to be received by Capita Registrars (ID RA 10) by no later than 12.00 noon on 8 June 2009. No such message received through the CREST network after this time will be accepted. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of the Company as at 6.00pm on 8 June 2009 or, if this meeting is adjourned, at 6.00pm on the day two days prior to the adjourned meeting shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6.00pm on 8 June 2009 or, if this meeting is adjourned, at 6.00pm on the day two days prior to the adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at this Annual General Meeting.
6. Resolution 5 seeks approval for the adoption of new Articles of Incorporation (the "New Articles"). The New Articles give greater flexibility as to where meetings of the board of Directors of the Company can be held. In all other respects, the New Articles are the same as the existing Articles of Incorporation. Copies of the Company's Memorandum and Articles of Incorporation (both existing and as proposed to be adopted) are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the place of the Meeting from 15 minutes prior to the commencement of the Meeting until the conclusion thereof.
7. Resolution 6 would, if passed, empower the Directors of the Company to allot shares of the Company otherwise than in accordance with the pre-emption rights set out in the Company's Articles of Incorporation. This would provide the Directors with a degree of flexibility to act in the best interest of the Company so that (i) the Company can follow normal practice in the event of a rights issue, open offer or other offer of securities to existing shareholders in proportion to their shareholdings, and (ii) shares may be issued for cash to persons other than existing shareholders up to a maximum of 4,166,729 shares which is equivalent to approximately 10% of the share capital of the Company.
8. Resolution 7 seeks to give the Company a general authority to make market purchase of its own shares up to a maximum of 6,250,093 shares which is equivalent to approximately 15% of the share capital of the Company. The minimum price which may be paid is €0.01 and the maximum price which may be paid is 105% of the average of the middle market price for a share as derived from AIM for the five business days immediately preceding the day on which the share is contracted to be purchased (in both cases exclusive of expenses). No decision has yet been taken by the board of the Company to exercise any power to purchase own shares should such a power be granted by shareholders.

# USEFUL CONTACTS

## DIRECTORS

Eli Papouchado  
Boris Ivesha  
Chen Moravsky  
Elisha Flax  
Kevin McAuliffe  
Nigel Jones

## PARK PLAZA HOTELS CORPORATE OFFICE

Hasselaerssteeg 11  
1012 MB Amsterdam  
The Netherlands  
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F: +31 (0)20 320 9791  
E: [cmoravsky@pphe.com](mailto:cmoravsky@pphe.com)  
[www.parkplazahotels.net](http://www.parkplazahotels.net)

## CONTACTS

Chen Moravsky  
Chief Financial Officer and Board Member  
Robert Henke  
Vice President Marketing

## ADMINISTRATOR

C.L. Secretaries Limited  
1st Floor  
Elizabeth House  
Les Ruettes Brayes  
St. Peter Port  
Guernsey GY1 1EW  
Channel Islands

## INDEPENDENT AUDITORS

Ernst & Young LLP  
14 New Street  
St. Peter Port  
Guernsey GY1 4AF  
Channel Islands

## LEGAL ADVISORS

Norton Rose  
3 More London Riverside  
London SE1 2AQ  
United Kingdom

Carey Olsen  
Carey House  
Les Banques  
St. Peter Port  
Guernsey GY1 4BZ  
Channel Islands

## REGISTERED OFFICE

1st Floor  
Elizabeth House  
Les Ruettes Brayes  
St. Peter Port  
Guernsey GY1 1EW  
Channel Islands

## REGISTRAR

Capita Registrars (Guernsey) Limited  
2nd Floor  
1 Le Truchot  
St. Peter Port  
Guernsey GY1 1WD  
Channel Islands

## SECRETARY

C.L. Secretaries Limited  
1st Floor  
Elizabeth House  
Les Ruettes Brayes  
St. Peter Port  
Guernsey GY1 1EW  
Channel Islands

## NOMINATED ADVISER

Investec Investment Banking  
2 Gresham Street  
London EC2V 7QP  
United Kingdom

## FINANCIAL PUBLIC RELATIONS

Hudson Sandler  
29 Cloth Fair  
London EC1A 7NN  
United Kingdom

## USEFUL LINKS

Corporate website:  
[www.parkplazahotels.net](http://www.parkplazahotels.net)

For reservations:

[www.parkplaza.com](http://www.parkplaza.com)  
[www.artotels.com](http://www.artotels.com)  
[www.arenaturist.com](http://www.arenaturist.com)  
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PARK PLAZA | HOTELS



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