Annual Report 2010

Delivering on our strategy and shaping our future

PARK PLAZA | HOTELS

Park Plaza Hotels at a glance

Understanding our business

Park Plaza Hotels' primary activities are owning, leasing, developing, operating and franchising full service four-star, four-star deluxe and lifestyle hotels in major gateway cities and regional centres predominantly in Europe. The majority of our hotels operate under two distinct brands, Park Plaza® Hotels & Resorts and art'otel®.

The Company has an exclusive licence from Carlson, a global privately held hospitality and travel company, to develop and operate Park Plaza® Hotels & Resorts in Europe, the Middle East and Africa. The art'otel® brand is fully owned by the Company.

Our portfolio of owned, leased, managed and franchised hotels comprises 38 hotels offering a total of 8,316 rooms. Of these, 2,869 rooms are owned by the Arenaturist group, one of Croatia's leading hospitality groups in which we have a minority ownership interest. We are also working on projects relating to three new hotels and an extension to an existing hotel, which together are expected to add a further 692 rooms to the portfolio by the end of 2013.

Our brands

Park Plaza® Hotels & Resorts

Individual design, city centre locations and excellent meeting facilities are key features of the upmarket Park Plaza® Hotels & Resorts brand, making it ideal for both corporate and leisure guests. The hotels' modern function spaces are flexible for conferences, exhibitions and private event use. Park Plaza® Hotels & Resorts' event facilities are perfectly complemented by stylish guest rooms, award-winning restaurants and bars and a reliable service that is flawlessly delivered.

www.parkplaza.com

art'otel®

art'otel® is a contemporary collection of hotels that fuse exceptional architectural style with art-inspired interiors, located in cosmopolitan centres across Europe. At the brand's core is the art itself. Each hotel displays a collection of original works designed or acquired specifically for each art'otel®, rendering each a unique art gallery in their own right. art'otel® has created a niche for itself in the hotel world, differentiating it from traditional hotels.

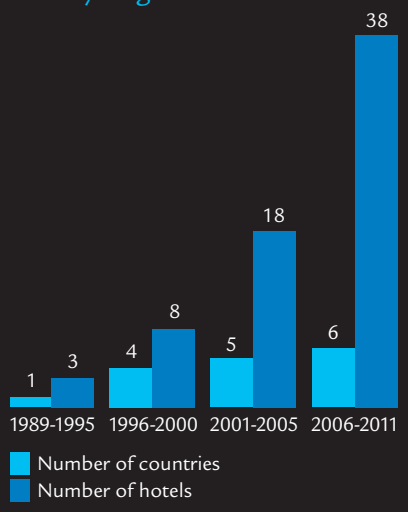
www.artotels.com

ARENA TURIST

Arenaturist is one of Croatia's best known hospitality groups and consists of eight hotels, five holiday apartment complexes, eight campsites and 52 food and beverage outlets, all of which are located in Istria. Arenaturist caters primarily for tourists and all properties are located in prime locations by the sea and are only a short distance from either the 3,000 year old city of Pula or the touristic Medulin.

www.arenaturist.com

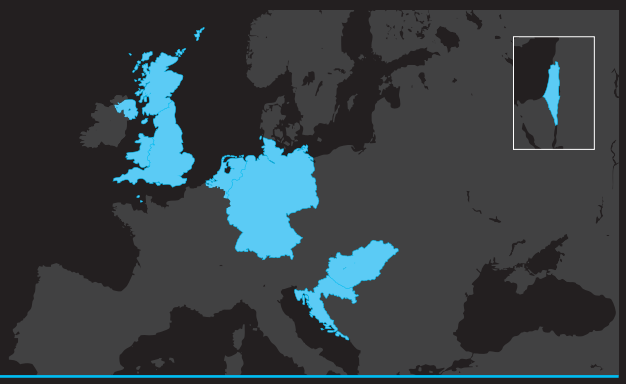
History of growth



Key strengths

- High quality portfolio with an attractive geographical spread
- Two distinct brands with significant upside potential
- Integrated approach of hotel and brand ownership and operation
- Powerful distribution network through the partnership with Carlson
- Focus on the expanding affordable luxury market segment

Geographic spread



Current portfolio

United Kingdom
Rooms in operation
2,893
Rooms pipeline
352
Owned hotels
Park Plaza Leeds
Park Plaza Nottingham
Park Plaza Riverbank London
Park Plaza Sherlock Holmes London
Park Plaza Victoria London
Plaza on the River – London
Park Plaza Westminster Bridge London
Managed hotels
Park Plaza County Hall London
Franchised hotels
Park Plaza Belfast
Park Plaza Cardiff
Under development
art'otel london hoxton

The Netherlands
Rooms in operation
1,010
Rooms pipeline
105
Owned hotels
Park Plaza Eindhoven
Park Plaza Vondelpark, Amsterdam
Co-owned hotels
Park Plaza Utrecht
Park Plaza Victoria Amsterdam
Park Plaza Amsterdam Airport
Under development
art'otel amsterdam

Israel
Rooms in operation
182
Franchised hotel
Park Plaza Orchid Tel Aviv

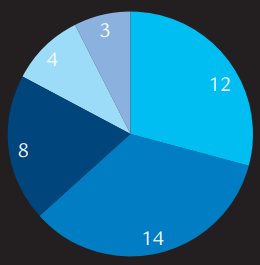
Germany
Rooms in operation
1,197
Rooms pipeline
235
Leased hotels
art'otel berlin city center west
art'otel berlin kudamm
art'otel berlin mitte
art'otel cologne
art'otel dresden
Park Plaza Prenzlauer Berg Berlin
Park Plaza Wallstreet Berlin
Franchised hotels
Park Plaza Trier
Under development
Park Plaza Nuremberg
Extension art'otel berlin city center west

Hungary
Rooms in operation
165
Leased hotel
art'otel budapest

Croatia
Rooms in operation
2,869*
Co-owned hotels
Hotel Histria
Hotel Medulin
Hotel Brioni
Hotel Park
Hotel Palma
Hotel Holiday
Hotel Belvedere
Guest House Riviera
Co-owned resorts
Verudela Beach and Villas Resort
Punta Verudela Resort
Horizont Resort
Splendid Resort
Ai Pini Medulin Resort

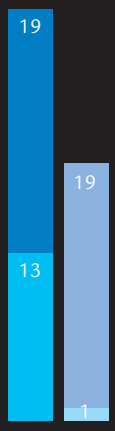
* Room count excludes Arenaturist's campsites other than the Kažela camp.

Hotel portfolio: contract mix



- Ownership of 50% or more
- Operated without, or with minority, ownership interest
- Operating leases
- Franchise agreements
- Projects (all ownership of 50% or more)

Park Plaza® global brand portfolio



- Park Plaza® hotels open in rest of world[1]
- Park Plaza® hotels open in EMEA
- Park Plaza® hotels under development in EMEA
- Park Plaza® hotels under development in rest of world[1]

art'otel®

- art'otels® open
- art'otels® under development

1 These hotels are managed or franchised directly by Carlson

Cover: Park Plaza Westminster Bridge London
This page: art'otel cologne

2010 highlights
A year of achievements

Contents

01 2010 highlights
02 Financial KPIs
03 Chairman's statement
04 Chief Executive Officer's statement
06 Strategy and performance
08 Driving revenue growth through expanding our asset portfolio
10 Increasing profitability through innovative revenue generation and cost-effective management
12 Utilising the Carlson partnership to market the Group's business and further grow revenues
14 Improving operational performance through better service quality
16 Improving our financial performance and structure
18 Chief Financial Officer's statement
20 Review of 2010
20 United Kingdom
22 The Netherlands
24 Germany and Hungary
26 Management and Holdings Operations
28 Croatia
30 Corporate social responsibility
32 Directors' report
36 Corporate governance
40 Report of the Remuneration Committee and Directors' Remuneration Report
42 Board of Directors
44 Financial statements
93 Independent auditors' report
94 Current and committed projects
95 Contacts

Forward-looking statements

This annual report and financial statements may contain certain "forward-looking statements" which reflect the Company's and/or the Directors' current views with respect to financial performance, business strategy and future plans, both with respect to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements are of a future or forward-looking nature. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. Any forward-looking statements in this annual report and financial statements reflect the Group's current views with respect to future events and are subject to risks, uncertainties and assumptions relating to the Group's operations, results of operations and growth strategy.

These forward-looking statements speak only as of the date of this annual report and financial statements. Subject to any legal or regulatory obligations, the Company undertakes no obligation publicly to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Nothing in this publication should be considered as a profit forecast.

Financial highlights

Year ended 31 December 2010
Year ended 31 December 2009

RevPAR[1]

€85.70
€77.40

1 Revenue per available room

Occupancy

77.4%
79.1%

Total revenue

€139.8m
€80.3m

Average room rate

€110.70
€97.80

EBITDA

€37.6m
€16.2m*

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

2010 Highlights:

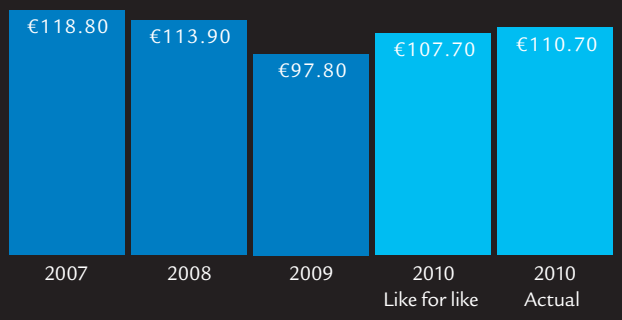
- Total Group revenue increased by 74.1% to €139.8 million (2009: €80.3 million)
- EBITDA increased by 132.1% to €37.6 million (2009: €16.2 million)
- 1,579 rooms were added to the Group's hotel portfolio in 2010:
  - Group's prestigious flagship hotel, Park Plaza Westminster Bridge London, partially opened in March 2010, followed by a full opening in September 2010
  - Newly built art'otel cologne, Germany opened in March 2010
  - Acquisition of a large conference hotel near Amsterdam Schiphol Airport and rebranded to Park Plaza Amsterdam Airport in April 2010
- Park Plaza Leeds and Park Plaza Nottingham now fully-owned and continue to be operated by the Group
- Successful refinancing of Park Plaza Victoria London, Park Plaza Riverbank London (including Plaza on the River) and Park Plaza Sherlock Holmes London in November 2010
- Ownership interest in Park Plaza Victoria London, Park Plaza Riverbank London (including Plaza on the River) and Park Plaza Sherlock Holmes London increased to 100% in December 2010
- Net debt reduced by €34.0 million to €369.9 million at 31 December 2010

2011 Highlights to date:

- Successful refinancing of Park Plaza Westminster Bridge London in June 2011
- Extensive renovations carried out in four hotels in the Netherlands, Germany and Hungary
- Park Plaza awarded "Best Small or Independent Hotel Brand" by the UK Business Travel Awards
- Launch of competitive new guest loyalty programme named Club Carlson℠ (including introduction of new Mobile App)
- Strong focus on growing the contribution of online channels including the introduction of three new languages on parkplaza.com and the planned launch of mobile websites and applications

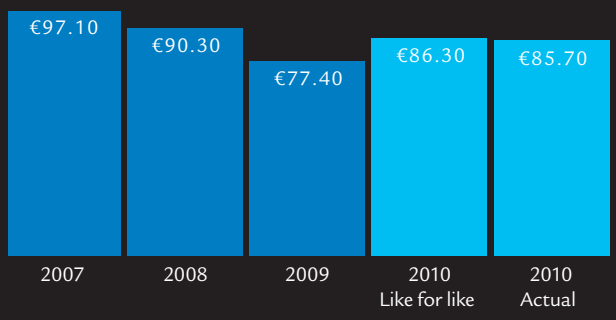
Financial KPIs

Average room rate



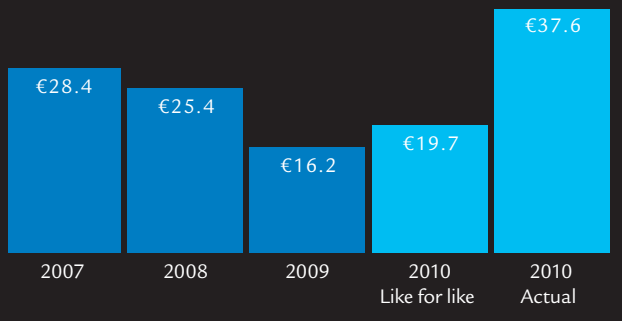
We benefited from a recovery in all of our markets, resulting in a year on year increase of 13.2%, a result which was further boosted by the opening of Park Plaza Westminster Bridge London.

RevPAR



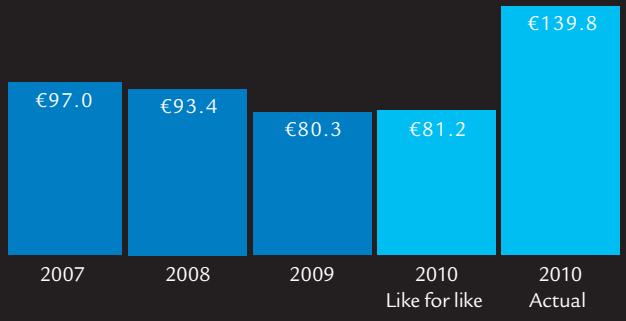
Reported RevPAR increased year on year by 10.7%, primarily reflecting a strong improvement in average room rates. In particular, our established London hotels performed well.

EBITDA (in € million)



For 2010 we reported our highest ever EBITDA. With a year on year growth of 132.1%, we started to benefit from our development pipeline.

Revenue (in € million)



Our total revenue increased by 74.1% to an impressive €139.8 million. We benefited from new openings and acquisitions as well as recovering markets.

Chairman's statement

The development potential of our portfolio positions us well to benefit from a market recovery

Dear shareholders,
I am proud of the significant progress that we have made during the year as trading conditions improved across all the markets in which we operate.

In recent years, the global hotel industry has had to cope with an exceptionally turbulent environment as a result of the global economic downturn and financial crisis during which the industry witnessed an unprecedented reduction in travel demand resulting in an industry-wide fall in RevPAR.

The pressure on RevPAR alongside a lack of available financing from the global financial markets have also constrained the development pipeline of many hoteliers.

During 2010, the overall European hotel performance improved with year on year RevPAR growth in most European city markets (source: TRI Hospitality HotStats, 2010).

Against this background, I am pleased to report a strong financial performance for the year to 31 December 2010, which exceeded the Board's expectations with the Group's established hotels in London and Amsterdam outperforming their competitive sets in terms of RevPAR (STR Global, December 2010).

Our other achievements included the expansion of our portfolio through the addition of 1,579 rooms achieved through the delivery of projects in our development pipeline and through hotel acquisitions. In particular, after ten years in planning and 30 months of construction we were delighted to open our flagship 1,019 room hotel, Park Plaza Westminster Bridge London, one of the largest hotels to open in London.

Feedback from guests and clients on our newly built hotels in London and Cologne has been very encouraging and in their first year of operation they already received high scores in our guest satisfaction system, won several awards and accreditations and experienced high levels of returning guests.

Our people are at the core of Park Plaza Hotels' success and we recognise the importance of training. Connect!, our company-wide training programme was launched in 2008 to ensure that all of our employees are well trained in their roles to enable them to consistently exceed guest expectations. The training programme remains very successful in improving the performance of our staff, improving job satisfaction and maintaining the highest level of service for our guests.

I am particularly proud that we have experienced unprecedented guest and employee satisfaction levels in 2010 and I would like to take this opportunity to thank all our employees on behalf of the Board for their hard work, professionalism and commitment during the year. I am profoundly grateful to them for everything they do to ensure that we continue to deliver excellent customer service to our guests.

Our strategy remains unchanged as we strive to become one of the leading hotel owners, developers, operators and franchisors of high quality four-star, four-star deluxe and contemporary lifestyle hotels predominantly in European market. We succeeded this year in raising our brands' profile through intensified cooperation with our strategic partner, Carlson, our continued focus on operational efficiency and our portfolio growth. Looking forward, we will remain focused on driving RevPAR, maintaining a high quality of service standards, investing in our hotels and progressing our development pipeline as we continue to expand and build for the future to the benefit of our shareholders, guests and employees.

The Company has not paid any dividends since its incorporation but, subject to compliance with Guernsey law and the retention of proper and prudent reserves by the Company, the Board intends to recommend the payment of an annual dividend of at least 3p per share commencing in 2012.

The Board is continually mindful of applying high standards of corporate governance and in line with the generally high levels of activity in the Group during the year the Audit Committee has been particularly very active; details of the Audit Committee's activities during the year can be found in the Directors' Report and Corporate Governance section.

The Board continues to believe that our long-term growth prospects remain attractive. To further raise Park Plaza Hotels' profile we have recently announced our intention to apply for admission of the Company's ordinary shares to listing on the standard listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities.

Eli Papouchado
Chairman

Chief Executive Officer's statement

We are now seeing the benefits of our strategic investments

Welcome,
2010 was an active and exciting year in our development. Significant progress was made on a number of projects and we started to benefit from our development pipeline and hotel acquisitions.

A key highlight in the year was the opening of our flagship hotel, the 1,019 room Park Plaza Westminster Bridge London.

A total of 1,579 rooms were added to the portfolio during the year through the addition of two newly built hotels in London and Cologne and one acquisition near Amsterdam Airport, and 123 rooms were removed following the termination of a franchise agreement in Germany, bringing the total number of rooms operated by us at the year-end to approximately 8,400.

We also successfully completed the refinancing of three of our London hotels, Park Plaza Victoria London, Park Plaza Riverbank London (including Plaza on the River) and Park Plaza Sherlock Holmes London, and through a subsequent transaction we now have full ownership of these hotels.

In 2010, trading conditions in all the markets in which we operate improved. There were early signs of recovery in the first half, despite the travel disruption in northern Europe as a result of heavy snow in January 2010 and the unprecedented closure of airspace in April 2010 as a result of the volcanic ash cloud from Iceland. This recovery gained momentum in the second half of the year as demand from both corporate and leisure travellers increased.

Once again, our established London hotels – Park Plaza Victoria London, Park Plaza Riverbank London (including Plaza on the River) and Park Plaza Sherlock Holmes London – performed strongly in the year with RevPAR for each of these hotels outperforming the average RevPAR of its competitive set in 2010 (STR Global, December 2010).

As a result, we are pleased to report a strong financial performance for the year to 31 December 2010, which exceeded the Board's expectations. Total reported Group revenue increased by 74.1% to €139.8 million and EBITDA grew by 132.1% to €37.6 million as we started to benefit from our development pipeline.

Portfolio growth
We significantly extended our presence in the affordable luxury hotel market through the addition of three hotels to our portfolio.

In March 2010, Park Plaza Westminster Bridge London was partially opened to paying guests, followed by its full opening in September 2010. As at 31 December 2010, we completed the sale of 535 units, with 484 units having been retained by the Group.

The newly built art'otel cologne in Germany opened in March 2010. Located in a prime location on the bank of the River Rhine, this hotel offers 218 rooms, excellent meeting facilities and has received very encouraging customer feedback.

In April 2010, we acquired with a joint venture partner a large conference hotel with 342 rooms near Amsterdam Schiphol Airport. The hotel was rebranded Park Plaza Amsterdam Airport immediately following our acquisition.

In addition to these new hotels added to our portfolio in the year, in August 2010, we acquired the freehold and headlease interests of Park Plaza Leeds and Park Plaza Nottingham. Prior to this acquisition both hotels were operated, and continue to be operated, by us under long-term management agreements.

On 31 December 2010, we acquired the remaining joint venture interests in, and shareholder loans related to, Park Plaza Victoria London, Park Plaza Riverbank London (including Plaza on the River) and Park Plaza Sherlock Holmes London.

Strengthening the brands
Our teams continued to maximise the benefits available through our strategic partnership with Carlson, one of the world's leading travel and hospitality companies, which provides us with access to a state-of-the-art reservation and global distribution platform as well as participation in global sales and marketing programmes. Room revenue generated via Carlson's reservation system has continued to increase, and now accounts for approximately 40% of our room revenue.

This growth is primarily driven by increased online marketing initiatives and our active engagement in the Club Carlson℠ (the former goldpoints plus™) guest reward programme. In 2010, this programme provided us with access to a marketing database of over 6.3 million guests, an increase of 24% in number of members compared to 2009. Carlson is planning to double the size of Club Carlson℠ to 10 million members by 2013. Our hotels collectively signed up over 47,500 new members in 2010 alone. Various enhancements to the programme have made it one of the most attractive in the industry and it is now easier and faster for guests to collect and redeem points at any Carlson hotel. In early 2011 a dedicated Club Carlson℠ App for mobile devices was launched marking the Park Plaza® brand's debut in this space.

We have also invested in our internal marketing resources and in particular in our online marketing team to grow the revenue contribution of both the Park Plaza® and art'otel® websites.

Service excellence
Core to our business is the quality of service standards and level of guest satisfaction. In 2008 we introduced a leading online guest satisfaction survey system, enabling us to monitor and improve our guests' experience. Nearly 39,000 guest surveys were completed during the year, a 35% year on year increase, and all new hotels and several franchised hotels were added to the system in the year. We are very proud to report that we continued to increase our scores across all key performance indicators for guest satisfaction, service and product performance and guest loyalty.

Our staff are responsible for the increased guest satisfaction levels and their constant focus on delivering a high quality service has paid off.

We actively engage with our employees and with the number of employees increasing by 29% (primarily as a result of the new openings), it was vital to successfully deliver new uniformed introduction welcome packs and our Connect! service training programme. We were successful in delivering these essential tools on time and we are proud to report that overall employee satisfaction has increased year on year by 2.7% to a healthy 81.0%.

Our development projects

Alongside the three new hotel openings in the year we continued to invest in the planning and development of new hotel openings as well as renovation and refurbishment projects in order to further enhance the quality of our hotel portfolio and these projects continue in 2011.

In the United Kingdom, construction work for the 352 room art'otel® located in the Hoxton area of London is due to commence in 2011 and the hotel is scheduled to open in 2013. Refurbishment projects are planned at Park Plaza Leeds and Park Plaza Nottingham following our acquisition of these hotels in August 2010.

In the Netherlands we are investing approximately €25.0 million in our portfolio in the construction of the art'otel amsterdam and extensive refurbishment programmes for the flagship Park Plaza Victoria Amsterdam, the newly acquired Park Plaza Amsterdam Airport, the centrally located Park Plaza Utrecht and our inaugural hotel, Park Plaza Eindhoven.

In Germany and Hungary, work has commenced on a 60 room extension at art'otel berlin city center west and a renovation programme will commence at art'otel budapest. Progress in development of Park Plaza Nuremberg continues and the hotel is expected to open in 2013.

We also continued with several refurbishment projects across the Arenaturist portfolio during the year. In particular, extensive room renovations commenced at Hotel Histria and these are due to be completed for the start of the 2012 season. At several hotels, the restaurants, bars and pool areas were also renovated.

Current trading

Whilst the first quarter is historically the weakest of the year, we are pleased to report that we have continued to trade in line with the Board's expectations during the three months to 31 March 2011.

As anticipated, trading conditions have continued to improve across all markets in which we operate.

In the United Kingdom, RevPAR has grown significantly year on year. Notably, our London hotels reported a strong increase in average room rate and we are now seeing the true benefits from the fully operational Park Plaza Westminster Bridge London.

In the Netherlands, RevPAR has also increased compared with the first quarter of 2010, a result of improved average room rates at all of our hotels in the Netherlands. EBITDA declined due to fewer rooms being available at Park Plaza Victoria Amsterdam and Park Plaza Eindhoven as a result of extensive renovations in the first quarter. The majority of rooms closed for renovations are now open and management is confident that we will strongly benefit from these improved hotels.

In Germany and Hungary, RevPAR at our hotels during the first quarter improved significantly compared to the first quarter in 2010. This is a particularly good performance considering that last year's RevPAR performance in Germany was supported by the government's VAT reduction. The reported growth in RevPAR is a result of increased average room rates and has been further improved by the art'otel cologne which opened mid March 2010.

The EBITDA loss was also reduced during the first quarter of 2011 as we started to benefit from renegotiated lease agreements and improved trading conditions.

Our Management and Holdings Operation has performed in line with the Board's expectations.

Looking forward, we remain focused on continuing to improve overall performance, fundamentally by growing average room rates and maintaining careful cost control. We will continue to progress our confirmed development projects and are actively exploring new growth opportunities.

Boris Ivesha
President and Chief Executive Officer

Strategy and performance

Measuring our success

Driving revenue growth through expanding our asset portfolio

Performance

We completed two newly built projects, acquired and rebranded one existing hotel, acquired two hotels previously operated by us and acquired the remaining interests in three central London hotels from our joint venture partner.

Increasing profitability through innovative revenue generation and cost-effective management

Performance

On a like for like basis we delivered a strong RevPAR growth across all regions, heavily supported with a wide range of tailored direct marketing initiatives, new online marketing initiatives and an extended partner network.

Utilising the Carlson partnership to market the Group's business and further grow revenues

Performance

Another year of growth in room revenue generated via the Central Reservations System. At an all time high of nearly 40.0% we see real benefits of our global connections. Also another record year of new members enrolled in the guest loyalty programme.

Improving operational performance through better service quality

Performance

Third consecutive year to report an increase in guest satisfaction, service and product performance and loyalty. Year on year increase in employee satisfaction, leading to the best result to date.

Improving our financial structure and performance

Performance

Reduced net debt, refinanced several loan agreements, further strengthened and diversified financial relationships and renegotiated operating lease agreements.

Park Plaza Hotels' objective is to become one of the leading hotel owners/operators in the four-star, four star deluxe and lifestyle hotel markets in Europe, the Middle East and Africa.

To achieve this objective we use our established recognised portfolio and excellent network to increase the number of hotels, increase overall profitability through innovative revenue generation and cost-effective management, and utilise the Carlson partnership as the driver to market our business and products and further grow revenues.

Indicator

1,579

1,579 new rooms added to our portfolio.
Increased ownership to 100% at five hotels.

Looking forward

Successfully develop our committed projects including new art'otels® in Amsterdam and London, Park Plaza Nuremberg and an extension of art'otel berlin city center west. We will also be looking to capitalise on new opportunities across different markets.

Indicator

10.7%

10.7% increase in RevPAR. Extended airline partner network to 22. Launched social media marketing initiatives.

Looking forward

Generate more business through direct (online) channels, launch new Apps and websites for mobile devices, develop better customer relationships through social media platforms and continue to expand our partner network with a view of better serving our current customers and tapping into new markets and segments.

Indicator

47,500+

47,500+ new members signed up for Club Carlson℠.
Record system contribution of nearly 40.0% of room revenue.

Looking forward

Continue to grow reservations via the highly cost effective Central Reservation System through active participation in the loyalty programmes for guests and travel agents, innovative online initiatives and fostering loyalty and engagement.

Indicator

+4.0% Guest satisfaction since 2008

+2.5% Employee satisfaction since 2008

Other indicators include service and product performance, loyalty performance, awards and recognition.

Looking forward

Continue to deliver Connect! training programme, develop proprietary You:niversity educational centre and launch a brand new group-wide intranet which will serve as the main communications portal to ensure consistency, continuity and engagement.

Indicator

26.9%

EBITDA margin %

From 20.2% (2009) to 26.9% (2010)

Looking forward

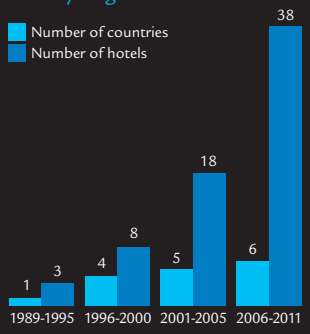
Continue to improve our EBITDA margin through further improving our financial structure, refinancing arrangements and cost-effective management.

Strategic objective

Driving revenue growth through expanding our asset portfolio

Park Plaza Westminster Bridge London

History of growth



We believe that Park Plaza® Hotels & Resorts and art'otel® both have considerable development potential.

Overview
Unlike many of our competitors, which tend either to manage or own hotels, we offer hotel management services while also having a variety of interests and contractual arrangements in our hotels. Our owner / branded operator model, in combination with our long-term exclusive licence in the EMEA region for the Park Plaza® Hotels & Resorts brand and worldwide ownership of the art'otel® brand, allows us to leverage a wide range of opportunities to expand our portfolio.

Our hotel interests and contractual arrangements involve ownership (and, in some cases, development) and operation through operating leases, management and franchise arrangements.

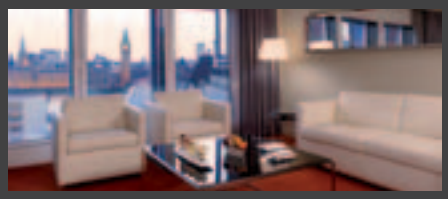
In our view Park Plaza® Hotels & Resorts and art'otel® both have considerable development potential, particularly amongst our target market of value-minded customers seeking affordable luxury.

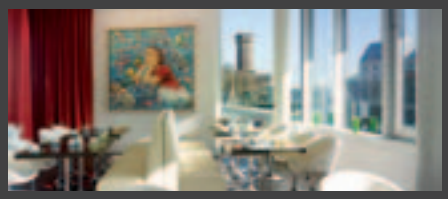
Strategy
We intend to grow the number of rooms in our portfolio by acquisition either alone or in joint ventures with third parties. Management has identified several acquisition opportunities and we expect that further acquisition opportunities will arise as a result of our extensive network of contacts. If available at attractive prices, we intend to acquire hotels in our target markets which will benefit from rebranding. We use our experience of development projects, gained as a result of the Company's participation in such projects to exploit development opportunities. We also look at opportunities for operating leases, management and franchise agreements as and when available.

Performance
In 2010, three hotels, Park Plaza Westminster Bridge London, art'otel cologne and Park Plaza Amsterdam Airport, were added to our portfolio, adding a further 1,579 rooms.

We also acquired Park Plaza Leeds and Park Plaza Nottingham which were previously operated under long-term operating agreements and we acquired the remaining interests in Park Plaza Riverbank London (including Plaza on the River), Park Plaza Victoria London and Park Plaza Sherlock Holmes London from a joint venture partner. As a result, we now own 100% of these well-established, central London hotels.

Looking ahead, we will concentrate on the successful development of our committed projects which include Park Plaza Nuremberg, art'otel amsterdam, art'otel london hoxton and an extension at art'otel berlin city center west, and we look to capitalise on new opportunities across different markets.





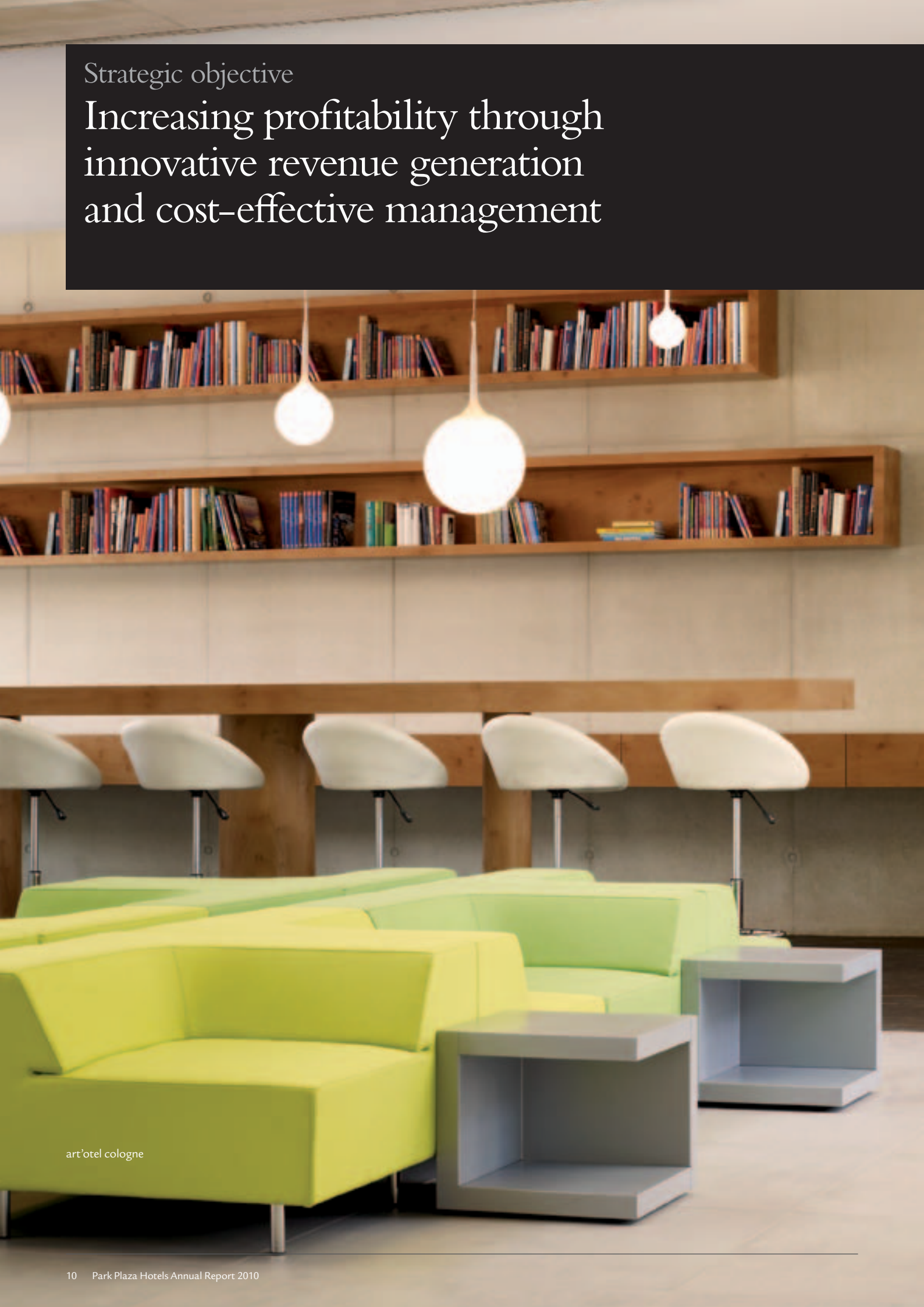
Park Plaza Westminster Bridge London
art'otel cologne
Park Plaza Amsterdam Airport

Rooms added to portfolio in 2010

+1,579

Strategic objective

Increasing profitability through innovative revenue generation and cost-effective management



art'otel cologne

Highlights

Like for like RevPAR increased in all markets in which we operate

We extended our airline partner network to 22

Launch of social media strategy focusing on Twitter and Facebook

On a like for like basis we delivered a strong RevPAR growth across all regions and our overall results exceeded management's expectations.

Overview
In its history, Park Plaza Hotels has become very accustomed to working in difficult market conditions. We have operated and opened new hotels in unprecedented times. For example we opened two central London hotels two weeks after 9/11 and the development of our largest hotel to date, Park Plaza Westminster Bridge London, was carried out in the midst of the recent global economic crisis.

Operating efficiently, agility, flexibility and creativity are all part of our DNA.

Strategy
It is our focus to continuously look at ways to improve our revenues and, in particular, RevPAR. We expect to further grow our average rates whilst maintaining or growing occupancy and our teams are constantly monitoring trends in the market, benchmarking against competitors and actively using our sophisticated yield management systems. Expansion of – and further engagement with – our network of partners and affiliates is also a key part of our strategy to generate more direct business.

Maximising revenue streams other than room revenues has become more important for us as we have experienced significant success with our meeting and event facilities and owned branded concepts such as Chino Latino®.

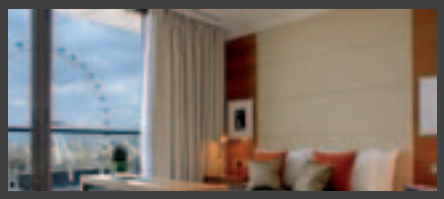
We operate with an efficient corporate overhead structure which we believe can be used to service a larger portfolio. We intend to retain this structure as our portfolio grows, thereby retaining the operating flexibility required to take advantage of the opportunities which may arise both for expansion and to maximise returns from the Company's existing portfolio.

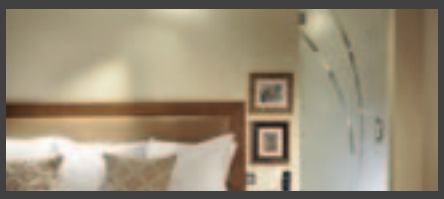
Performance
On a like for like basis we delivered a strong RevPAR growth across all regions and our overall results exceeded management's expectations.

The year was marked with several other commercial successes, as well as laying the foundation for an even more focused approach moving forward.

We added two new strategic partners in the year, Gulf Air and EL AL, taking our total airline partner network to 22. These relationships enable us to tap into new markets by putting our brands in front of new prospective audiences and target them with highly targeted offers.

We also started actively engaging with a number of key social media platforms, largely driven by our new and extended online marketing team, and laid the foundation for a mobile web platform which will be launched in 2011.





Park Plaza County Hall London
Park Plaza Sherlock Holmes London

2010 RevPAR

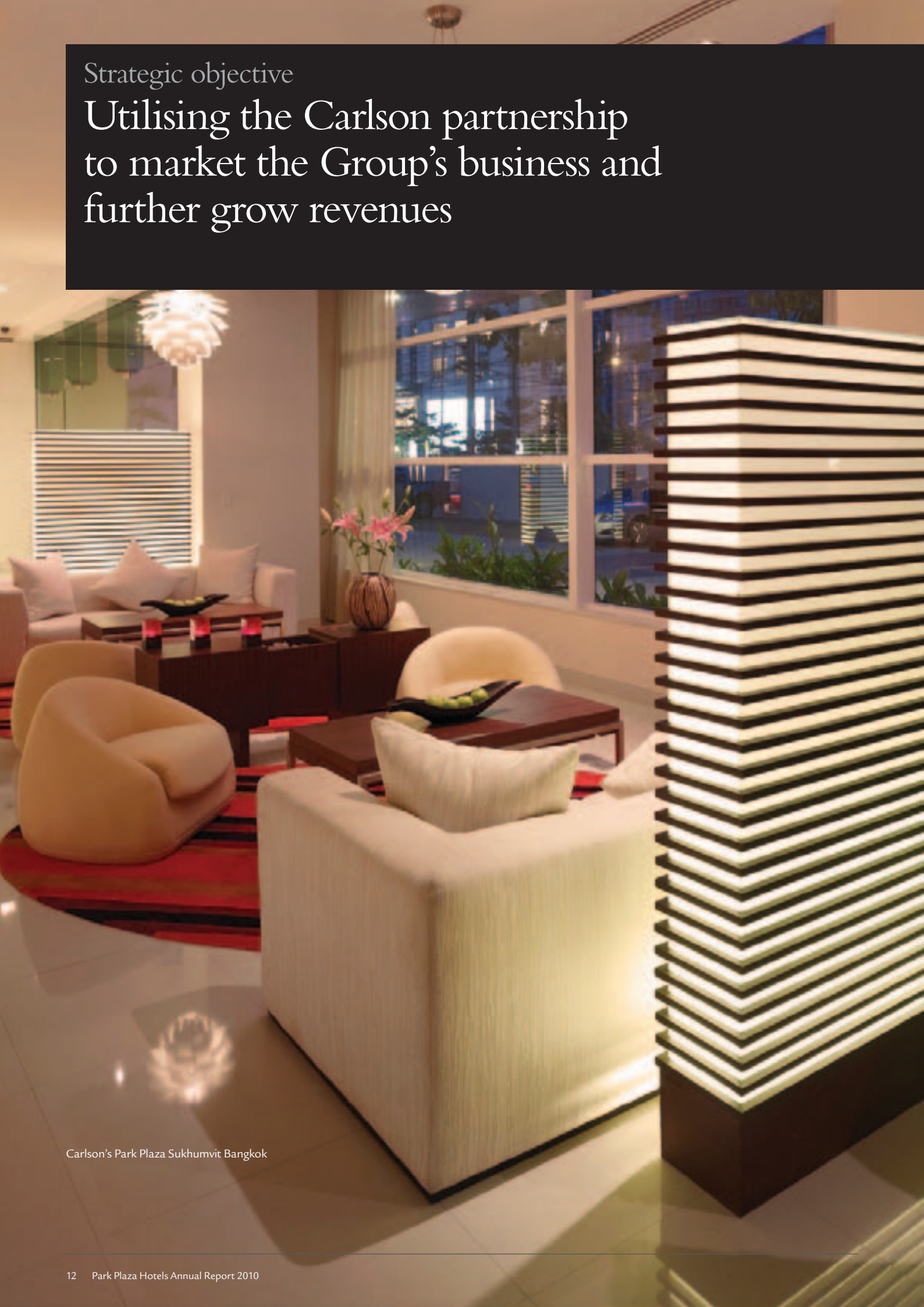
€85.7

Year on year RevPAR increase

10.7%

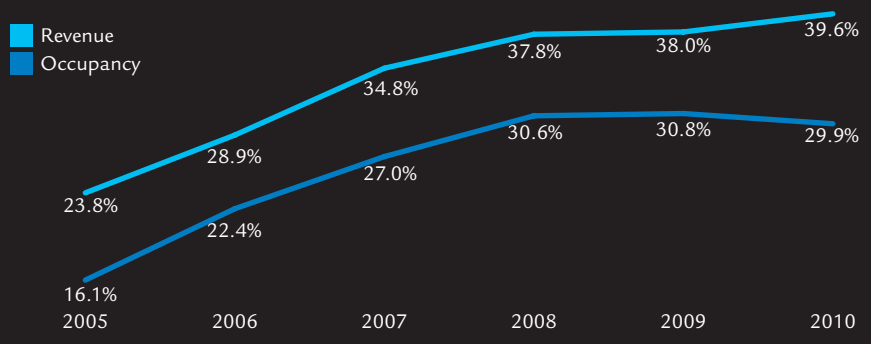
Strategic objective

Utilising the Carlson partnership to market the Group's business and further grow revenues



Carlson's Park Plaza Sukhumvit Bangkok

System contribution to hotel occupancy and revenue



Our wide range of direct marketing and sales initiatives has resulted in greater brand recognition, which is reflected in increased system room revenues.

Overview

Our unique and exclusive partnership with Carlson for the Park Plaza® Hotels & Resorts brand provides us with access to their state-of-the-art reservation and distribution systems and participation in a wide array of sales and marketing programmes.

Carlson's Central Reservation System provides a central repository of reservations, room availability and rates and this database is not only linked to proprietary channels such as the brand websites and call centres, but also to third party distribution systems including the main Global Distribution Systems (which are largely used by business travel agents) and leading travel websites.

Carlson also provides call centre operations across three different time zones (US, Ireland and China) and its more than 415 staff provide guests with reservation and customer service support, 365 days per year.

Loyalty programmes include Club Carlson℠ (formerly goldpoints plus™), for guests and meeting planners, and look to book®, the travel industry's premier travel agent reward programme.

In a global market where major corporations are consolidating their supplier relationships, being part of a global network ensures that our hotels remain at the forefront of corporate travel buyers and it improves our positioning and visibility with global travel consortia.

The Carlson network has a cross-selling strategy at all customer touch points for the different brands within the Carlson family. This includes reservation call centres, Global Distribution System points of sale, the brand websites managed by Carlson and Carlson's own global sales force. The Carlson marketing and reservation services cover the Park Plaza® Hotels & Resorts and art'otel® brands, which are both marketed through their reservation system.

In summary, Park Plaza Hotels truly benefits from the economies of scale, extensive operating experience and significant negotiating power of one of the world's largest travel and hospitality companies.

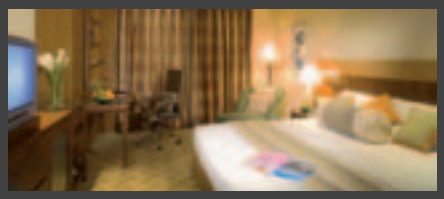
Strategy

To ensure optimum results and visibility for our hotels and brands we fully embrace all sales, marketing and distribution opportunities and channels available to us through Carlson. We employ specialists in all fields ensuring we continue to generate maximum value out of this relationship. From technology to partnerships, from loyalty marketing to direct sales and from e-commerce to distribution, we have fully aligned and activated our organisation.

Performance

In 2010, we continued to enjoy the benefits of the Carlson relationship and took full advantage of all available distribution channels, technology solutions, cross-marketing opportunities and marketing programmes. Despite the difficult trading environment, we continued to experience growth in contribution to hotel room revenues generated through Carlson's reservation system. Approximately 40.0% of our room revenue was generated via this platform at the end of 2010, which is a record.

The main drivers for this continued growth have been the active participation in online distribution and marketing initiatives and a heavy focus on customer loyalty marketing. The Club Carlson℠ database increased by 24% year on year to 6.3 million members and Carlson is anticipating to grow this database to 10 million by 2013. Park Plaza Hotels contributed more than its fair share by signing up a record 47,500 new members in the year, representing more than a 50% increase on 2009. At the same time, the share of occupancy from loyalty members staying at our hotels was higher than ever before and we expect this trend to continue.



Carlson's:
Park Plaza Beijing Wangfujing
Park Plaza Sukhumvit Bangkok

Club Carlson's℠ 2010 membership base (increased by 24% from 2009)

6.3m

New Club Carlson℠ members signed up by Park Plaza Hotels

47,500+

Strategic objective

Improving operational performance through better service quality

Park Plaza Riverbank London

Improved guest satisfaction (on a scale of 1-10)	2008*	2009	2010
Overall guest satisfaction	7.95	8.12	8.27
Service performance	8.08	8.29	8.39
Product performance	7.92	8.04	8.23
Loyalty performance	7.79	8.03	8.14

*Guest satisfaction system was introduced in August and 2008 data is from August-December.

Increased employee satisfaction	2008	2009	2010
Employee satisfaction score	78.5%	78.9%	81.0%

For the third consecutive year we are proud to report an increase in guest satisfaction, service & product performance and loyalty.

Overview
Although travel preferences, booking behaviour and new technologies have changed our industry significantly over the years, the fundamentals of true hospitality haven't changed. In fact, in today's highly competitive and fully transparent market with rising consumer power, a genuine, consistent and personalised customer service delivery is vital to any company's survival.

Strategy
To ensure that we consistently deliver, and where possible even exceed, an excellent customer experience we actively solicit customer feedback, continuously invest in employee training and we empower and listen to our employees.

Performance
For the third consecutive year we are proud to report an increase in guest satisfaction, service & product performance and loyalty. Since the introduction of our online guest satisfaction survey system in August 2008, we have collected nearly 78,000 completed surveys, with a record of 39,000 completed surveys collected in 2010.

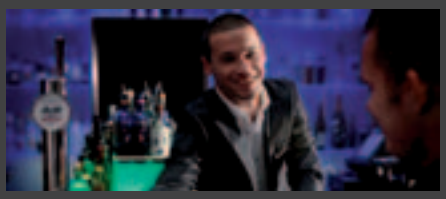
All new hotels, and several of the franchised hotels, were added to the guest satisfaction survey system in the year giving us insight into their operations and enabling us to further improve their performance.

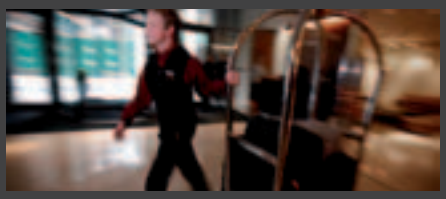
Our experienced staff is responsible for the increased guest satisfaction levels and their constant focus on delivering a high quality service has truly paid off.

We do not take this success for granted and have therefore continued to invest in the Connect! training programme in the year. Originally launched in 2008, Connect! focuses on how each individual member of staff can exceed guest expectations. With an increased workforce of 29% (primarily as a result of the new openings), it was vital to successfully deliver new uniformed introduction welcome packs and Connect! service training programmes.

The Company was successful in delivering these essential tools on time and is proud to report that overall employee satisfaction has increased year on year by 2.1% to a healthy 81.0%. Areas such as Ethical Standards, Honesty, Transparency and Personal Development were rated the highest.

2011 started well for Park Plaza Hotels as we were awarded the 2011 Business Travel Award in the 'Best Small or Independent Hotel Brand' category. Yet another testimony to our success.





Park Plaza Riverbank London

Completed online guest satisfaction surveys 2010

39,000

Employee satisfaction 2010

81.0%

Strategic objective

Improving our financial performance and structure

Park Plaza Victoria Amsterdam

During 2010, we have succeeded in further strengthening our financial structure and were pleased to have reduced net debt year on year.

Overview
During the tough market conditions experienced by the hotel industry in recent years, we have continued to invest in our existing hotels and expand our portfolio. With three new hotel openings in the year, resulting in the addition of 1,579 rooms to our portfolio, the benefits of our investment in our development pipeline, alongside an improvement in trading conditions, are starting to be reflected in our financial performance.

Strategy
Our strategy is to have a solid financial structure in place which enables us to capitalise on new hotel opportunities in order to extend our presence in the affordable luxury hotel market. Such opportunities would be financed through our own excellent network of financial partners or through joint ventures. This structure will also allow for continued investment in our current hotel portfolio to maintain the high standard of our existing hotels. Naturally we will also remain focused on managing operational costs tightly, whilst providing our customers with a high quality of product and service.

Performance
During 2010, we have succeeded in further strengthening our financial structure and were pleased to have reduced net debt year on year.

Despite the challenging debt markets, we successfully negotiated the refinancing of three of our London hotels – Park Plaza Riverbank London (including Plaza on the River), Park Plaza Victoria London and Park Plaza Sherlock Holmes London – with Aareal Bank AG which resulted in a €11.5 million reduction in net debt and a new five-year facility. We subsequently acquired 100% ownership of these hotels which had previously been part owned through a joint venture agreement.

The net proceeds from the sale of units at Park Plaza Westminster Bridge London were used to reduce our development facility with Bank Hapoalim.

We maintain good relationships with our lending banks and through our relationship with Aareal Bank AG we were able to increase our existing facility in the Netherlands in order to finance the acquisition of Park Plaza Amsterdam Airport.

We also managed to finance the acquisition of headlease interests and acquired the company which owned the freehold and long leasehold interests in Park Plaza Leeds and Park Plaza Nottingham.

As owners of hotels we fully understand what it means to own real estate and have high regards for owner relationships based on trust, respect and profitability. Our strong relationships with owners have enabled us to successfully renegotiate lease agreements at some of our hotels which did not reflect the changing market landscape. These revised agreements will benefit the future financial performance of these hotels and their contribution to our business.

In June 2011 we successfully refinanced the development facility with Bank Hapoalim into a new seven year facility in relation to Park Plaza Westminster Bridge.

Park Plaza Vondelpark, Amsterdam

EBITDA margin %

26.9%

from 20.2% (2009) to 26.9% (2010)

Chief Financial Officer's statement

A strong financial performance aided by a recovery in market conditions and new openings and acquisitions.

Welcome,
I am pleased to report our 2010 full year results which exceeded the Board's expectations. Total revenue for the year increased by 74.1% to €139.8 million (2009: €80.3 million) as we benefited from first time contributions from Park Plaza Westminster Bridge London, art'otel cologne and Park Plaza Amsterdam Airport which were added to the portfolio during the year, and from total revenue contributions from Park Plaza Leeds and Park Plaza Nottingham (as of August 2010).

When contributions from these hotels and the effect of foreign currency movements are excluded, Group revenue increased by 3.1% reflecting an improvement in underlying performance as the early signs of a market recovery reported at the half year results, continued into the second half of the year.

RevPAR
Reported RevPAR increased by 10.7% to €85.7 (2009: €77.4), primarily reflecting a 13.2% improvement in average room rates during the year, albeit on an anticipated decline in year on year occupancy due to the addition of five hotels to the portfolio. This is in part due to Park Plaza Westminster Bridge London and art'otel cologne being in the early stages of their operational lifecycle as well as lower occupancy and average room rates at Park Plaza Leeds and Park Plaza Nottingham, with the UK provincial destinations slower to recover, and Park Plaza Amsterdam Airport which commands lower rates than our other Dutch hotels located in city centres. Like for like RevPAR improved by 8.6% to €86.3 (2009: €79.4).

EBITDA
EBITDA increased to €37.6 million (2009: €16.2 million), primarily due to the first time contribution from the addition of new hotels into the portfolio, particularly Park Plaza Westminster Bridge London, a significant improvement in the German and Hungarian operations which resulted in a reduced EBITDA loss of €300,000 compared with a loss of €3.7 million in 2009 and an improvement in Management and Holdings EBITDA to €5.8 million (2009: €2.1 million). On a like for like basis EBITDA increased by 16.6% to €19.7 million (2009: €16.9 million).

Profit
The reported profit before tax was €60.5 million (2009: loss of €7.2 million). The profit relates mainly to gains arising from the application of IFRS accounting following Park Plaza Hotels obtaining 100% control of previously jointly owned entities (refer to note 3c to the consolidated financial statements) amounting to €50.8 million and negative goodwill arising from the newly acquired interests in hotels amounting to €10.0 million (see note 3a, 3b and 3c to the consolidated financial statements). In addition the EBITDA contribution from the opening and acquisition of the new hotels increased by €17.9 million and the interest and income from forfeited deposits relating to the sale of units in Park Plaza Westminster Bridge London amounted to €5.7 million. We faced a one-off expense due to the refinancing of the Goldman Sachs International loan of €8.9 million, the breakage of the finance hedge and additional depreciation expenses due to the new hotels of €4.2 million. An additional €7.7 million of finance expenses and interest expenses guaranteed to unit holders of Park Plaza Westminster Bridge London was also incurred.

Earnings per share
Basic and diluted earnings per share for the year was €1.5 (2009: loss of €0.20). Details on the calculation of earnings/loss per share are provided in note 27 to the consolidated financial statements.

Debt position and refinancing
Net debt at 31 December 2010 was €369.9 million, a net year on year reduction of €34.0 million (at 31 December 2009: €403.9 million). This includes €30.9 million of liquid assets (2009: €45.8 million), of which cash and cash equivalents were €25.6 million (2009: €34.4 million) and other liquid financial assets of €5.3 million (2009: €11.4 million).

During the period, the movement in net debt included a €48.9 million year on year reduction in loans, which is mainly due to €169.0 million repayment by Marlbray Limited following the sale of units at Park Plaza Westminster Bridge London and a €11.5 million reduction following the refinancing of the three London hotels. There was also a €88.1 million increase as a result of the purchase of the remaining interest in, and shareholder loans related to, the three

Revenue	Profit before tax	Earnings per share
€139.8m	€60.5m	€1.5
€80.3m	(€7.2m)	(€0.2)

London hotels, a €21.9 million increase relating to the purchase of Park Plaza Leeds and Park Plaza Nottingham, a €13.8 million increase relating to the purchase of Park Plaza Amsterdam Airport and a €10.3 million adverse foreign exchange translation movement. During the period cash reduced by €14.9 million of which €6.0 million relates to the purchase of Park Plaza Leeds and Park Plaza Nottingham and €8.9 million relates to the refinancing of the three London hotels. Further details are set out in note 3 to the consolidated financial statements.

Financial structure – main developments during the period:

Sale of units at Park Plaza Westminster Bridge London

535 of the 865 units sold or contracted to be sold (as at 31 December 2010) have been completed. All remaining sales contracts have been rescinded and we have retained 330 units in addition to the 154 units already held by us. The £154.2 million (€179.0 million) net proceeds raised from the completed sales and a further £2.1 million (€2.4 million) from forfeited deposits have primarily been used to repay the Bank Hapoalim development facility, of which £93.4 million (€108.4 million) was outstanding at 31 December 2010. The £15.6 million (€18.2 million) of deposits received in respect of uncompleted sales are held on the balance sheet as restricted deposits and are not included in our €30.9 million liquid assets. For further details about this financial structure, see note 17b to the consolidated financial statements.

Financing of Park Plaza Amsterdam Airport

We increased our existing facility with Aareal Bank AG in April 2010 in order to finance the acquisition of Park Plaza Amsterdam Airport. The amended facility, the maturity of which was extended to April 2017, has a value of €111.0 million and includes €5.0 million for renovations and updates to Park Plaza Victoria Amsterdam and Park Plaza Amsterdam Airport. Further details are set out in note 17a (2) to the consolidated financial statements.

Financing of Park Plaza Leeds and Park Plaza Nottingham

In August 2010, we acquired the headlease interests and the companies which owned the freehold and long leasehold interests in the Park Plaza Leeds and Park Plaza Nottingham from a wholly-owned member of the Red Sea Group, for an aggregate cash consideration of £3.3 million (€4.0 million). Further details are set out in note 3b to the consolidated financial statements.

Refinancing of three London hotels

In November 2010 we announced the refinancing of three London hotels – Park Plaza Riverbank London (including Plaza on the River), Park Plaza Victoria London and Park Plaza Sherlock Holmes London. The refinancing involved five year term facilities totalling £165.0 million (€191.5 million) with Aareal Bank AG. Further details are set out in note 17a (1) to the consolidated financial statements.

Acquisition of interests in three London hotels

In December 2010, we acquired the remaining joint venture interests in, and loans related to, Park Plaza Riverbank London (including Plaza on the River), Park Plaza Victoria London and Park Plaza Sherlock Holmes London, for a consideration of £21.0 million (€24.4 million), subject to adjustments, including the issue of 1,000,000 Park Plaza shares. Further details are set out in note 3c to the consolidated financial statements.

Cost controls

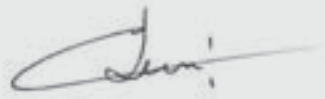
We have managed to keep a tight control on costs whilst ensuring that our guests continue to enjoy the high quality of product and services they expect. In line with the Board's expectations, costs in the first half of the year increased as a result of the one-off pre-opening costs, including payroll and marketing costs, primarily relating to the opening of the Park Plaza Westminster Bridge London and art'otel cologne, Germany. We will continue to monitor and manage costs closely.

Looking ahead

As outlined above, in 2010 we succeeded in developing a stronger financial structure. In addition we successfully renegotiated several of our operating leases which already had a positive impact in the year and we will continue to see these benefits in 2011.

In June 2011, we announced the refinancing of Park Plaza Westminster Bridge London which involved seven year term facilities totalling £115.0 million (€133.5 million) with Bank Hapoalim B.M.

With our expanded and stronger hotel portfolio and increased travel demand we expect to further improve average room rates and profitability. We will also continue to be making timely capital investments to ensure our long-term prospects.



Chen Moravsky
Chief Financial Officer

Review of 2010

United Kingdom

Reported total revenue increased from €29.0 million to €81.6 million, mainly due to new openings and acquisitions.

Park Plaza Westminster Bridge London

Hotel operations	Euro (€)		GBP (£)	
	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2009
Occupancy	81.8%	84.8%	81.8%	84.8%
Average Room Rate	€137.9	€129.2	£118.0	£114.7
RevPAR	€112.8	€109.6	£96.5	£97.3
Total Revenue	€81.6 million	€29.0 million	£69.9 million	£25.8 million
EBITDA	€24.5 million	€11.4 million	£21.0 million	£10.0 million

The Group's three established, owned London hotels all delivered strong performances for the year and outperformed their competitive set.

Our performance

In the United Kingdom, RevPAR was €112.8 (2009: €109.6), an increase of 3.0% year on year benefiting from foreign exchange translation. However in local currency, RevPAR marginally declined as a result of the opening of Park Plaza Westminster Bridge London and the acquisition of Park Plaza Leeds and Park Plaza Nottingham in the year. On a like for like basis and in local currency, RevPAR increased by 7.2% to £104.3 (2009: £97.3).

RevPAR in the London hotel market improved in the year, particularly in the second half, as demand from both corporate and leisure guests increased which is reflected in occupancy and year on year average room rate (TRI Hospitality, December 2010).

The Group's three established owned London hotels – Park Plaza Victoria London, Park Plaza Riverbank London (including Plaza on the River) and Park Plaza Sherlock Holmes London – all delivered strong performances for the year and outperformed their competitive set in terms of RevPAR (on the back of occupancy ahead of their competitive sets (STR Global, December 2010)). In particular, Park Plaza Victoria London performed strongly in the year, outperforming its competitive set in terms of occupancy and average room rate and delivered RevPAR 19.4% higher than the average for its competitive set in 2010 (STR Global, December 2010).

In the United Kingdom, reported total revenue increased to €81.6 million (2009: €29.0 million) and EBITDA increased to €24.5 million (2009: €11.4 million), mainly due to the opening of Park Plaza Westminster Bridge London and the acquisitions of Park Plaza Leeds and Park Plaza Nottingham.

On a constant currency and like for like basis, total revenue increased by 3.8% to €30.1 million (2009: €29.0 million). EBITDA reduced to €10.2 million (2009: €11.4 million).

Developments

Park Plaza Westminster Bridge London, the Group's prestigious flagship hotel, partially opened to paying guests in March 2010 and fully opened in September 2010. The hotel, which has magnificent views of Big Ben and the Houses of Parliament, offers 1,019 rooms (including penthouse suites), Mandara spa, state-of-the-art meeting and conference facilities, including a 1,200 square metre pillar free ballroom and 31 meeting rooms, making it one of the most versatile hotels in central London. The hotel features a 200-seat signature restaurant, Brasserie Joël, headed by acclaimed chef Joël Antunes, as well as a 30-seat Japanese restaurant. The hotel's performance has been very encouraging since opening and customer satisfaction has been consistently high.

As at 31 December 2010, the sale of 535 units at Park Plaza Westminster Bridge London had been completed, raising net cash proceeds for the Group of £154.2 million (€179.0 million).

In August 2010, the Group acquired Park Plaza Leeds and Park Plaza Nottingham which the Group had previously operated under long-term management agreements. Park Plaza Leeds is located in the centre of Leeds, opposite Leeds Railway Station and the main city square, and is within walking distance of local businesses, shopping centres and tourist attractions and offers 185 rooms and suites, flexible meeting space for up to 140 delegates, a business centre and fully equipped gym. Park Plaza Nottingham, located in the city centre, offers 178 spacious rooms and suites and 12 flexible meeting rooms, with space for 220 delegates, and a fitness suite. Both hotels offer Park Plaza's award winning Chino Latino® Restaurant and Bar.

As provincial hotels, these hotels change the hotel mix as they attract lower average room rates than the Group's London hotels. Nonetheless in 2010, both hotels outperformed their competitive sets in terms of RevPAR (STR Global, December 2010).

The Group is investing in the complete refurbishment of the rooms and public areas at Park Plaza Leeds and Park Plaza Nottingham. Works commenced in the first quarter of 2011 and are scheduled to be completed in the fourth quarter of 2011.

In February 2010, the Group was granted planning consent for London's first art'otel® located in Hoxton, following two years of design work and consultation with the local authorities and local community in Shoreditch. Construction work for the 352 room art'otel london hoxton is due to commence in 2011. The hotel is scheduled to open in 2013.

Park Plaza Leeds

The Netherlands

The Dutch hotel market saw a gradual recovery in demand and the Group's Dutch hotels delivered a good performance.

Park Plaza Eindhoven

Hotel operations

	Year ended 31 December 2010	Year ended 31 December 2009
Occupancy	77.9%	84.1%
Average Room Rate	€102.2	€108.7
RevPAR	€79.6	€91.4
Total Revenue	€22.8 million	€19.8 million
EBITDA	€7.6 million	€6.5 million

Park Plaza Victoria Amsterdam and Park Plaza Vondelpark, Amsterdam both outperformed their competitive sets.

Our performance

Having been adversely affected by the recent downturn in the economy, particularly in Amsterdam, the Dutch hotel market saw a gradual recovery in demand from corporate and leisure guests in the first half of the year which gained momentum in the second half.

Against this backdrop, the Group's Dutch hotels delivered a good performance. Total RevPAR for the Netherlands was €79.6 (2009: €91.4) as it was impacted by a decline in occupancy and average room rate as a result of the addition of Park Plaza Amsterdam Airport to the Group's Dutch hotel portfolio. However, like for like RevPAR increased by 4.7% to €95.7 (2009: €91.4), driven by a 5.7% improvement in average room rate.

Park Plaza Victoria Amsterdam and Park Plaza Vondelpark, Amsterdam both outperformed their competitive set in terms of RevPAR achieved through high occupancy at these hotels of 91.0% and 77.0% respectively compared with occupancy of 79.5% and 69.5% respectively for the competitive set (STR Global, December 2010).

Renovations of the public areas, meeting areas and the creation of a wine bar, called V-Bar, at Park Plaza Vondelpark, Amsterdam were completed in April 2010.

Park Plaza Utrecht and Park Plaza Eindhoven both delivered a strong performance during the year, outperforming their competitive sets in terms of occupancy and RevPAR with Park Plaza Utrecht reporting RevPAR 31% ahead of its competitive set (STR Global, December 2010).

Reported total revenue increased by 15.5% to €22.8 million (2009: €19.8 million) and EBITDA grew by 17.9 % to €7.6 million (2009: €6.5 million). On a like for like basis, EBITDA increased by 12.9% to €7.3 million (2009: €6.5 million).

Developments

In April 2010, the Group acquired with a joint venture partner a large conference hotel located near Amsterdam Schiphol Airport. This 342 room hotel, which has over 1,800 square metres of flexible meeting space, was rebranded Park Plaza Amsterdam Airport. The hotel's location outside of Amsterdam city centre means that it achieves a lower average room rate than the Group's other Dutch hotels. As a result, the Group's future RevPAR for the Dutch market will reflect this change to the hotel mix. In order to strengthen the hotel's market position, particularly in the corporate market, renovations and updates commenced in the first quarter of 2011.

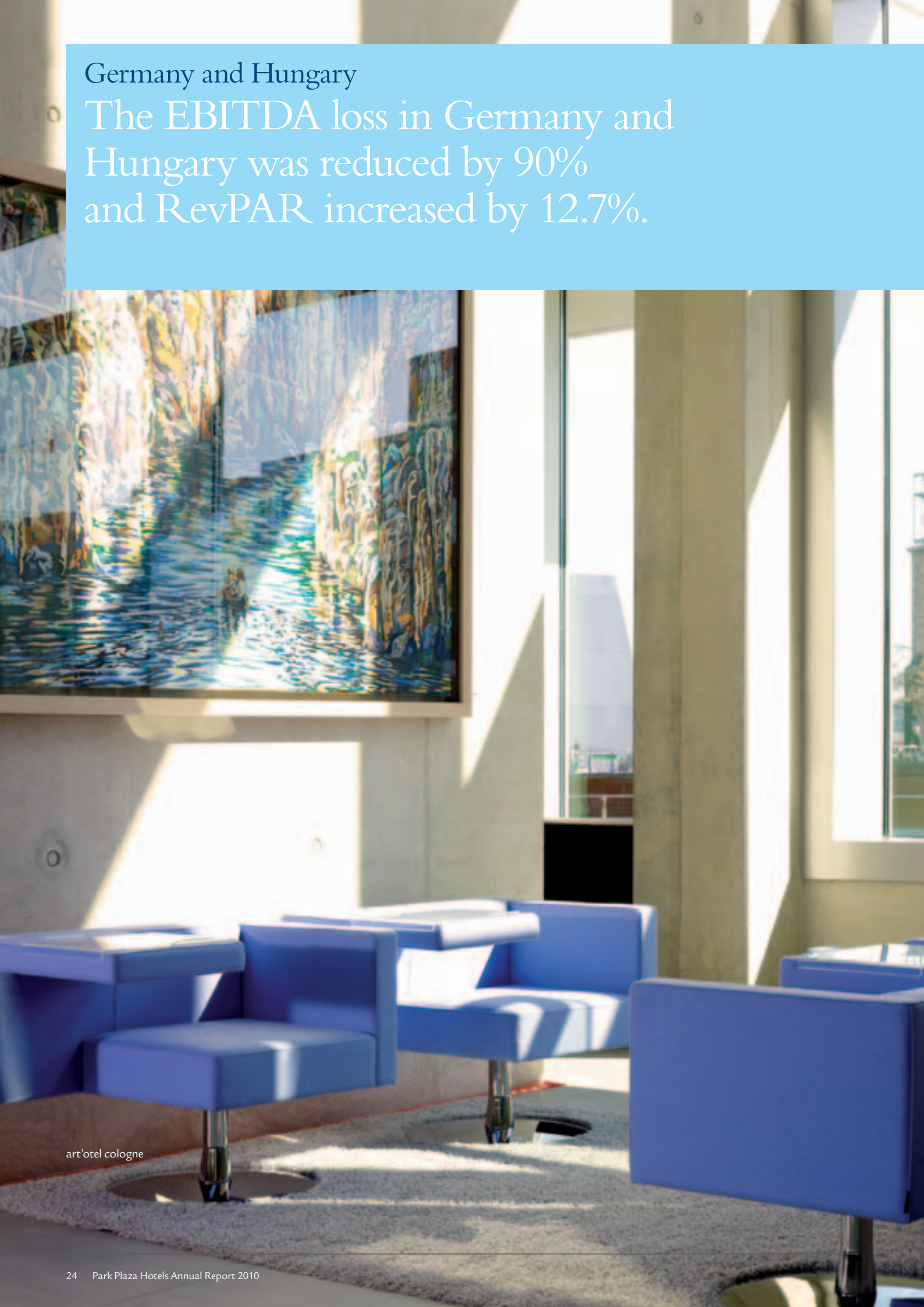
In October 2010, construction commenced on art'otel amsterdam, the city's first art'otel® to be located in the iconic former "Kadaster" office in a prime location near Central Station. In line with the art'otel® brand this 105 room hotel will include dedicated public spaces on the ground and basement floors to showcase social and cultural activities as well as an art café. The hotel is expected to open in 2012.

Major renovations are underway across the Group's Dutch hotel portfolio. This includes the refurbishment of 164 rooms in the Garden Wing and meeting rooms at Park Plaza Victoria Amsterdam, renovation of 47 rooms at Park Plaza Eindhoven (which both commenced in the first quarter of 2011) and the refurbishment of 40 rooms at Park Plaza Utrecht.

Park Plaza Eindhoven

Germany and Hungary

The EBITDA loss in Germany and Hungary was reduced by 90% and RevPAR increased by 12.7%.



art'otel cologne

Hotel operations

	Year ended 31 December 2010	Year ended 31 December 2009
Occupancy	70.4%	71.4%
Average Room Rate	€68.8	€60.2
RevPAR	€48.4	€43.0
Total Revenue	€27.7 million	€23.5 million
EBITDA	€(0.3) million	€(3.7) million

Despite the challenges in Germany, the Group's hotels have performed in line with the market.

Our performance

In Germany and Hungary, which have historically been the most challenging markets in which the Group operates, RevPAR increased by 12.7% to €48.4 (2009: €43.0), reflecting a 14.3% increase in average room rate year on year. This improvement was in part helped by the German government reducing the value added tax rate from 19% to 7% on 1 January 2010. Occupancy at the Group's hotels was adversely impacted by the newly opened art'otel cologne. Like for like RevPAR increased by 7.9% to €48.3 (2009: €44.8).

The German and Hungarian hotel markets have continued to be characterised by an oversupply of hotel rooms, particularly in major cities such as Berlin, Dresden and Budapest. Although the German hotel market has seen an 8% improvement in RevPAR during the year (MKG Hospitality, January 2011), this was primarily driven by increased average room rates following the government reduction in value added tax.

Despite the challenges in Germany, the Group's hotels have performed in line with the market and the Group has benefited from this improvement in average room rate which resulted in a year on year increase in RevPAR. art'otel berlin city center west, art'otel berlin kudamm, art'otel dresden and Park Plaza Prenzlauer Berg Berlin all outperformed their competitive sets in terms of average occupancy in the year (Fairmas, December 2010).

On a like for like basis, total revenue increased by 6.4% year on year and the EBITDA loss was reduced by 90.0% to a €0.3 million loss (2009: loss of €3.0 million).

Budapest continues to be one of the most difficult markets in Europe with continued downward pressure on average room rates. During the year the lease for art'otel budapest was favourably renegotiated which will benefit the future financial performance of this hotel.

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

Developments

art'otel cologne, the Group's newly-built 218 room hotel located in the newly developed prestigious Rheinauhafen area of Cologne, was opened in March 2010. The hotel features artwork by the Korean-born SEO and has the first Park Plaza award winning Chino Latino® restaurant and bar outside the United Kingdom. Customer feedback on the facilities and customer service since opening has been positive. In its first year it was already recognised as one of the '100 best hotels in the world' by The Sunday Times Travel Magazine and its Chino Latino® bar and restaurant has received various accreditations.

In the second quarter of 2010 work commenced to extend the art'otel berlin city center west. This 60 room extension will include refurbishment of the ground floor, the addition of two new meeting rooms and a new wellness centre. The project is scheduled to finish in the fourth quarter of 2011.

A renovation programme to refurbish all rooms and public areas at art'otel budapest will commence in 2011. The project is due to be completed in 2012.

Progress at Park Plaza Nuremberg continues and the hotel is expected to open in 2013.

art'otel cologne

Management and Holdings Operations

EBITDA increased significantly by 176.2% due to newly opened and acquired hotels.

Park Plaza Cardiff

Management and Holdings Operations:

	Year ended 31 December 2010	Year ended 31 December 2009
Total Revenue	€7.7 million	€8.1 million
EBITDA	€5.8 million	€2.1 million

Revenue from the Management and Holdings Operations reduced slightly to €7.7 million.

Our performance

Revenue from the Management and Holdings Operations reduced slightly to €7.7 million (2009: €8.1 million).

This is partially as a result of the elimination of revenue from Park Plaza Leeds and Park Plaza Nottingham following their acquisition by the Group and their consolidation into the Group's accounts.

The opening of Park Plaza Westminster Bridge London and art'otel cologne and the acquisition of Park Plaza Amsterdam Airport (by reference to the Group's interests) and Park Plaza Leeds and Park Plaza Nottingham (post August) in the year had no impact on the management revenue as this revenue is eliminated upon consolidation.

EBITDA increased by 176.2% to €5.8 million (2009: €2.1 million), with the newly opened and acquired hotels in 2010 contributing €3.3 million to the EBITDA of the Management and Holdings Operations. The further increase in EBITDA can be attributed to non-recurring restructuring costs included in 2009.

Park Plaza Cardiff

Park Plaza Cardiff

Croatia

In 2010, we continued with several refurbishment projects across the portfolio, in particular at Hotel Histria.

Ambrela lounge and beach bar

Hotels
Hotel Histria
Hotel Medulin
Hotel Brioni
Hotel Park
Hotel Palma
Hotel Holiday
Hotel Belvedere
Guest House Riviera

Resorts
Verudela Beach and Villas Resort
Punta Verudela Resort
Horizont Resort
Splendid Resort
Ai Pini Medulin Resort

Campsites
Stoja Camp & Mobile Homes
Medulin Camp & Mobile Homes
Kažela Camp
Stupice Camp & Mobile Homes
Indije Camp & Mobile Homes
Runke Camp
Pomer Camp
Tašalera Camp

www.arenaturist.com
www.arenacamps.com

We also further developed the renovation plans which are to be implemented following the 2011 season.

Our relationship
Arenaturist is one of Croatia's best known hospitality groups and consists of eight hotels, five holiday apartment complexes, eight campsites and 52 food and beverage outlets, all of which are located in Istria. Arenaturist caters primarily for European tourists and the majority of accommodations are only operational during the summer months.

All properties are located in prime locations by the sea and are only a short distance from either the 3,000 year old city of Pula or the touristic Medulin.

In 2008, Park Plaza Hotels acquired a 20% stake in Bora, the holding company of the Arenaturist Group, and was awarded the Management Agreement for Arenaturist.

Arenaturist is listed on the Zagreb Stock Exchange.

Our progress
Since we started operating Arenaturist, we have mainly focused on improving the operational results. We appointed a new Board and senior management and initiated several staff training programmes focused on improving overall guest experiences. We also launched several new websites, invested in those facilities that would provide an immediate return, whilst continuing to develop our longer term renovation plans. Several planning applications have since been submitted and granted.

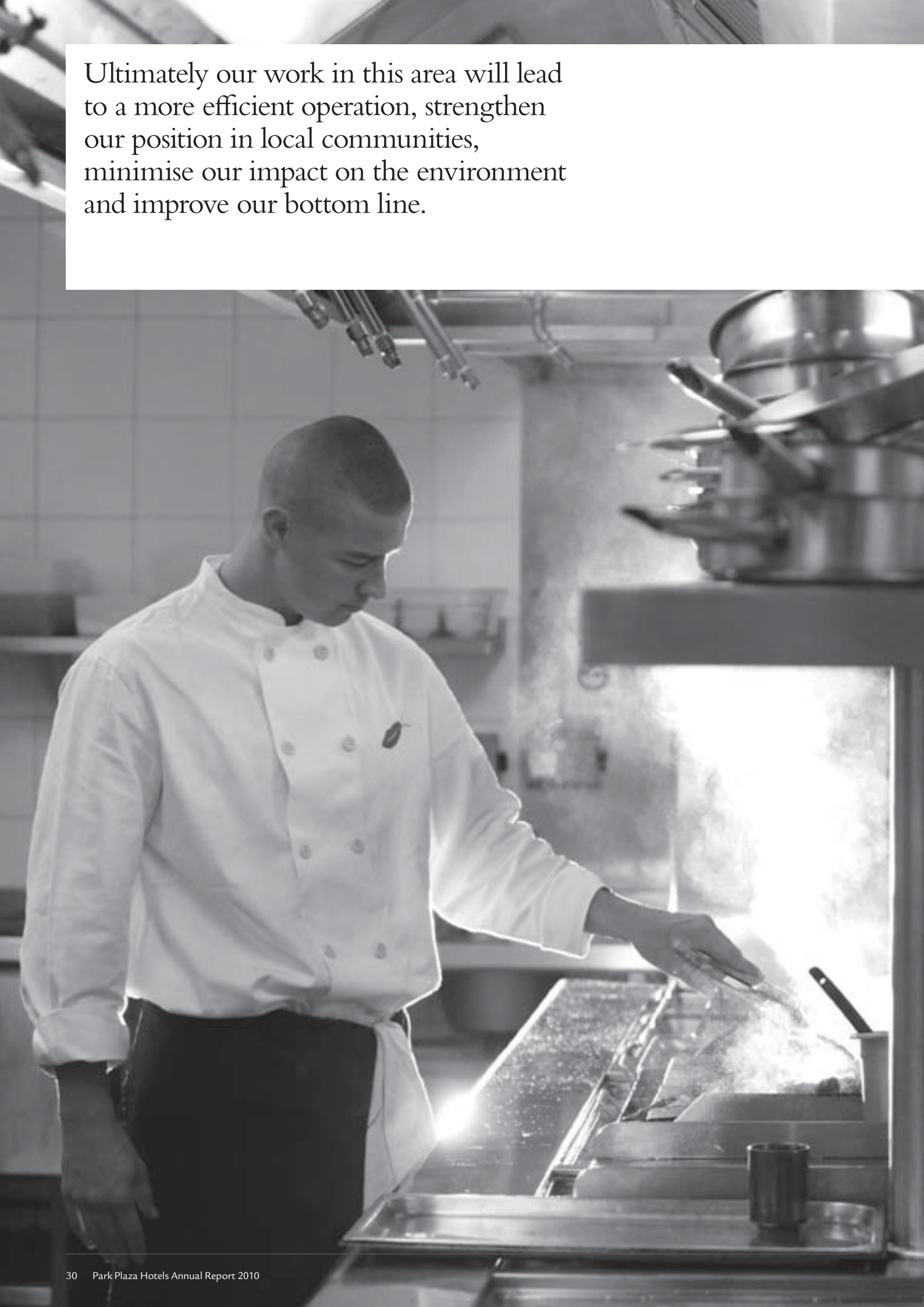
In 2010, we continued with several refurbishment projects across the Arenaturist portfolio. In particular, extensive room renovations commenced at Hotel Histria and these are due to be completed for the start of the 2012 season.

At several hotels, the restaurants, bars and pool areas were also renovated. We also further developed the renovation plans which are to be implemented following the 2011 season. The Arenaturist portfolio will upgrade its back office property management technology platform in the first half of 2011, for which most preparations were done in 2010.

Aerial view of Punta Verudela

Ambrela lounge and beach bar

Ultimately our work in this area will lead to a more efficient operation, strengthen our position in local communities, minimise our impact on the environment and improve our bottom line.



Corporate social responsibility

The travel industry has a significant impact on the environment and the communities in which it operates and Park Plaza Hotels remains fully committed to working towards minimising this impact wherever possible.

Operating responsibly is now part of our everyday life and although we have introduced many new initiatives and new methods of working in recent years, we still see a significant opportunity to further improve efficiency, minimise our impact on the environment and actively support local communities, alongside managing our costs and delivering better results for shareholders.

Since we introduced our first company-wide Corporate Social Responsibility (CSR) policy in 2008, we have made a significant progress in this area and we are particularly proud of how our teams have embraced this framework, adapted it to local needs and requirements and implemented it with great enthusiasm.

Our CSR policy is a clear and solid framework of mandatory requirements and optional initiatives for each hotel under our management. Each General Manager is responsible for implementing the policy on a local level with the support of his or her team and under the guidance of Regional and Head Office management. This approach has led and will continue to lead to, greater efficiencies and sharing of best practice.

The framework is built around two core areas, T.R.E.E. (Total Responsibility for Everyone's Environment) and S.E.A.S.O.N. (Save Energy And Switch Off Now) and together these outline the objectives and initiatives for our Group in the following areas:

- Water
- Electricity
- Heating
- Purchasing
- Waste management
- Learning and development
- Community
- Charity
- Corporate travel
- Guest communication

Our new flagship hotel, Park Plaza Westminster Bridge London, is a real testimony to our commitment to building and operating sustainable hotels. For example, the Hotel's onsite water bottling plant (used to bottle water for meetings and events and room service) significantly reduces its carbon emissions as it eliminates the need to transport an estimated one million bottles of water to and from the hotel each year.

With extensive renovations carried out in many of our hotels in recent years, and several more planned for 2011, we are making progress in improving overall efficiency and saving resources. This has been done through the implementation of smarter systems and technologies such as passive infrared sensors in guest rooms, meeting rooms and certain public areas, devices which control the water flow of showers, taps and toilets, building management systems which control temperature settings throughout the day and installation of energy saving bulbs and LED.

Our activities focus not only on technical improvements, but also encourage our hotels to engage with their employees and suppliers for them to make a difference too. Real life examples include minimising the number of delivery days for suppliers, buying local produce, encouraging car sharing by employees and enforcing internal policies for recycling and switching off appliances and lights.

We actively encourage our hotels to support the local communities in which they operate. Throughout the year our teams enthusiastically organised and participated in events such as fundraising initiatives, charity balls, volunteer days, litter removal initiatives and tree planting days.

Most of our hotels now participate in Earth hour and charities supported in 2010 included Deutsches Kinderhilfswerk, Springboard, Macmillan Cancer Support, Red Nose Day Cycle ride, Csodalámpa (for seriously ill children), and local schools and homeless shelters. The Company also continued to support the Willow Foundation and Carbon Neutral through our partnership with Carlson.

Our collective CSR work has been recognised and more and more of our hotels now have official accreditation from national or international organisations. To name but a few, both Park Plaza County Hall London and Park Plaza Westminster Bridge London were awarded a Gold Award by the Green Tourism Business Scheme. For Park Plaza Westminster Bridge London this was a particularly impressive feat considering that this hotel has only recently opened. Park Plaza Nottingham achieved Silver status and Park Plaza Victoria London was awarded Bronze. In the Netherlands both Park Plaza Victoria Amsterdam and Park Plaza Eindhoven received a Silver Award from the Green Key organisation.

In 2011, we will continue to embrace, implement and trial new technologies and installations and will work towards obtaining accreditation for more of our hotels and increase, where possible, the tiers for those already certified. We will achieve this by working closely with all stakeholders such as hotel owners, employees and suppliers, but we will also raise the bar for new property developments.

We will also develop a stronger internal communication platform for CSR related matters on the soon to be launched company-wide Intranet, fostering an environment for employees to share ideas and best practice.

Ultimately our work in this area will lead to a more efficient operation, strengthen our position in local communities and minimise our impact on the environment.

The Willow Foundation

Park Plaza Hotels proudly supports the phenomenal work of The Willow Foundation, a charity that aims to bring joy and happiness to thousands of terminally ill patients through organised experiences.

The Willow Foundation was founded in 1999 by former Arsenal and Scotland goalkeeper and TV presenter, Bob Wilson and his wife, Megs, in memory of their daughter, Anna who died of cancer shortly before her 32nd birthday. Boris Ivesha the Company's CEO, is a member of Willow's Development Committee.

Carbon Neutral through Club Carlson℠

The Carbon Neutral Company is one of the world's leading climate change businesses, set up in the late 1990s. They are helping thousands of people and hundreds of major companies around the world, to measure, reduce and offset their CO_2 emissions. Club Carlson℠ members can redeem their Gold Points to contribute towards community based carbon reduction projects that balance out CO_2.

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2010.

Principal activities
The Company is a Guernsey registered company and through its subsidiaries, jointly-controlled entities and associates, owns (and in some cases, develops), leases, operates and franchises full service four-star, four-star deluxe and lifestyle hotels in major gateway cities and regional centres primarily in Europe.

The majority of the Group's hotels operate under one of two distinct brands, Park Plaza® Hotels & Resorts or art'otel®.

The Group holds a long-term exclusive licence in the EMEA region for the Park Plaza® Hotels & Resorts brand and worldwide ownership of the art'otel® brand allowing it to leverage a wide range of opportunities to expand its brands and portfolio.

Business review
A review of the business during the year is contained in the Chairman's statement, Chief Executive Officer's statement, strategy and performance overview, Chief Financial Officer's statement and review of 2010.

Results and dividend
The results for the year are set out in the attached financial statements.

Basic and diluted earnings per share for the year was €1.5 (2009: loss of €0.20). The Board believes that it is prudent not to recommend the payment of a dividend this year.

As a matter of Guernsey law, any distribution of dividends will need to be in accordance with the provisions of the Companies Law. The Directors will therefore need to carry out a liquidity or cash flow test and a balance sheet solvency test before any dividend or distribution payment can be made. The test requires the Directors to make a future assessment by making reference to the solvency test being satisfied immediately after a distribution or dividend payment is made. If at the time a dividend or distribution payment is to be made, the Directors believe that the solvency test cannot be passed, then no payment may be made to the holders of shares.

Subject to compliance with Guernsey law and the retention of proper and prudent reserves by the Company, the Board intends to recommend the payment of an annual dividend of at least 3p per share commencing in 2012.

Principal risks and uncertainties
Internal controls and an effective risk management regime are integral to the Group's continued operation. Overall responsibility for the risk management processes adopted by the Group lies with the Board. On behalf of the Board, the Audit Committee reviews the effectiveness of the Group's internal control policies and procedures for the identification, assessment and reporting of risks. In order to maintain oversight and seek comfort as to Group policies and procedures, the Audit Committee recommended to the Board that an independent internal auditor be put in place to act as a tool to rigorously and continuously test Group procedures. A candidate has been identified and it is anticipated the candidate will commence his duties with effect from 1 July 2011. For further details in respect of the Group's internal control processes, please refer to the Corporate Governance section of this report.

In this section we describe the Group's principal risks and uncertainties. We provide information on the nature of the risk, actions to mitigate risk exposure and an indication of the significance of the risk by reference to its potential impact on the Group's business, financial condition and results of operation and/or the likelihood of the risk materialising. Not all potential risks are listed below. Some risks are excluded because the Board considers them not material to the Group as a whole. Additionally, there may be risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, that may also have an adverse effect upon the Group.

Number of issued shares	42,677,292
Held in treasury by Park Plaza Hotels Limited	862,000
Number of issued shares (excluding treasury)	41,815,292

Shareholders with holdings of 3% or more of the Company's issued share capital (excluding treasury) as at 10 May 2011	Number of shares	Percentage of issued share capital (excluding treasury)
Red Sea Group	18,679,141*	44.7%
Molteno Limited	8,285,024*	19.8%
Aroundtown Property Holdings Limited	3,762,000	9.0%
Goldman Sachs Managed Funds	3,636,364	8.7%

* 421,424 shares of the total shares owned by PPHL Holding B.V. are held by the Red Sea Group and Molteno Limited. These shares are counted in both the totals for the Red Sea Group and Molteno Limited in the table above.

Risk and impact	Mitigation	Grading
Risk name		
Information technology and systems The Group is reliant on certain technologies and systems for the operation of its business. Any material disruption or slowdown of the Group's information systems, especially any failures relating to its reservation system, could cause valuable information to be lost or operations to be delayed. In addition, the Group and each of its hotels maintain personal customer data, which are also shared and retained by the Group's partner. Such information may be misused by the Group's or its partner's employees or other outsiders if there is an inappropriate or unauthorised access to the relevant information systems.	The Group invests in appropriate IT systems so as to obtain as much operational resilience as possible. Further, a variety of security measures is implemented in order to maintain the safety of personal customer information.	**High**
Market and hotel industry risks The Group's operations and the results of its operations are subject to a number of factors that could adversely affect the Group's business, many of which are common to the hotel industry and beyond the Group's control, such as the global economic downturn, changes in travel patterns or in the structure of the travel industry and the increase in acts of terrorism. The impact of any of these factors (or a combination of them) may adversely affect sustained levels of occupancy, room rates and/or hotel values.	Although management continually seeks to identify risks at the earliest opportunity, many of these risks are beyond the control of the Group. The Group has in place contingency and recovery plans to enable it to respond to major incidents or crises and takes steps to minimise these exposures to the greatest extent possible.	**High**
Key senior personnel and management The success of the Group's business is partially attributable to the efforts and abilities of its senior managers and key executives. Failure to retain its executive management team or other key personnel may threaten the success of the Group's operations.	The Group has appropriate systems in place for recruitment, reward and compensation and performance management. Development and maintenance of a Group culture also plays a leading role in minimising this risk.	**Medium**
Fixed operating expenses The Group's operating expenses, such as personnel costs, operating leases, information technology and telecommunications, are to a large extent fixed. As such, the Group's operating results may be vulnerable to short-term changes in its revenues.	The Group has appropriate management systems in place (such as staff outsourcing) designed to create flexibility in the operating cost base so as to optimise operating profits in volatile trading conditions.	**Medium**

Risk and impact	Mitigation	Grading
Risk name		
Foreign exchange rate fluctuations The exchange rates between the functional currency of the Group's subsidiaries operating outside the Eurozone, and the Euro (the reporting currency for the purposes of the consolidated financial statements) may fluctuate significantly, affecting the Group's financial results. In addition, the Group may incur currency transaction risk in the event that one of the Group companies enters into a transaction using a different currency from its functional currency.	The Group eliminates currency transaction risk by matching commitments, cash flows and debt in the same currency.	**Low**
The Park Plaza® Hotels & Resorts brand and reservation system The Group's rights to the Park Plaza® Hotels & Resorts brand stem from a territorial licence agreement with Carlson, pursuant to which the Group has the exclusive right to use (and to sub-license others to use) the Park Plaza® Hotels & Resorts trademark in 56 countries within the EMEA region. This agreement also allows the Group to use Carlson's highly cost-effective central reservation system. Failure to maintain these rights could adversely affect the Group's brand recognition and its profitability.	The Group's rights to use the Park Plaza® Hotels & Resorts brand and Carlson's central reservation system are in perpetuity. This unique and exclusive partnership is reinforced by the Group's continued focus on operational efficiency and portfolio growth through its intensified cooperation with Carlson.	**Low**
Guaranteed return of investment to Park Plaza Westminster Bridge London unitholders Marlbray Limited, the freehold owner of Park Plaza Westminster Bridge London, and the Company have guaranteed (directly or indirectly) to the purchasers of units in Park Plaza Westminster Bridge London a 5% or 6% return on their investment (as the case may be) for a period of five years from the date of the sale. To the extent that net income is less than the guaranteed return, Marlbray and Park Plaza Hotels will be obliged to make up any shortfall.	Marlbray is entitled to receive and retain all net income generated by the units sold during the term of the guarantees and if such income exceeds guaranteed return, Marlbray benefits from the surplus. This arrangement, combined with a regular monitoring of revenues, allows management to effectively control costs and to minimise the impact of any shortfalls.	**Low**
The Group's borrowings The Group is exposed to a variety of risks associated with the Group's existing bank borrowings and its ability to satisfy debt covenants. Failure to satisfy obligations under any current or future financing arrangements could give rise to default risk and require the Group to refinance its borrowings.	The Board monitors funding needs regularly. Financial covenant ratios are monitored and sensitised as part of normal financial planning procedures.	**Low**
Tax risk As the Group operates in a number of jurisdictions, changes to the tax laws or practice in any of these jurisdictions may have adverse consequences to the Group's profits.	The Group has developed adequate presence in its key jurisdictions to manage the risks that changing tax legislation may present.	**Low**

Directors
The Directors, who served throughout the year were as follows:

- Eli Papouchado (Non-Executive Chairman)
- Boris Ivesha (President and Chief Executive Officer)
- Chen Moravsky (Chief Financial Officer)
- Kevin McAuliffe (Senior Independent Non-Executive Director)
- Elisha Flax (Independent Non-Executive Director)
- Nigel Jones (Independent Non-Executive Director)

At each Annual General Meeting any Director who was elected, or last re-elected, at or before the Annual General Meeting held in the third calendar year preceding that Annual General Meeting shall retire from office by rotation. In addition, such further Directors, if any, shall retire by rotation as would bring the number retiring by rotation up to one-third of the number of Directors in office at the date of the notice of the meeting. In each case, a retiring Director shall be eligible for re-election.

Details of the Directors' remuneration are included within the Remuneration Report.

Largest shareholders
The table provided on page 32 contains shareholders holding 3% or more of the ordinary shares as at 10 May 2011, of which the Company has been notified by its Registrar.

Auditors
Ernst & Young LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Going concern
The Board believes it is taking all appropriate steps to support the sustainability and growth of the Group's activities. Detailed budgets and cash flow projections have been prepared for 2011 and 2012, which show that the Group's hotel operations will be cash generative during the period. This, taken together with their conclusions on the matters referred to below and in Note 1(c) to the financial statements, have led the Directors to conclude that it is appropriate to prepare the 2010 financial statements on a going concern basis.

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 Company 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; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

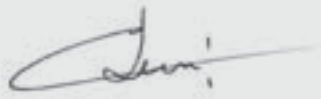
The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 2008, as amended. They are also responsible for safeguarding the assets of the Company 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 Company'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 Company's auditor is aware of that information.

Directors' Responsibility Statement
The Board confirms to the best of its knowledge that the financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group.

The business review, which is incorporated into the Directors' Report, includes a fair view of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Boris Ivesha
President and Chief Executive Officer



Chen Moravsky
Chief Financial Officer

1 June 2011

Corporate governance

Introduction
As a company listed on AIM, the Company is not required to comply or explain against the requirements of the UK Corporate Governance Code (the "Corporate Governance Code") published by the Financial Report Council. The Board has however put in place a framework for corporate governance which enables the Company to voluntarily comply with the main requirements of the Corporate Governance Code.

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

Board composition, roles and independence
The Company currently has six Directors, four of whom are Non-Executives (including the Chairman, Eli Papouchado). The two Executive Directors are Boris Ivesha, Chief Executive Officer and Chen Moravsky, Chief Financial Officer.

The Corporate Governance 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 Corporate Governance Code also recommends that the Chairman should, on appointment, be independent.

As recommended by the Corporate Governance Code, three of the Directors (being more than half of the Board excluding the Chairman), namely 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. Kevin McAuliffe has an indirect 1% interest in C.L. Secretaries Limited, the Company's Secretary. The Board does not however consider this interest to be sufficiently material to affect Mr. McAuliffe's independence. 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 was not therefore on appointment, and is not, independent of the Company. However the Board believes that Mr. Papouchado's extensive experience and knowledge of the Group's business as well as the hotel business generally justify this departure from the recommendations of the Corporate Governance Code.

As recommended by the Corporate Governance Code, the Board has appointed Kevin McAuliffe as the Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary.

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 Group's General Counsel 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 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, an appropriate induction will be set up.

The Board considers agenda items laid out in the Notice of General Meeting and Agenda which are formally circulated to the Board in advance of the Board meetings 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 primary focus at Board meetings is a review of operating performance, potential investments and joint ventures and matters such as financing arrangements, 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 is appropriate to the requirements of the Company. The Directors retire and stand for re-election in accordance with the provisions set out in the Company's articles of incorporation.

The roles of Chairman and the Chief Executive Officer are separate and clearly defined. The scope of these roles is approved and kept under review by the Board so that no individual has unfettered decision-making powers.

Composition of Board

Executive Directors	2
Non-Executive Directors	4

The Chairman is responsible for the leadership and governance of the Board and the Chief Executive Officer for the management of the Group and the implementation of Board strategy and policy on the Board's behalf. In discharging his responsibilities, the Chief Executive Officer is advised and assisted by senior management.

During the financial year, the Board held seven Board and Board Committee meetings.

Directors' 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; and
- 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.

External appointments
Directors may hold directorships or other significant interests with companies outside of the Group which may have business relationships with the Group. Executive directors may not accept external directorships and retain any fees earned from those directorships subject to prior discussion with the Chief Executive Officer and always provided this does not lead to any conflicts of interest. In the case of the Chief Executive Officer, prior discussion will need to be held with the Chairman.

Directors' indemnities and protections
The Company has arranged appropriate insurance cover in respect of legal action against Directors and senior managers of companies within the Group. In addition, the Articles of Incorporation of the Company permit the Directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office.

Board Committees
In accordance with the Corporate Governance Code, the Company has established the following Committees in order to carry out work on behalf of the Board: an Audit Committee, a Remuneration Committee and a Nominations 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 Chief Financial Officer, the Company Secretary and the external auditors.

Contrary to the requirements of the Corporate Governance Code, none of the members of the Audit Committee have recent and relevant experience, which for these purposes is taken to be a professional qualification from one of the professional accounting bodies. However, the Board considers that the existing Committee members' substantial experience of dealing with financial matters is more than adequate to enable the Committee to properly discharge its duties in light of the nature of the Company's business. The Company will keep the requirement for a Director with recent and relevant experience under review.

Audit Committee Report for 2010
The Audit Committee met seven times during the year. Attendance of the individual Directors, who all served on the Committee throughout the year, is shown in the table below.

Date of meeting	Kevin McAuliffe	Elisha Flax	Nigel Jones
19/01/2010	✓	✓	✓
02/03/2010	✓	×	✓
23/03/2010	✓	×	✓
21/06/2010	✓	✓	✓
20/09/2010	✓	✓	✓
22/11/2010	✓	✓	✓
08/12/2010	✓	✓	✓

During these meetings the Audit Committee considered the following:

- the integrity of the financial statements and other formal announcements relating to the Group's financial performance and, in particular, reviewed the judgements that are contained within the financial statements;
- refinancing transactions;
- third party related transactions;
- renovation plans and the growth of the property/asset portfolio;
- the Group's internal control and risk management policies and systems, and their effectiveness;
- the current and future requirements for an internal audit function in the context of the Group's overall risk management system;
- the Committee reviewed the auditor performance during the year and recommends that the Board presents the resolution to the shareholders at the 2011 AGM to reappoint Ernst & Young LLP as external auditors.

Objectives achieved following recommendations by the Audit Committee:

1 In order to closely monitor performance, liaising with the Chief Financial Officer who now reports to the Committee verbally and by way of written report on a monthly basis.

2 Having identified possible corporate governance/statutory risk in view of the rapid growth of the portfolio, the Audit Committee recommended that specific expertise be employed to ensure compliance. General Counsel for the Group was subsequently appointed in November 2010.

3 In order to maintain oversight and seek comfort as to Group policies and procedures, the Audit Committee recommended to the Board that an independent internal auditor be put in place to act as a tool to rigorously and continuously test Group procedures. Interviews were undertaken and a candidate identified. It is anticipated the candidate will commence his duties with effect from 1 July 2011.

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 as and when required. The Remuneration Committee also determines, 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.

There has been one Remuneration Committee meeting during 2010.

Nominations Committee

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

There have been no new candidates to the Board and the Nominations Committee has therefore not been convened during 2010.

Communications with shareholders

The Board is accountable to the Company's shareholders and as such it is important for the Board to appreciate the aspirations of the shareholders and equally that the shareholders understand how the actions of the Board and short-term financial performance relate to the achievement of the Company's longer term goals.

The Board reports to the shareholders on its stewardship of the Company through the publication of interim and final results each year. Press releases are issued throughout the year and the Company maintains a website (www.parkplazahotels.net) on which press releases and the annual report and accounts are available to view. Additionally this annual report contains extensive information about the Company's activities. Enquiries from individual shareholders on matters relating to the business of the Company are welcomed. The Executive Directors also meet with major shareholders to discuss the progress of the Company.

The Chief Executive Officer and the Chief Financial Officer provide periodic feedback to the Board following meetings with shareholders.

The Annual General Meeting provides an opportunity for communication with all shareholders and the Board encourages the shareholders to attend and welcomes their participation. The Directors attend the annual general meeting and are available to answer questions. Details of resolutions to e proposed at the Annual General Meeting of the Company to be held on 16 June 2011 are included in the Notice of AGM which has been posted to shareholders and can be found on the Company's website www.parkplazahotels.net

Internal controls
In September 1999 the Turnbull Guidance (Internal Control: Guidance for Directors on the Combined Code) was published, and revised in October 2005.

The Directors acknowledge their responsibility for establishing and maintaining the Group's and the Company's systems of internal control. These are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal use and external publication.

The Group's internal control procedures include Board approval for all significant projects. All major expenditures require either senior management or Board approval at the appropriate stages of each transaction. A system of regular reporting covering both technical progress of projects and the state of the Group's financial affairs provides appropriate information to management to facilitate control. The Board reviews, identifies, evaluates and manages the significant risks that face the Group.

Any systems of internal control can only provide reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. The Directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the system of internal control operated effectively throughout the financial year and up to the date the financial statements were signed.

Share dealing code
The Company has adopted a share dealing code for Directors and relevant employees which is appropriate for an AIM quoted Company and is in accordance with Rule 21 of the AIM Rules.

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

T: UK 0871 664 0300

Calls cost 10p per minute plus network extras.

T: Overseas +44 208 639 3399

Lines are open Monday to Friday 8.30am to 5.30pm.

Investor relations enquiries
Chen Moravsky
Chief Financial Officer
Viñoly Tower, 5th floor
Claude Debussylaan 14
1082 MD Amsterdam
The Netherlands

T: +31 (0)20 717 8603
F: +31 (0)20 717 8699
E: cmoravsky@pphe.com
www.parkplazahotels.net

Website
Annual Reports, half year reports and shared information are all available on our website www.parkplazahotels.net

Financial calendar
Financial year: 1 January to 31 December
Earnings releases: 30 June, 31 December
Annual General Meeting: 16 June 2011

London stock exchange trading code
pph.l

Report of the Remuneration Committee and Directors' Remuneration Report

Remuneration policy
The Company's remuneration policy is designed to attract, motivate and retain high-calibre individuals to enable the Group to operate strategically for the continued benefit of shareholders, over the long term. The Remuneration Committee aims to provide Executive Directors and senior managers with packages which are sufficiently competitive to attract, retain and motivate individuals of the quality required to achieve the Group's strategic objectives and enhance shareholder value. Remuneration packages are aimed at balancing both short-term and long-term rewards, as well as performance and non-performance related pay.

The remuneration of Non-Executive Directors is a matter for the Board. No Director or manager may be involved in any decisions as to his/her own remuneration.

Within the framework of the agreed remuneration policy the Remuneration Committee determines the remuneration package of the Chairman, the Executive Directors and other senior managers, including the size of, and the performance conditions applying to, awards made under the Company's cash bonus and share option schemes. The Remuneration Committee also advises the Board on employee benefit structure throughout the Group. The Chief Executive Officer and the Chief Financial Officer may provide advice to the Remuneration Committee as necessary (save in respect of their own remuneration).

Service contracts and letters of appointment
The Executive Directors have rolling service contracts which may be terminated on 12-months' notice by the Company or on 6-months' notice by the Executive Director. There are provisions for earlier termination by the Company in certain specific circumstances.

Each Non-Executive Director has specific terms of reference. Their letters of appointment provide for an initial three-year period, subject to termination by either side on three months' notice. The letters of appointment contain no entitlement of compensation for early termination.

Details of the contract dates and notice periods are set out below:

Name of Directors	Date of appointment	Notice period
Elisha Flax	17 July 2007	3 months
Boris Ivesha	26 June 2007	12 months from Company, 6 months from Mr. Ivesha
Kevin McAuliffe	26 June 2007	3 months
Chen Moravsky	26 June 2007	12 months from Company, 6 months from Mr. Moravsky
Nigel Jones	26 June 2007	3 months
Eli Papouchado	17 July 2007	3 months

** Other than salary and benefits in relation to the notice period described above, there are no other terms in any of the contracts which would give rise to compensation payable for early termination, or any other liability of the Company.

Non-performance related remuneration
Basic salaries and benefits are reviewed by the Remuneration Committee annually. Executive Directors are entitled to D&O insurance.

The Chairman's and Non-Executive Directors' fees are reviewed on a bi-annual basis by the entire Board.

Pensions
Mr. Ivesha is entitled to pension contributions of £100,000 per annum, and Mr. Moravsky is entitled to pension contributions at the rate of 15% of annual salary. Otherwise the Directors are not entitled to pension plans.

Performance related remuneration
The Company did not grant performance related remuneration in the years ended 31 December 2010 and 2009.

The auditors have audited the following parts of the Remuneration Report:

Directors' remuneration €'000

Chairman and Executive Directors	Eli Papouchado	Boris Ivesha	Chen Moravsky	Total
Salary and fees	117	395	275	787
Other taxable benefits	–	191	105	296
Total remuneration for the year ended 31 December 2010	117	586	380	1,083
Total remuneration for the year ended 31 December 2009	113	430	365	908

Non-Executive Directors	Kevin McAuliffe	Nigel Jones	Elisha Flax	Total
Salary and fees	46	41	47	134
Total remuneration for the year ended 31 December 2010	46	41	47	134
Total remuneration for the year ended 31 December 2009	34	34	45	113

Details of share awards and options granted to Directors are included in the table below. No share awards or options have been exercised during the year.

Director	No of Options	Number vested as at 31 December 2010	Exercise price
Chen Moravsky	95,000	–	£1.00

On behalf of the Board

Kevin McAuliffe
Chairman of the Remuneration Committee

Board of Directors

Eli Papouchado (73)
Non-Executive Chairman

Mr. Papouchado is the founder of the Red Sea Group and has previously acted as the Chairman of its board for 10 years. He has been involved in the construction, design, development, financing, acquisition and management of leading hotels, including Park Plaza Westminster Bridge London, Park Plaza Riverbank London, Park Plaza Victoria London, Park Plaza Leeds, Park Plaza Nottingham, Park Plaza Victoria Amsterdam, the milestone Taba Hotel and many others. Mr. Papouchado was involved in the development of hundreds of thousands of square meters 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 Israel Hotel Association.

Boris Ivesha (65)
President and Chief Executive Officer

Mr. 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. He has been one of the major drivers behind the expansion of the Group's portfolio.

Chen Moravsky (40)
Chief Financial Officer

Mr. Moravsky was the Financial Director of the Red Sea Group before joining Park Plaza Hotels in 2005. 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 was previously employed as an Audit Manager at Deloitte. 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.

Kevin McAuliffe (53)
Non-Executive Director
Senior Independent Director

Mr. McAuliffe is currently the Executive Chairman of Carey Group, having joined that business as Chief Executive in 1999. Prior to this, he was Head of Advisory Services for Paribas International Private Banking and the Managing Director of Paribas Suisse in Guernsey. Previously the Finance Director of the Ansbacher offshore banking group, he was appointed Chief Executive of Ansbacher's Guernsey bank and trust company business in 1994. From 1973 to 1980, he held posts in three different departments in the States of Guernsey. He is a Member of the Society of Trust and Estate Practitioners and a director of various regulated investment companies.

Elisha Flax (49)
Non-Executive Director

Mr. Flax is a real estate entrepreneur engaged in various real estate activities in Eastern Europe. He served as a non-executive director of Delek Global Real Estate plc, an AIM-listed real estate company until 2010. Mr. Flax was previously employed as a solicitor at the London offices of US law firms Chadbourne & Parke and Akin, Gump, Strauss, Hauer & Feld and general counsel at PlaneStation Limited. He holds an LLB degree from Keio University in Tokyo, Japan and is a qualified solicitor in England and Wales.

Nigel Jones (49)
Non-Executive Director

Mr. Jones has been a member of the Royal Institution of Charted Surveyors since 1989. He was the Chief Executive of ComProp Limited, an AIM listed property company based in Guernsey, between 2001 and 2007. During that period he was responsible for major office developments including headquarter offices for Fortis, Kleinwort Benson and Generali, as well as retail stores for B&Q which are now occupied by Waitrose. Mr. Jones initially worked in Southampton for Humberts dealing with the management of coastal land that formed part of the Crown Estate. Having moved to Guernsey he established the Island's first dedicated Commercial property practice in 1995. His directorships include UK Care No 1 which holds leases on approximately 100 BUPA care homes, Matrix Property Fund (Guernsey) Limited, Threadgreen Industrial Limited and B L Management Guernsey 2011 Limited, part of The British Land Company PLC.

Consolidated balance sheets

	Note	As at 31 December 2010 €'000	2009 €'000
Assets			
Non-current assets:			
Intangible assets	4	42,313	44,882
Property, plant and equipment	5	605,242	188,625
Apart-hotel units sold to unit holders	6	160,586	–
Prepaid leasehold payments	7	244	254
Investment in associate	8	22,140	22,468
Other non-current financial assets	10	27,389	35,306
		857,914	291,535
Current assets:			
Inventories under construction	11	–	304,817
Restricted deposits and cash	17b	21,999	66,516
Inventories		1,351	527
Other current financial assets	9	1,671	14,536
Trade receivables	12	17,176	14,385
Other receivables and prepayments	13	9,557	5,137
Cash and cash equivalents	14	25,637	34,418
		77,391	440,336
Total assets		935,305	731,871

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

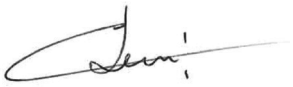
Consolidated balance sheets

	Note	As at 31 December 2010 €'000	2009 €'000
Equity and liabilities			
Equity:	15		
Issued capital		–	–
Share premium		237,729	236,000
Other reserves		(36,445)	(36,418)
Treasury shares		(1,083)	(1,083)
Foreign currency translation reserve		(36,507)	(28,376)
Hedging reserve		(1,087)	(9,096)
Accumulated earnings (deficit)		40,611	(21,292)
Total equity		203,218	139,735
Non-current liabilities:			
Bank borrowings	18	261,570	171,865
Advance payments from unit holders		176,503	–
Other liabilities	19	65,299	51,011
Deferred income taxes	26	8,770	9,655
		512,142	232,531
Current liabilities:			
Trade payables	29	24,998	4,853
Deposits received from unit holders	17b	18,234	63,757
Other payables and accruals	20	37,419	13,128
Bank borrowings	18	139,294	277,867
		219,945	359,605
Total liabilities		732,087	592,136
Total equity and liabilities		935,305	731,871

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

Date of approval of the financial statements 1 June 2011.

Boris Ivesha, President and Chief Executive Officer



Chen Moravsky, Chief Financial Officer

Consolidated income statements

	Note	Year ended 31 December 2010 €'000[1]	2009 €'000[1]
Revenues	21	139,829	80,326
Operating cost	22	(93,382)	(54,182)
EBITDAR		46,447	26,144
Rental expenses		(8,814)	(9,900)
EBITDA		37,633	16,244
Depreciation and amortisation		(12,409)	(9,066)
EBIT		25,224	7,178
Financial expenses	23	(28,873)	(18,940)
Financial income	24	10,421	5,797
Other Income, net	25	60,351	–
Interest expenses guaranteed to unit holders		(4,279)	–
Share in loss of associate	8	(2,362)	(1,195)
Profit (loss) before tax		60,482	(7,160)
Income tax benefit (expense)	26	1,421	(289)
Profit (loss) for the year		61,903	(7,449)
Basic and diluted earnings (loss) per share (in Euro)	27	1.5	(0.2)

[1] Except earnings per share.

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

Consolidated statements of comprehensive income

	Note	Year ended 31 December 2010 €'000	2009 €'000
Profit (loss) for the year		61,903	(7,449)
Other comprehensive income (loss):			
Fair value gain on available-for-sale financial assets		289	348
Reclassification adjustment for (profit) loss from available-for-sale financial assets recorded in income statement		(346)	246
Loss from cash flow hedges		(911)	(2,715)
Breakage of hedge financial instruments		8,920	–
Reclassification adjustment in respect of foreign currency translation reserve	3c	(9,390)	–
Foreign currency translation adjustments of foreign operations		1,205	3,762
Foreign currency translation adjustment of associate		54	26
Other comprehensive (loss) income		(179)	1,667
Total comprehensive income (loss) attributable to owners of the parent		61,724	(5,782)

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

Consolidated statements of changes in equity

	Issued capital*	Share premium	Other reserves	Treasury shares	Foreign currency translation reserve	Hedging reserve	Retained earnings (accumulative deficit)	**Total**
Balance as at 1 January 2009	–	236,000	(37,189)	–	(32,164)	(6,381)	(13,843)	146,423
Loss for the year	–	–	–	–	–	–	(7,449)	(7,449)
Other comprehensive income for the year	–	–	594	–	3,788	(2,715)	–	1,667
Total comprehensive loss	–	–	594	–	3,788	(2,715)	(7,449)	(5,782)
Purchase of treasury shares	–	–	–	(1,083)	–	–	–	(1,083)
Share-based payments	–	–	177	–	–	–	–	177
Balance as at 31 December 2009	–	236,000	(36,418)	(1,083)	(28,376)	(9,096)	(21,292)	139,735
Profit for the year	–	–	–	–	–	–	61,903	61,903
Other comprehensive loss for the year	–	–	(57)	–	(8,131)	8,009	–	(179)
Total comprehensive income	–	–	(57)	–	(8,131)	8,009	61,903	61,724
Issue of shares	–	1,729	–	–	–	–	–	1,729
Share-based payments	–	–	30	–	–	–	–	30
Balance as at 31 December 2010	–	237,729	(36,445)	(1,083)	(36,507)	(1,087)	40,611	203,218

* No par value.

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

Consolidated statements of cash flows

	Year ended 31 December	
	2010 €'000	2009 €'000
Cash flows from operating activities:		
Profit (loss) for the year	61,903	(7,449)
Adjustment to reconcile profit (loss) to cash used in operating activities:		
Financial expenses	33,151	18,940
Financial income	(10,421)	(5,797)
Income tax (income) expense	(1,421)	289
Negative goodwill on acquisition of Schiphol Victoria Hotel C.V.	(308)	–
Negative goodwill on acquisition of Park Plaza Leeds and Park Plaza Nottingham	(1,756)	–
Negative goodwill on acquisition of Park Plaza Sherlock Holmes London, Park Plaza Riverbank London and Park Plaza Victoria London	(7,933)	–
Capital gain from obtaining control of a former jointly controlled entity	(50,825)	–
Share in loss of associates	2,362	1,195
Depreciation and amortisation	12,409	9,075
Share-based payments	30	177
	(24,712)	23,879
Changes in operating assets and liabilities:		
Increase in inventories under construction	(5,013)	(80,951)
(Increase) decrease in inventories	(663)	3
Increase in trade and other receivables	(5,658)	(2,424)
Increase (decrease) in trade and other payables	11,112	(5,708)
	(222)	(89,080)
Cash paid and received during the year for:		
Interest paid	(22,880)	(12,549)
Interest received	1,011	609
Taxes paid	170	–
Taxes received	(119)	(63)
	(21,818)	(12,003)
Net cash from (used in) operating activities	15,151	(84,653)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(23,101)	(3,345)
Net change in cash upon acquisition of Schiphol Victoria Hotel C.V. (a)	(739)	–
Net change in cash upon acquisition of Park Plaza Leeds and Park Plaza Nottingham (b)	(9,619)	–
Net change in cash upon acquisition of Park Plaza Sherlock Holmes London, Park Plaza Riverbank London and Park Plaza Victoria London (c)	2,945	–
Loans to jointly controlled entities and to partners in jointly controlled entities	(8,396)	(1,670)
Decrease (increase) in restricted deposits	45,127	(8,019)
Purchase of available-for-sale investment in bonds and securities	(693)	(12,279)
Proceeds from maturity of bonds and securities	–	23,073
Purchase of available-for-sale investment in shares	(390)	(15,945)
Proceeds from sale of available-for-sale investment in shares	14,723	16,136
Purchase of treasury shares	–	(1,083)
Advance payments from unit holders	130,538	–
Decrease in restricted cash	28	320
Loans to unit holders	(2,180)	–
Net cash from (used in) investing activities	148,243	(2,812)

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

Consolidated statements of cash flows

	Year ended 31 December	
	2010 €'000	2009 €'000
Cash flows from financing activities:		
Increase in deposits from unit holders	1,757	3,130
Proceeds from long-term loans	100,358	42,158
Repayment of long-term loans	(114,441)	(44,485)
(Increase) decrease in short-term loans	(169,012)	85,032
Loans from jointly controlled entities and from partners in jointly controlled entities	8,635	1,733
Net cash from (used in) financing activities	(172,703)	87,568
Decrease (increase) in cash and cash equivalents	(9,309)	103
Net foreign exchange differences	528	1,250
Cash and cash equivalents at beginning of year	34,418	33,065
Cash and cash equivalents at end of year	25,637	34,418

	Year ended 31 December	
	2010 €'000	2009 €'000
(a) Net change in cash upon acquisition of Schiphol Victoria C.V.:		
Current assets (excluding cash and cash equivalents)	393	–
Current liabilities	(536)	–
Non-current assets	15,308	–
Non-current liabilities	(14,000)	–
Negative goodwill	(308)	–
Non-cash transaction	(118)	–
Net change in cash	739	–
(b) Net change in cash upon acquisition of Park Plaza Leeds and Park Plaza Nottingham:		
Current assets (excluding cash and cash equivalents)	862	–
Current liabilities	(2,330)	–
Non-current assets	40,316	–
Non-current liabilities	(23,837)	–
Non-cash transactions	(3,636)	–
Negative goodwill	(1,756)	–
Net change in cash	9,619	–
(c) Net change in cash upon acquisition of Park Plaza Sherlock Holmes London, Park Plaza Riverbank London and Park Plaza Victoria London:		
Current assets (excluding cash and cash equivalents)	3,090	–
Current liabilities	(11,807)	–
Non-current assets	135,180	–
Non-current liabilities	(99,520)	–
Negative goodwill	(7,933)	–
Non-cash transactions	(21,955)	–
Net change in cash	(2,945)	–
(d) Significant non-cash transactions:		
Purchase of inventories under construction and fixed assets	14,081	–
Issue shares	1,729	–
Significant non-cash transactions	15,810	–

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 2010 were authorised for issuance in accordance with a resolution of the Directors on 1 June 2011.

b. Description of business and formation of the Company:

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

The Company's primary activity is owning, leasing, developing, operating and franchising full service four-star, four-star deluxe and lifestyle hotels in major gateway cities and regional centres primarily in Europe.

c. Assessment of going concern:

As part of their ongoing responsibilities, the Directors have recently undertaken a thorough review of the Group's cash flow forecast and potential liquidity risks.

The Group has entered into a number of loan facilities, the details of which are set out in Note 17 and Note 32 (2). The Board believes that the Group currently has adequate resources and in the future will generate sufficient funds to honour its financial obligations and continue its operations as a going concern for the foreseeable future.

Note 2 Summary of significant accounting policies

a. Basis of preparation:

Statement of compliance:

The Consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The Consolidated financial statements are presented in Euro and all values are rounded to the nearest thousand (€000) except when otherwise indicated.

The Consolidated financial statements of the Company and all its subsidiaries, jointly-controlled entities and associates (together "the Group") have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The accounting policies used in preparing the Consolidated financial statements for the years ended 31 December 2010 and 2009 are set out below. These accounting policies have been consistently applied to the periods presented unless otherwise stated.

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 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 on which such control ceases.

The Group has interests in hotels in The Netherlands, the United Kingdom, Germany, Hungary and Croatia. For details on the Group's subsidiaries and investments as at 31 December 2010, see Appendix A.

For details on the Company's interests in jointly-controlled entities (proportionately consolidated as at 31 December 2010), see Appendix B.

d. Changes in accounting policies and disclosures:

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective 1 January 2010:

IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010

IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39

Note 2 Summary of significant accounting policies continued

d. Changes in accounting policies and disclosures continued:

IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009

IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009

Improvements to IFRSs (May 2008)

Improvements to IFRSs (April 2009)

The adoption of the standards or interpretations is described below:

IFRS 2 Share-based Payment (Revised)
The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for Group cash-settled share-based payment transactions. The Group adopted this amendment as at 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either the financial position or performance of the Group.

Improvements to IFRSs
In May 2008 and April 2009, the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has no Non-current Assets held for Sale.

IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the Chief Operating decision maker. As the Group's Chief Operating decision maker does not review segment assets and liabilities, the Group has not disclosed this information in Note 28.

IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.

IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.This amendment did not result in any re-classification.

IAS 36 Impairment of Assets: When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the Consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using 'value in use'. The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Note 2 Summary of significant accounting policies continued

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

Issued in April 2009

IFRS 2 Share-based Payment

IAS 1 Presentation of Financial Statements

IAS 17 Leases

IAS 34 Interim Financial Reporting

IAS 38 Intangible Assets

IAS 39 Financial Instruments: Recognition and Measurement

IFRIC 9 Reassessment of Embedded Derivatives

Judgements:

In the process of applying the Group's accounting policies, Management has made the following judgements, which have the most significant effect on the amounts recognised in the Consolidated 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. The following criteria which indicate acquisition of a business are considered: the number of assets acquired, the extent to which ancillary services to operate the property are provided and the complexity of the management of the property.

Finance lease commitments – Group as lessee

The Group has entered into commercial land leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements that it holds all the significant risks and reward of ownership of the land and accounts for the contracts as finance leases.

Estimates and assumptions:

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 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 the balance sheet date and key assumptions used.

- Determination of fair values in the context of business combinations

  When the Group acquires a business, it assesses the fair value of the assets acquired and liabilities assumed, as well as ensuring appropriate classification and designation in accordance with the contractual terms, economic circumstances and other relevant information at the acquisition date. The Group engages independent valuation specialists to determine such fair values. In the case of property, plant and equipment, the valuer uses valuation techniques based on discounted cash flow models. The cash flows are derived from the forecasts for the businesses acquired, and the fair value so determined is sensitive to the discount rate used for discounting the cash flow model, as well as the assumptions inherent in the forecasts. The key assumptions used to determine the fair value in the context of business acquisitions is further explained in Note 3.

- Share-based payment transactions:

  The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 16.

- 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 and goodwill:

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations involving entities under common control

The Group accounts for business combinations that include entities under common control using the acquisition method provided that the transaction has substance.

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets. Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

f. Investment in an associate:

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of an associate is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

g. Jointly controlled entities:

The Group has an interest in joint ventures which are jointly controlled entities. Whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealised gains and losses on such transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Note 2 Summary of significant accounting policies continued

h. Foreign currency translation:

The functional currency of the Company is the Great British Pound. 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 into functional currency 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 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. Equity items are translated at the historic exchange rates. 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.

Exchange differences in respect of loans denominated in Euro which were granted by the Company to its subsidiaries are reflected in the foreign currency translation reserve in equity.

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

	As at 31 December	
	2010	2009
	In Euro	In Euro
Great British Pound	1.161	1.127
Hungarian Forint	0.004	0.004

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

	As at 31 December	
	2010	2009
	%	%
Great British Pound	3.0	7.5
Hungarian Forint	–	–

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 the 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.

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 shorter of the estimated useful life of the assets or the lease term as follows:

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

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

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

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

The Company distinguishes between sold and unsold apart-hotel units. Unsold units are depreciated using the straight-line methods as mentioned above. Apart-hotel units which have been sold to individual purchasers are subject to a depreciation charge of zero as their residual value will be equal to their carrying amount.

Note 2 Summary of significant accounting policies continued

j. Property, plant and equipment continued:
Apart-hotel units sold to purchasers will only be derecognised when significant risks and rewards of ownership of, and control over, the relevant units have passed to the purchasers.

Significant judgements applied determining accounting policy:
In light of the complexity of the Park Plaza Westminster Bridge ("Westminster Bridge hotel") project, a number of significant judgements have been made by the Board, in consultation with and upon the recommendation of Management, in determining the accounting policies around the derecognition of the units sold to buyers and the recognition of resultant revenues.

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

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

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 the 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 categories:

1. 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.

2. Available-for-sale financial assets:
The Group has available-for-sale financial assets that are financial assets (non-derivative) that are designated as available-for-sale or are not classified in the preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments are recognised directly in other comprehensive income 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 income statement using the effective interest method. Dividends earned on investments are recognised in the statement of income when the right of payment has been established.

3. 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.

4. Financial liabilities:
Interest-bearing loans and borrowings are initially recognised at fair value plus 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.

Note 2 Summary of significant accounting policies continued

5. 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 and the difference in the respective carrying amounts is recognised in the income statement.

6. 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 initially recognised less cumulative amortisation.

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 as follows:

   - 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 data 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. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognised. The amount of the reversal, as above, is credited to the income statement up to the amount of any previous impairment.

   - Available-for-sale financial assets:

     In the case of equity investments classified as available-for-sale, evidence of impairment 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 (less any previous impairment losses) and the current fair value, is removed from equity and recognised in the income statement. In subsequent periods, any reversal of impairment loss is not carried to the statement of income but recognised as other comprehensive income.

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 and 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 the 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 measured again 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.

Note 2 Summary of significant accounting policies continued

p. Derivative financial instruments and hedge accounting continued:
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 other comprehensive income, while the ineffective portion is recognised in profit or loss. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the 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.

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, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Owned and leased hotels
Primarily derived from hotel operations, including the rental of rooms, food and beverage sales and other services from owned and leased hotels operated under the Group's brand names. Revenue is recognised when rooms are occupied, food and beverages are sold and services are performed.

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

Management fees
Earned from hotels managed by the Group, under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and an incentive fee, which is based on the hotel's profitability. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

Franchise fees
Received in connection with a license of the Group's brand names, under long-term contracts with the hotel owner. The Group charges franchise royalty fees as a percentage of hotel revenue. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

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

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

EBIT
Earnings before interest and tax (EBIT) correspond 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
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

Note 2 Summary of significant accounting policies continued

s. Leases continued:

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 (50 years).

t. Employee benefits

Share-based payments

The Board has adopted a "Share Option Plan", under which employees and Directors of the Company and its subsidiaries 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 with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in Note 16.

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. 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 expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting, irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

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.

The Group will have no legal obligation to pay further contribution. The contributions in the defined contribution plan are recognised as an expense and no additional provision is required in the financial statements.

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.

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.
- 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.

Note 2 Summary of significant accounting policies continued

v. Taxation continued:

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 in 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. Treasury shares:

Company shares held by the Company are recognised at cost and presented as a deduction from equity. Any purchase, sale, issue or cancellation of treasury shares is recognised directly in equity.

x. Earnings (loss) per share:

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

Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) 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.

y. Operating cycle:

The normal operating cycle of Marlbray was 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.

z. Standards issued but not yet applied:

IFRS 9 – Financial Instruments:

In November 2009, the IASB issued the first part of Phase I of IFRS 9, "Financial Instruments", as part of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

According to IFRS 9, upon initial recognition, all the financial assets (including hybrid contracts with financial asset hosts) will be measured at fair value. In subsequent periods, debt instruments can be measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notwithstanding the aforesaid, upon initial recognition, a company may designate a debt instrument that meets both of the abovementioned conditions to fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

Subsequent measurement of all other debt instruments and financial assets will be at fair value.

Financial assets that are equity instruments will be measured in subsequent periods at fair value and the changes will be recognized in profit or loss or in other comprehensive income (loss), in accordance with the election of the accounting policy on an instrument-by-instrument basis (amounts recognised in other comprehensive income will not be later classified to profit or loss). Nevertheless, if the equity instruments are held for trading, they must be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

The Standard will be effective starting 1 January 2013. Earlier application is permitted. Early adoption will be done with a retrospective restatement of comparative figures, subject to the relief set out in the Standard.

In October 2010, the IASB issued certain amendments to IFRS 9 regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and financial liabilities which are not measured at fair value through profit or loss, namely the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

The adjustments arising from these amendments affect the measurement of a liability at fair value whereby the amount of the adjustment to the liability's fair value – attributed to changes in credit risk – will be carried to other comprehensive income. All other fair value adjustments will be carried to the statement of income. If carrying the fair value adjustment of the liability arising from changes in the credit risk to other comprehensive income creates an accounting mismatch in the income statement, then that adjustment also will be carried to the income statement rather than to other comprehensive income.

Furthermore, according to the amendments, liabilities in respect of certain unquoted equity instrument derivatives can no longer be measured at cost but rather only at fair value.

Note 2 Summary of significant accounting policies continued

z. Standards issued but not yet applied continued:

The amendments will be effective starting 1 January 2013. Earlier application is permitted provided that the company also adopts the provisions of IFRS 9 regarding the classification and measurement of financial assets (the asset stage). First-time adoption of these amendments will be done retrospectively by restating comparative data, subject to the exemptions provided by the amendments.

IAS 12 – Income Taxes:

The amendment to IAS 12 deals with the recognition of deferred taxes for investment property measured at fair value. According to the amendment, the deferred taxes in respect of temporary difference for such assets should be measured based on the presumption that the temporary difference will be utilised in full through sale (rather than through continuing use). This presumption is rebuttable if the investment property is depreciable for tax purposes and is held within the company's business model with the purpose of recovering substantially all of the underlying economic benefits by way of use and not sale. In those cases, the other general provisions of IAS 12 would apply in respect of the manner of utilisation that is most expected.

The amendment supersedes the provisions of SIC 21 that require distinguishing between the land component and the building component of investment property measured at fair value in order to calculate the deferred tax according to their manner of expected utilisation.

The amendment will be adopted retrospectively starting from the financial statements for annual periods commencing on 1 January 2012.

This amendment will not have any influence on the Group.

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

In November 2009, IFRIC 19 ("the Interpretation") was published, stipulating the accounting treatment of transactions where financial liabilities are discharged by issuing equity instruments. Pursuant to the Interpretation, equity instruments issued to replace debt shall be measured at fair value of the equity instruments issued, if this may be reliably measured. If the fair value of equity instruments issued may not be reliably measured, then the equity instruments should be measured at fair value of the financial liability discharged upon the date of discharge. The difference between the balance of the discharged liability on the financial statements and the fair value of equity instruments issued is recognised on the income statement.

The Interpretation should be applied to annual reporting periods starting on or after 1 January 2011.

IFRS 7 – Financial Instruments: Disclosure:

The amendment to IFRS 7 clarifies the disclosure requirements prescribed by the Standard. The Standard highlights the connection between the quantitative and qualitative disclosures and the nature and scope of the risks arising from financial instruments. The disclosure requirements regarding securities held by the company have been minimised and the disclosure requirements regarding credit risk have been revised. The amendment will be adopted retrospectively in the financial statements for periods starting from 1 January 2011.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

Note 3 Business combinations

a. On 28 April 2010, the Group acquired a large conference hotels in The Netherlands, located near Amsterdam Schiphol Airport. The hotel was acquired for approximately €2.0 million (attributable to the Group €1.0 million) from Melbourne Onroerende Zaken B.V. and is owned through Schiphol Victoria Hotel C.V., a joint venture controlled 50:50 by the Company and Elbit Imaging Ltd ("Elbit"). The Company and Elbit each contributed equity of approximately €1.0 million as consideration for the acquisition. The hotel, formerly operated as the 'Holiday Inn Amsterdam Schiphol', opened in 2007. Given its close proximity to Amsterdam Schiphol Airport, the hotel was re-branded as Park Plaza Amsterdam Airport ("Schiphol hotel").

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

	Fair value recognised on acquisition €'000	Previous carrying amount €'000
Property, plant and equipment	15,308	15,293
Trade receivables	350	350
Cash and cash equivalent	261	261
Other current assets	43	43
	15,962	15,947
Trade creditors	(142)	(142)
Long-term loans	(14,000)	(14,000)
Other current payables and accruals	(394)	(394)
	(14,536)	(14,536)
Net assets acquired	1,426	1,411
Negative goodwill	(308)	
Total consideration	1,118	

Cash flow on acquisition	€'000
Net cash acquired with the subsidiary	261
Cash paid	(1,000)
Net cash outflow	(739)

The fair value of the Property, plant and equipment was evaluated by BDO Ziv Haft using the DCF approach of discounted forecasted cash flows. The fair value estimate is based on:

- A discount rate and a terminal rate value of 8%.
- Cash flow forecast based on the Group's budgets and based on rebranding the hotel as Schiphol hotel.
- A reinvestment of 3.5% of total revenue of the hotel.

From the date of acquisition, Schiphol has contributed €2.4 million and a loss of €0.1 million to the net profit before tax of the Group. If the combination had taken place at the beginning of the year, Schiphol hotel would have contributed €4.1 million of revenue and a loss of €0.8 million to the net profit before tax of the Group.

Transaction costs due to this transaction were not material.

The negative goodwill is an outcome of the benefit that the Company sees from adding Schiphol hotel to the Group's portfolio as a result of a bargain purchase.

The acquisition was financed via an increase to the existing facility with Aareal Bank AG ("Aareal"). The enlarged facility, the maturity of which has been extended to 27 April 2017, has a value of €111.0 million (attributable to the Group €57.0 million) and includes €28.0 million (attributable to the Group €14.0 million) for the purchase and €5.0 million for renovations and updates to Schiphol hotel and certain of the other Group's hotels. For further information on the loan see Note 17 a(2).

b. On 4 August 2010, the Company acquired, through its wholly-owned subsidiary, Euro Sea Hotels N.V. ("Euro Sea"), the entire issued share capital of each of Hotel Leeds Holding B.V. ("Leeds"), Hotel Nottingham Holding B.V. ("Nottingham") and Nottingham Park Plaza Hotel Operator Limited ("NPPHOL") from Leno Hotel Holding B.V. ("Leno"), a wholly-owned member of the Red Sea group, the controlling shareholder, for an aggregate cash consideration of £3.3 million (€4.0 million).

The Company also acquired Leno Investment Limited ("Leno Investment"), a wholly-owned subsidiary of Leno, for £1. Prior to its acquisition by Euro Sea, Leno Investment acquired certain bank loans owed by Leeds and Nottingham ("the Loans") for a total consideration of £5 million (€6.0 million), which represented a substantial discount to the book value of the Loans. Of the consideration, £2 million (€2.4 million) was paid on completion of the acquisition of the Loans (the "initial consideration") and the remaining £3 million (€3.6 million) has been deferred on a stepped interest bearing mechanism of Libor+6% on the first year, Libor+8% on the second year and Libor+10% on the third year. The amount is due no later than three years from the date of acquisition. The principal balance of £3 million (€3.6 million), repayment of which is guaranteed by Euro Sea, will become repayable earlier on the occurrence of certain events, including a disposal of either of the hotels or any dilution of the Group's interest in Leno Investment. In addition, if there is a sale or other disposal of the leasehold interests in either or both of the hotels at any time during the two-year period ending 3 August 2012 for an aggregate consideration in excess of £25 million (€30.3 million), Leno Investment will be required to pay further consideration to the original lender equal to 50% of the excess. As the Company presently has no intention of disposing of the interest in these hotels, no account has been taken in respect of this contingent liability. Euro Sea provided Leno Investment with the necessary funds to meet the payment of the initial consideration for the Loans and has agreed to finance the deferred consideration payable when it becomes due.

Note 3 Business combinations continued

Management fees of £ 3.3 million (€4.0 million) owed by NPPHOL to Park Plaza Hotels Europe BV ("PPHE") were paid in full prior to the acquisition of NPPHOL by Euro Sea.

As part of the transaction, the Company has also acquired the entire issued share capital of Waterford Investments Limited ("Waterford") from Julian Donn for £1. Waterford's principal assets are:

(i) the freehold of the Park Plaza Leeds hotel ("Leeds Hotel") (held through Waterford's wholly-owned subsidiary, Laguna Estates (Leeds) Limited ("Laguna")).

(ii) a long lease of the main site of the Nottingham hotel which runs until 2145 (held through Waterford's wholly-owned subsidiary, Katmandu Limited ("Katmandu")); and

(iii) a long lease of land for storage use adjoining the Park Plaza Nottingham hotel ("Nottingham Hotel") which runs until 2061 (held through Katmandu).

Laguna has a term facility from The Royal Bank of Scotland plc. Prior to completion of the acquisition of Waterford, the Company provided Laguna with funds to enable it to reduce the amount outstanding under this facility by £1.3 million (€1.5 million) which was a condition of the bank's consent to the change of control of Waterford. Immediately following such repayment, approximately £13.6 million (€15.8 million), was outstanding, of which £11.3 million (€13.7 million) carries a variable interest of three month Libor plus 1.3% per annum and £2.3 million (€2.8 million) carries a variable interest of three month Libor plus 1.7% per annum. The facility is repayable in 2019. Laguna entered into a swap agreement to fix the variable interest to an interest rate of 5.1%. For further information see Note 31 (3).

Katmandu has a term facility from National Westminster Bank PLC, under which approximately £5.9 million (€7.2 million) was outstanding on acquisition. The loan carries a variable interest of three month Libor plus 1.3% per annum and is repayable in 2027. Katmandu entered into a swap agreement to fix the variable interest to an interest rate of 5.5%. For further information see Note 31 (3).

As part of the acquisition of Waterford, the Company's wholly-owned subsidiary, Park Plaza Hotels Europe Holdings B.V. ("PPHEH"), acquired from Martin Morris a deep discount bond for a cash consideration of £2.0 million (€2.4 million).

As a result of these transactions, Leeds hotel and Nottingham hotel are now fully-owned as well as operated by the Group. This will facilitate the planned refurbishment of the two hotels.

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

	Fair value recognised on acquisition €'000	Previous carrying amount €'000
Property, plant and equipment	40,316	55,934
Trade receivables	402	402
Cash and cash equivalent	757	757
Other current assets	459	459
	41,934	57,552
Long-term loans	(22,782)	(27,473)
Other long-term liabilities	(4,691)	(4,691)
Trade creditors	(648)	(648)
Other currency payables and accruals	(1,681)	(1,681)
	(29,802)	(34,493)
Net assets acquired	12,132	23,059
Negative goodwill	(1,756)	
Total consideration	10,376	

Cash flow on acquisition	€'000
Net cash acquired with the subsidiary	757
Cash paid	(10,376)
Net cash outflow	(9,619)

Note 3 Business combinations continued

The fair value of the Property, plant and equipment was evaluated by BDO Israel using the DCF approach of discounted forecasted cash flows. The fair value estimate is based on:

- A discount rate and a terminal value of 8%.
- Cash flow forecast based on the Group's budgets.
- A reinvestment of 3.5% of total revenue of the hotel and have additional future refurbishment of total £1.5 million (€1.7 million) in 2012.

From the date of acquisition, Leeds Hotel and Nottingham Hotel has contributed €4.7 million and a loss of €0.5 million to the net profit before tax of the Group. If the combination had taken place at the beginning of the year, Leeds Hotel and Nottingham Hotel would have contributed €10.9 million of revenue and a loss of €2.1 million to the net profit before tax of the Group.

Transaction costs due to this transaction were not material.

The negative goodwill is an outcome of the benefit that the Company sees from adding Leeds Hotel and Nottingham Hotel to the Group's portfolio as a result of a bargain purchase.

c. On 31 December 2010 ("the closing date"), the Company acquired from Elbit, through PPHEH, the entire issued share capital of each of the holding companies of Park Plaza Sherlock Holmes Hotel ("Sherlock Holmes Hotel") Park Plaza Victoria London Hotel ("Victoria London Hotel"), Park Plaza Riverbank London (including Plaza on the River) ("Riverbank Hotel"), which the Group did not already own. Prior to the acquisition, the Group owned 50% of Victoria London Hotel and 55% of Sherlock Holmes Hotel and Riverbank Hotel. The total nominal consideration for the acquisition was £21.0 million (€24.4 million), subject to the adjustments, as described below:

    - The Euro equivalent of £8 million (€9.3 million) as at completion, to be paid by the Group in 7 equal quarterly instalments with interest of 7% per annum payable quarterly. The first instalment was payable at completion of the acquisition;
    - The Euro equivalent of £8 million (€9.3 million) as at completion, to be paid by the Group in December 2013 with interest of 7% per annum payable quarterly;
    - £1.5 million (€1.7 million) by the issue of 1,000,000 of the Company's shares ("the consideration shares"). Elbit is subject to a lock-up until the first anniversary of completion, following which the Company will have a right of first refusal in respect of the consideration shares; and

    £3.5 million (€4.1 million) to be paid as to £1.8 million (€2.0 million) in December 2015, £0.9 million (€1.0 million) in December 2016 and £0.9 million (€1.0 million) in December 2017. This amount may be reduced depending on the performance of the Company's shares during the five-year period following completion and should be paid as follows: £1.8 million (€2.0 million) on December 2015 ("settlement date"); the remaining amount is paid in two equal instalments on the sixth anniversary (December 2016) and seventh anniversary (December 2017) of the closing date. The amount is adjusted as follow:

    a) If at the settlement date, the average share price of the Company (over the last 60 business days) is higher than £5, the remaining cash payment is cancelled.

    b) If at the settlement date, the average share price of the Company (over the last 60 business days) is lower than £5 but higher than £1.50, the remaining cash payment will be reduced by the difference between the share price and £1.5 multiplied by the amount of shares issued to Elbit (1.0 million).

    c) If at the settlement date, the average share price of the Company (over the last 60 business days) is lower than £1.50 the remaining cash payment is £3.5 million (€4.1 million).

    The Company has been granted the option to buy back all of the consideration shares which Elbit may own from time to time at a price of £5 per share. If this option were exercised, the balance of the £3.5 million (€4.1 million) (under (c) above) will be reduced by an amount equal to £3.5 multiplied by the number of shares actually purchased. Any such exercise would require shareholders' approval under Guernsey law.

All amounts due to Elbit are fully guaranteed by the Company.

As the Company achieved control over these hotels, which were previously under joint control, the transaction is accounted for as a business combination achieved in stages ("step acquisition"). Accordingly, Management re-measured the companies' previously held equity interests in these hotels at the acquisition date at fair value and recognised a gain of €50.8 million, including reclassification adjustment of foreign currency translation reserve of €9.4 million.

Following the purchase acquisition loans amounting to a total of £30.1 million (€34.9 million) given from Elbit to the purchased companies were assigned to PPHEH.

Note 3 Business combinations continued

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

	Fair value recognised on acquisition €'000	Previous carrying amount €'000
Property, plant and equipment	173,728	92,705
Trade receivables	1,374	1,374
Cash and cash equivalent	4,282	4,282
Other current assets	4,603	6,419
	183,987	104,780
Long-term loans	(86,756)	(86,756)
Other non-current liabilities	(8,634)	(8,634)
Trade creditors	(2,018)	(2,018)
Short-term loans	(1,306)	(1,306)
Other current payables and accruals	(12,613)	(12,613)
	(111,327)	(111,327)
Net assets acquired	72,660	(6,547)
Negative goodwill	(7,933)	
Capital gain from obtaining control in a former jointly controlled entity	(41,435)	
Total consideration	23,292	

Cash flow on acquisition	€'000
Net cash acquired with the subsidiary	4,282
Cash paid	(1,337)
Net cash outflow	2,945

The fair value of the Property, plant and equipment was evaluated by Savills using the DCF approach of discounted forecasted cash flows. The fair value estimate is based on:

- A discount rate of 10.75% for Sherlock Holmes Hotel and 8.75% for Victoria London Hotel and Riverbank Hotel
- A terminal value of 8.23% for Sherlock Holmes Hotel and 6.25% for Victoria London Hotel and Riverbank Hotel calculated based on long-term sustainable growth rates for the industry ranging from 2.5%-4% which has been used to determine income in the future years
- Cash flow forecast based on the Group's budgets
- A reinvestment of 3.5% of total revenue of the hotel

From the date of acquisition, Sherlock Holmes Hotel, Victoria London Hotel and Riverbank Hotel have no contribution to the Group's results. If the combination had taken place at the beginning of the year, Sherlock Holmes Hotel, Victoria London Hotel and Riverbank Hotel would have contributed €26.5 million and a loss of €18.5 million to the net profit before tax of the Group.

Transaction costs due to this transaction were not material.

For additional information provided in connection with the three years' performance and the financial position of the acquired jointly controlled entities please refer to Appendix C.

Note 4 Intangible assets

	Park Plaza® Hotels & Resorts management and franchise rights (a) €'000	art'otel® rights (b) €'000	Total €'000
Cost:			
Balance as at 1 January 2009	48,404	4,000	52,404
Balance as at 31 December 2009	48,404	4,000	52,404
Accumulated amortisation:			
Balance as at 1 January 2009	3,630	1,327	4,957
Amortisation	2,421	144	2,565
Balance as at 31 December 2009	6,051	1,471	7,522
Amortised cost as at 31 December 2009	42,353	2,529	44,882
Cost:			
Balance as at 1 January 2010	48,404	4,000	52,404
Balance as at 31 December 2010	48,404	4,000	52,404
Accumulated amortisation:			
Balance as at 1 January 2010	6,051	1,471	7,522
Amortisation	2,420	149	2,569
Balance as at 31 December 2010	8,471	1,620	10,091
Amortised cost as at 31 December 2010	39,933	2,380	42,313

a. Acquisition of Park Plaza® Hotels & Resorts management and franchise rights:
   1. Management rights – rights held by the Group relating to the management of Park Plaza® Hotels & Resorts in Europe, the Middle East and Africa. The management rights are included in the Consolidated financial statements at their fair value as at the date of acquisition 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 16.5 years.
   2. Franchise rights – relating to the brand "Park Plaza® Hotels & Resorts", are included in the Consolidated financial statements at their fair value as at the date of acquisition and are being amortised over 20 years, based on management's estimation of their useful life. The remaining amortisation period is 16.5 years.

b. Acquisition of art'otel® rights:
   The Company acquired in July 2007 the worldwide rights to use the art'otel® brand name for an unlimited period of time. The rights are being amortised over 20 years based on management's estimation of their useful life. The remaining amortisation period is 16.5 years.

c. Impairment testing of intangible assets:
   The recoverable amounts of the intangible assets have been determined in 2010 by internal value in use calculations using discounted 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% (2009: 9.5%) and cash flows beyond the five-year period are extrapolated using a 1% (2009: 2.5%) growth rate. Based on these calculations, the carrying amounts of the intangible assets do not exceed their recoverable amounts.

Note 5 Property, plant and equipment

	Land €'000	Hotel buildings €'000	Furniture and equipment €'000	Total €'000
Balance as at 1 January 2009	60,511	111,483	41,897	213,891
Additions during the year	944	1,186	1,215	3,345
Disposals	–	–	(340)	(340)
Adjustment for exchange rate differences	2,982	4,132	2,179	9,293
Balance as at 31 December 2009	64,437	116,801	44,951	226,189
Accumulated depreciation:				
Balance as at 1 January 2009	1,217	10,511	18,241	29,969
Adjustment for exchange rate differences	84	240	965	1,289
Disposals	–	–	(195)	(195)
Provision for depreciation	241	1,387	4,873	6,501
Balance as at 31 December 2009	1,542	12,138	23,884	37,564
Depreciated cost as at 31 December 2009	62,895	104,663	21,067	188,625
Cost:				
Balance as at 1 January 2010	64,437	116,801	44,951	226,189
Acquisition of a subsidiary	92,617	132,131	4,604	229,352
Additions during the year	715	15,417	21,050	37,182
Reclassification from inventories under construction	22,395	132,727	5,338	160,460
Disposals	–	–	(45)	(45)
Adjustment for exchange rate differences	(101)	(484)	708	123
Balance as at 31 December 2010	180,063	396,592	76,606	653,21
Accumulated depreciation:				
Balance as at 1 January 2010	1,542	12,138	23,884	37,564
Disposals			(30)	(30)
Provision for depreciation	253	3,474	6,104	9,831
Adjustment for exchange rate differences	41	101	512	654
Balance as at 31 December 2010	1,836	15,713	30,470	48,019
Depreciated cost as at 31 December 2010	178,227	380,879	46,136	605,242

(1) The recoverable amount of property, plant and equipment has been determined based on external and 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%-11% (2009: 9.5%-11.5%) and cash flows beyond the five-year period are extrapolated using a growth rate of 2%-2.5% (2009: 2.0%-2.5%). No impairment indications came out of this valuation.

	31 December	
	2010 €'000	2009 €'000
(2) Cumulative expenditures for hotels under construction included in cost balances	3,387	3,803

a. Cumulative expenditure for hotels under development relates to the renovation and conversion of the Victoria Monument building (located in Amsterdam) into a hotel and to the development of art'otel hoxton London.

b. The amount of borrowing costs capitalised during the year ended 31 December 2010 was €234,000 (2009: €322,000). The rate used to determine the amount of borrowing costs eligible for capitalisation was 3.3%, which is the effective interest rate of the specific borrowing.

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

Note 6 Apart-hotel units sold to unit holders

	Land €'000	Hotel buildings €'000	Furniture and equipment €'000	Total €'000
Cost:				
Balance as at 1 January 2010	–	–	–	–
Reclassification from inventories under construction	19,296	135,787	5,503	160,586
Balance as at 31 December 2010	19,296	135,787	5,503	160,586
Accumulated depreciation:				
Balance as at 31 December 2010	–	–	–	–
Depreciated cost as at 31 December 2010	19,296	135,787	5,503	160,586

The construction of the Westminster Bridge London was completed in 2010 and the hotel partially opened to paying customers in March 2010. As at 31 December 2010, the sale of 535 units out of the 865 units contracted to sell, had been completed. On the completion of each sale the purchaser was issued a "B" Ordinary Share in the management company of the hotel, 1 Westminster Bridge Plaza Management Company Limited ("1WB"). Marlbray, a wholly-owned subsidiary of the Group and the owner of the freehold of the hotel, holds the sole voting share, being an "A" Ordinary Share. This results in Marlbray having control in 1WB until the later of:

1. The completion date of the sale of the last of the units forming part of the Park Plaza Westminster Bridge hotel; and

2. The expiry of the period of guaranteed returns to purchasers (i.e. five years from the last completion),

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

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

Note 7 Prepaid leasehold payments

	Year ended 31 December	
	2010 €'000	2009 €'000
Cost:		
Balance as at 1 January	448	448
Balance as at 31 December	448	448
Accumulated amortisation:		
Balance as at 1 January	194	185
Provision for amortisation	10	9
Balance as at 31 December	204	194
Amortised cost as at 31 December	244	254

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 €448,000 at commencement of the lease.

Note 8 Investment in associate

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

In April 2008, Euro Sea, 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, 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 or around Pula on the Istrian coast of Croatia. As part of the transaction, the Company also acquired 20% of the debt currently owed by Bora to its shareholders. The total consideration for 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.

Until 31 December 2009 the loan of €23.7 million had a fixed interest at the rate of 4.0% per annum. As of 1 January 2010 the interest rate has changed to a fixed rate of 8.9% per annum and the denomination of the loan has changed from Euro to Kuna. The repayment date of the loan is 15 July 2017.

b. Investment in associate:

	31 December	
	2010 €'000	2009 €'000
Loan to associate	25,695	23,715
Share of associate's net liabilities under equity method	(3,730)	(1,368)
Foreign currency translation adjustment of associate	175	121
Loan to associate (adjusted for losses recognised under the equity method)	22,140	22,468

c. Share of the associate's balance sheet:

	31 December	
	2010 €'000	2009 €'000
Current assets	1,636	1,540
Non-current assets	30,749	31,742
Current liabilities	(1,827)	(1,396)
Non-current liabilities	(34,113)	(33,133)
Net liabilities	(3,555)	(1,247)
Loan to associate:		
Opening balance	23,715	22,759
Interest on loans	2,206	956
Foreign transition reserve	(226)	–
Closing balance	25,695	23,715
Share of the associate's revenue and loss:		
Revenue	6,486	5,921
Loss	(2,362)	(1,195)

Note 9 Other current financial assets

	As at 31 December	
	2010 €'000	2009 €'000
Available-for-sale investment shares[1, 2 3]	1,671	3,142
Available-for-sale investment in bonds stated in GBP[3]	–	11,394
	1,671	14,536

1 Available-for-sale investment in equities:
2 The fair value of the available-for-sale investment in shares and bonds is based on quoted market prices.
3 Gains from unrealised available-for-sale investment in shares and bonds for an amount of €289,000 (2009: €348,000) were recorded in equity. Profit of €346,000 was classified to the income statement (2009: losses of €246,000).

	31 December	
Currency	**2010 €'000**	2009 €'000
ILS	144	137
EUR	1,409	1,808
USD	118	1,197
	1,671	3,142

Note 10 Other non-current financial assets

	As at 31 December	
	2010 €'000	2009 €'000
Rent security deposits[1]	811	826
Loans to jointly controlled entities (see Note 29)[2]	18,795	17,338
Loans to joint venture partners in jointly controlled entities[2]	7,783	17,142
	27,389	35,306

1 Relates to leases described in Note 17c(2).
2 The amount owned by related parties bears interest and has no repayment date.

Note 11 Inventories under construction

Marlbray is the developer of Westminster Bridge hotel. 535 apart-hotel units were sold to individuals and were delivered to the purchasers upon completion of their purchase.

As at 31 December 2010, 865 (2009: 854) of the 1,019 apart-hotel units had been pre-sold or contracted to pre-sell. Completion of the partial construction was in March 2010. As of the partial completion of the construction the apart-hotel units were reclassified to property, plant and equipment.

As at 31 December 2010, 535 contracts have been completed and 330 contracts have been rescinded, leaving 484 units retained by Marlbray (see Note 2j, 5 and 6).

Note 12 Trade receivables

a. Composition:

	As at 31 December	
	2010 €'000	2009 €'000
Trade receivables	13,619	4,484
Related parties	3,985	10,147
Less – allowance for doubtful debts	(428)	(246)
	17,176	14,385

Trade receivables are non-interest bearing. The Group's policy provides 30 days' payment terms.

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

	€'000
As at 1 January 2009	244
Release for the year	(4)
Exchange rate differences	6
As at 31 December 2009	246
Additions	176
Exchange rate differences	6
As at 31 December 2010	428

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

			Past due but not impaired			
	Total €'000	Neither past due nor impaired €'000	< 30 days €'000	30-60 days €'000	60-90 days €'000	> 90 days €'000
2010	17,176	2,189	6,602	3,631	1,183	3,571
2009	14,385	1,112	3,415	1,218	437	8,203

Note 13 Other receivables and prepayments

	As at 31 December	
	2010 €'000	2009 €'000
Prepaid expenses	4,082	1,457
VAT	1,506	1,690
Corporate income tax	–	170
Related parties*	1,252	1,184
VAT loan to unit holders **	2,160	–
Others	557	636
	9,557	5,137

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

** The loans are for a period of five month and bear fixed interest of 1% monthly.

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 and premium:

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

On 29 December 2010 the Company issued 1,000,000 Ordinary shares to Elbit which increased the share premium with £1.49 million (€1.73 million). (see Note 3c).

As at 31 December 2010, the number of Ordinary shares issued was 42,677,292 (2009: 41,677,292), 862,000 of which were held as treasury shares (2009: 862,000).

b. Treasury shares:

On 29 September 2009, the Company purchased 862,000 of its Ordinary shares at a price per share of 111p.

c. 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.

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

Other reserves
The other reserves mainly consist of issue of shares upon acquisition of Park Plaza Group in 2007.

Note 16 Share-based payments

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

a. The Plan has two types of options: Option A and Option B. Both options had an exercise price per share of £5.50 (€6.20). 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 10 years after the date of grant. The plan does not include any performance conditions.

b. 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 Group's Remuneration Committee met on 11 May 2009, to consider the options packages of all employees to ensure they are properly incentivised in the future. On 10 June 2009, the Remuneration Committee made its recommendations to the Board of Directors and the Board agreed to amend the options packages of all current employees. As a result, the options of current employees have been re-priced to market value on 10 June 2009, being the day on which the recommendation of the Remuneration Committee was accepted by the Board. The updated strike price is 100p. The Board also agreed to the Remuneration Committee's recommendation to grant additional share options for ordinary shares to current employees.

The fair value of the options is estimated at the grant date using the binomial pricing model according to the terms and conditions upon which the options were granted.

The following lists the inputs to the binomial model used in 2010 for the fair value measurement of both the modified share options plan and the previous granted share options:

	2010
Dividend yield (%)	–
Expected volatility of the share prices (%)	55.00
Risk-free interest rate (%)	3.04
Expected life of share options (years)	3.00
Share price at the grant date	0.95
Weighted average fair value (GBP)	£0.35

The expected life of the share options is based on historical data, current expectations and empirical data. It is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility of similar listed companies over a period similar to the life of the options is indicative of future trends, which may be reflective of the actual outcome.

Based on the above inputs, the fair value of the re-priced options and the additional granted options is approximately £150,000 (€169,000) as at the grant date. The incremental value of the re-priced options is £0.33.

The expense arising from equity-settled share-based payment transactions during 2010 is €30,000 (2009: €177,000). During 2010, 93,473 options became exercisable (2009: 84,662).

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 2010 and 2009.

	No. of options A	No. of options B	EP
Outstanding as at 1 January 2009	296,634	90,660	£5.50 (€6.2)
Options A granted during the year	6,010	–	£1.00 (€1.12)
Options A forfeited during the year	(113,094)	–	£1.00 (€1.12)
Options B granted during the year	–	166,193	£1.00 (€1.12)
Options B forfeited during the year	–	(17,803)	£1.00 (€1.12)
Outstanding as at 31 December 2009	189,550	239,050	
Outstanding as at 31 December 2010	189,550	239,050	

The weighted average remaining contractual life for the share options outstanding as at 31 December 2010 is 8.0 years (2009: 8.5 years).

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 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 as described below:

1. On 3 March 2006, three jointly controlled companies, Riverbank Hotel Holding B.V., Victoria London Hotel Holding B.V. and Grandis Netherlands Holding B.V. (the "Borrowers") entered into a facility agreement as joint and several borrowers with Goldman Sachs International Bank ("Goldman Sachs") as lender for a non-recourse refinancing loan in the amount of £195.0 million (€205.0 million) of which £181.9 million (attributable to the Group £99.0 million) (including accrued interest) was outstanding as at 26 November 2010. The maturity date of the loan was 3 March 2011 or, if the Borrowers have exercised a Term-out Option, 3 March 2013.

   On 26 November 2010 the Borrowers refinanced with Aareal the €195.0 million loan facility made by Goldman Sachs. The refinancing involves 5-year term facilities (the "Facilities") totalling £165.0 million (€191.5 million). The Facilities are secured by, inter alia, pledges over the shares in the Borrowers and first legal charges over the Riverbank hotel and the Victoria London Hotel and Sherlock Holmes hotel. As at 31 December 2010 the Borrowers are fully owned by the Company (see Note 3c).

   In addition to the new Facilities, the Company together with Elbit provided an equity injection of £16.6 million (€19.3 million) (£8.9 million (€10.3 million) of which was provided by The Company) in order to enable the Borrowers to repay the balance of the amount that was outstanding to Goldman Sachs.

   Exit fees in an outstanding amount of £3.4 million (€3.9 million) (attributable to the Group £1.6 million (€1.9 million)) were waived by Goldman Sachs and recorded in the income statements as a deduction from the finance expenses.

   The termination of the interest rate swap that had been entered into in connection with the Goldman Sachs facility resulted in costs of £14.4 million (€23.1 million) (the "Close-Out Costs"), which, as part of the overall financing, were settled by Aareal. The Borrowers have undertaken to pay to Aareal the value of the Close-Out Costs plus interest over the three years following the refinance by way of additional margin (the Close-Out Margin) on the fixed rate of interest under the new interest rate swap with Aareal referred to below. The Close-Out Margin amounts to 3.265%. The Company has severally guaranteed the Borrowers' obligations in respect of the Close-Out Costs plus interest.

   The facility agreement with Aareal provide for two facilities. Facility A has a value of £153.6 million (€178.3 million) and is allocated to Riverbank and Victoria and will bear interest at 2.75% per annum over 3-month Sterling LIBOR (LIBOR). The interest on 85% of Facility A (£130.6 million (€151.6 million)) has been fixed (by means of an interest rate swap with Aareal) at 5.295% per annum (including the Close-Out Margin) for the first three years and 3.275% for the remaining two years. On top of these fixed rates a margin of 2.75% per annum will be applied. The 15% remaining balance of Facility A will bear interest at 2.75% per annum over three months Sterling LIBOR (LIBOR).

   Facility B has a value of £11.4 million (€16.2 million) and is allocated to Grandis (Facility B) and will initially bear interest of 5.0% per annum over LIBOR reducing to 2.95% per annum on the grant of security over the Park Plaza Sherlock Holmes. The Company has also severally guaranteed principal, interest and costs under Facility B (but not Facility A).

   The Facilities are repayable commencing in March 2011 in quarterly instalments of £625,000 until September 2012, £750,000 until September 2014 and £950,000 until September 2015. The balance of the principal amount of the Facilities, amounting to £150,825,000, is repayable on 26 November 2015. Repayments are to be applied first in reducing Facility B.

   The facility agreement provides that the Borrowers must ensure that the aggregate amount of the outstanding Facilities do not exceed 68% of the value of the hotels as set out in the most recent valuation. In addition, the Borrowers must ensure that, on each interest payment date, the Debt Service Cover Ratio (the Net Operating Income of the hotels for each of the four preceding financial quarters relative to the principal, interest and other costs payable by the Borrowers for the next four financial quarters) is not less than 120%. As at 31 December 2010, the Borrowers are in compliance with the covenants.

   The Facilities are secured by, inter alia, first legal charges over the Riverbank hotel, Victoria London hotel and Sherlock Holmes hotel. For further securities see Note 17 4 (b).

2. On 1 October 2004, two jointly-controlled companies, Utrecht Victoria Hotel B.V. and Victoria Hotel C.V., and a wholly-owned subsidiary, The Mandarin Hotel B.V., as borrowers and guarantors, entered into an €80.0 million (attributable to the Group €44.0 million) term loan facility with Merrill Lynch International ("the Merrill facility"). The Merrill facility was repaid in full on maturity in September 2009.

Note 17 Pledges, contingent liabilities and commitments continued

a. Pledges, collateral and securities continued:

In September 2009, Victoria Hotel C.V., Utrecht Victoria Hotel B.V. and The Mandarin Hotel B.V. ("Mandarin"), ("the Borrowers"), as joint and several borrowers and guarantors, refinanced the Merrill facility with Aareal as lender for €78.0 million (attributable to the Group €43.0 million). The refinanced facility is being repaid by fixed instalments over a term of five years and one final payment on the final maturity date. The refinanced facility bears a fixed interest rate of 5.116% per annum.

On 28 April 2010, the Group acquired Park Plaza Amsterdam Airport. The acquisition has been financed via an increase to the existing facility with Aareal. The enlarged facility has a value of €111.0 million which includes €28.0 million for the acquisition and €5.0 million for the prospective renovations of Park Plaza Victoria Amsterdam (€3.0 million) and Schiphol hotel (€2.0 million). The additional facility of €28.0 million bears a fixed interest of 4.56% per annum and the maturity date of the entire facility has been extended from 30 September 2014 to 28 April 2017.

The facilities agreement provides that the Borrowers must ensure that the aggregate amount of the outstanding facilities do not exceed 65% of the value of the hotels as set out in the most recent valuation. In addition, the Borrowers must ensure that, on each interest payment date, the Debt Service Cover Ratio (the Net Operating Income of the hotels for each of the four preceding financial quarters relative to the principal, interest and other costs payable by the Borrowers for the next four financial quarters) is not less than 120%. For the first two years following 28 April 2010, the €28.0 million borrowed to fund the acquisition of Park Plaza Amsterdam Airport and the results of this hotel are excluded from the covenant calculation. As at 31 December 2010, the Borrowers are in compliance with the covenants.

In the event of cash distributions deriving from the sale, disposal or refinancing of Schiphol hotel or upon repayment of the loan, the Borrowers shall pay to the Lender an amount ("exit fee") equivalent to 15% of the difference between the market value of the hotels at the Transaction date and €30.0 million plus such proven renovation cost and equity injections as proved by the Lender. The estimation on the exit fees as of 31 December 2010 is not material.

On 14 December 2010, the Borrowers and their shareholders have entered into an internal reimbursement agreement to limit the liability in respect of Mandarin for, and reimburse Mandarin for any liability in excess of, €7.9 million (the "Mandarin Loan"). In addition, Mandarin and its shareholder have agreed to reimburse the other parties for any liability in connection with the Mandarin Loan.

3. On 25 January 2006, three wholly-owned subsidiaries, Parkvondel Hotel Real Estate B.V. ("PHRE"), as borrower, and 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 maturity date of this facility was 25 January 2013.

   In September 2008, PHRE, PHH and PHM refinanced the NIBC facility and entered into a €21.0 million secured term facility agreement with Aareal as lender. The maturity date of this facility is 3 September 2013. For further details, see Note 31h(2).

   The facility agreement provides that the Borrowers must ensure that the aggregate amount of the outstanding facilities do not exceed 70% of the value of the hotels as set out in the most recent valuation. In addition, the Borrowers must ensure that, on each interest payment date, the Debt Service Cover Ratio (DSCR Test) (the Net Operating Income of the hotels for each of the four preceding financial quarters relative to the principal, interest and other costs payable by the Borrowers for the next four financial quarters) is not less than 120%. As at 31 December 2010, the Borrowers are in breach of the DSCR covenant and the loan was reclassified to short-term. For further information see note 32.

4. On 14 December 2006, a jointly controlled company, Victoria Monument B.V., as borrower, and Bank Hapoalim, as lender, entered into a €14.0 million (attributable to the Group €7.0 million) facility agreement. The facility was made available to finance the purchase of a building located adjacent to the Park Plaza Victoria Amsterdam hotel. The facility was initially made for one year and is being renewed every year for an additional year. The facility was repayable in May 2011 and bears an interest of three month LIBOR plus 2.25% per annum. (see Note 32 (3)).

5. On 19 April 2007, Marlbray, as borrower, entered into a £221.0 million (€232.0 million) facility agreement with Bank Hapoalim, as lender, in relation to the development of the Park Plaza Westminster Bridge hotel. On 3 April 2009, Marlbray entered into an amended and restated facility agreement with the bank for an increased amount of £248.0 million. The total drawdown as at 31 December 2010 is £248.0 million (€287.8 million) (2009: £238.0 million (€268.0 million)). During 2010, the repayment of the facility was financed out of the net proceeds of sales of units in the amount of £154.2 million (€179.0 million) and from forfeited deposits in the amount of £2.1 million (€2.4 million). As at 31 December 2010, the outstanding loan was £93.4 million (€108.4 million) including accrued interest. The facility has been amended and date for repayment has been extended to 31 May 2011. See Note 32 (2).

   The interest rate on the original facility agreement is LIBOR plus 2.15% per annum and on the increase made available in 2009 is LIBOR plus 3% per annum. The increase to the facility was fully repaid as at 31 December 2010.

   As part of this facility, the lender was provided with cost overrun and completion guarantees given by the Company's subsidiary, Euro Sea Hotels N.V. with a maximum amount payable of £30.0 million (€33.8 million).

6. For details on the facilities assumed as part of the acquisition of Leeds Hotel and Nottingham Hotel, see note 3(b).

b. Restricted deposits and cash:

In connection with the development and sale by Marlbray of apart-hotel units (see Note 11), Marlbray received deposits from prospective purchasers in respect of pre-sold units (up to 25% of the contracted sale price). As part of the unit sale agreement, Marlbray was obliged to pay prospective purchasers a fixed interest of 6% per annum on the deposit until the date of completion (as referred to in such agreement).

During 2010, Marlbray paid the purchasers on completion of their purchase a total sum of £5.7 million (€6.6 million) on account of accrued interest on the deposits. An amount of £3 million (€3.5 million) was written off and recognised as income due to certain purchasers' failure to complete.

Note 17 Pledges, contingent liabilities and commitments continued

During 2010, deposits in the amount of £38.6 million (€44.8 million), including accrued interest, were released from stakeholder account. The deposits released, off-set the amount due from purchasers on completion of their purchase. Marlbray has also rescinded contracts of defaulting purchasers and forfeited their deposits in the amount of £2.1 million (€2.4 million), of which £1.9 million (€2.1 million) was recognised as other income in 2010. These funds were applied by Marlbray towards repayment of the amount outstanding on the facility. As at 31 December 2010, a balance of £15.6 million (€18.2 million) held at stakeholder account, being forfeited deposits, held in respect of the rescinded contracts of purchasers who failed to complete.

c. Commitments:

1. Management and Franchise agreements:

(i) 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 and 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, the United Kingdom, Germany, Hungary and Croatia ("the hotels") in consideration for an annual fee of 2% to 3% of the hotels' gross room or total revenues, as applicable, as well as 7% to 10% of the gross operating profit. The Group is also partially reimbursed for certain portions of the expenses incurred. The management agreements are for periods of 15 to 25 years.

(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 or art'otel®" name, in consideration for royalties of a certain percentage of the gross room revenues.

2. Lease agreements:

(i) The Group has entered into several financial lease agreements for the rental of land. Certain of the leases are subject to periodic rent reviews. The Group's share in the future minimum rental payments under non-cancellable leases are as follows:

	2010 €'000	2009 €'000
Within one year	1,045	558
After one year but not more than five years	4,178	2,231
More than five years	112,591	60,676
	117,814	63,465
Less amounts representing finance charges	(106,956)	(57,667)
Present value of minimum lease payments	10,858	5,798

The present value of the discounted net minimum lease payments is as follows:

	2010 €'000	2009 €'000
Within one year	–	–
After one year but not more than five years	1	1
More than five years	10,857	5,797
	10,858	5,798

Following details regarding the finance lease agreements:

a) In September 2000, Grandis Netherlands Holding B.V. ("Grandis"), a jointly controlled company, acquired a land leasehold interest expiring in 2095, of the Sherlock Holmes hotel, for a sum of £10.0 million (€13.6 million plus an initial annual rent of £400,000 (€545,000) (subject to "open market value" rent review every five years).

Grandis 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.

b) In May 2000, Riverbank Hotel Holding B.V., a jointly controlled company, acquired a land leasehold interest expiring in 2125, of Riverbank hotel, situated on Albert Embankment, London, for a sum of £12.0 million (€16.3 million) plus an initial annual rent of £500,000 (€681,000), subject to rent review every five years.

Note 17 Pledges, contingent liabilities and commitments continued

c. Commitments continued:

(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 to 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 of mainly consist of minimum lease payments.

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

	2010 €'000	2009 €'000
Within one year	9,197	9,900
After one year but not more than five years	36,787	32,974
More than five years	111,209	100,180
	157,193	143,054

3. Construction contract commitment:

In March 2007, Marlbray entered into a construction contract with WW Gear Construction Limited ("Gear"). The contract work comprises the design and construction on a "turnkey" basis of Westminster Bridge hotel 1,019 units (see Note 11). As at 31 December 2010, the total construction costs are approximately £199.5 million (€209.6 million) (2009: £186.0 million (€209.6 million). The balance of the construction cost commitment as at 31 December 2010 is £14.4 million (€16.7 million).

Gear is a company under the control of the principal shareholder of the Company (in whose shares the Chairman of the Board of Directors has an interest) (see Note 29).

4. Guarantees:

a) In June 2005, Euro Sea (a wholly-owned subsidiary of the Company) acquired a 33.33% interest in Marlbray. In February 2008, Euro Sea acquired the remaining 67% of the shares of Marlbray.

On completion of each sale of the units, Marlbray entered into income swap agreements with almost all of the unit holders. The income swap agreements includes an obligation on the unit holder to assign the right to receive the net income derived from the unit to Marlbray and an undertaking by Marlbray to pay unit holders a rent guarantee of a 5% or 6% p.a. yield, as the case may be, on the purchase price for the first five years following the date of the sale, commencing on the second month following the date of completion of the purchase.

As part of the February 2008 acquisition, the Company has agreed to guarantee the obligations of Marlbray under the income swap agreements. This liability was taken into account in establishing the fair value of the inventory on acquisition date.

b) The Company has also guaranteed principal, interest and costs under Facility B (but not Facility A) under the loan facility of the Riverbank, Sherlock and Victoria London Hotels. The Company has also guaranteed the Borrowers' obligations in respect of the Close-Out Costs plus interest. Save as aforesaid, the facilities are without recourse to The Company or any other member of its Group apart from the Borrowers and their subsidiaries. (see Note 17 a(1)).

c) The Company has guaranteed all amounts due to Elbit in connection with the acquisition of the Sherlock Holmes Hotel, Victoria London Hotel and Riverbank Hotel (see Note 3c).

Note 18 Bank borrowings

a. Composed as follows:

Current:

	Average interest rate* %	As at 31 December 2010 €'000	2009 €'000
Bank loan in €	LIBOR + 2.25%	7,000	7,000
Bank loan in EUR[2]	EURIBOR + 1.65%	20,159	–
Bank loan in GBP[1]	LIBOR + 2.15%	108,407	249,014
Bank loan in GBP[1]	LIBOR + 3.00%	–	19,243
Current maturities of long-term bank loans		3,728	2,610
		139,294	277,867

[1] For the maturity of the loan see, (see Notes 17 (5) and 32(2)).
[2] See also Notes 17a(3) and 32(1).
* As at 31 December 2010.

Non-current:

	Average interest rate* %	As at 31 December 2010 €'000	2009 €'000
Loans in €	5.12% – 5.42%	55,538	62,375
Loans in GBP[1]	4.90% – 7.72%	209,760	112,100
		265,298	174,475
Less – current maturities		(3,728)	(2,610)
		261,570	171,865

[1] See Note 17a(1).
* For details of interest rate swap (see Note 31(h)).

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

	As at 31 December 2010 €'000	2009 €'000
1. Loan in €:		
First year – current maturities	860	855
Second year	1,075	1,070
Third year	1,075	1,495
Fourth year	807	21,130
Fifth year	–	–
Thereafter	51,721	37,825
	55,538	62,375
2. Loan in GBP:		
First year – current maturities	2,868	1,755
Second year	2,702	1,755
Third year	7,302	1,755
Fourth year	4,434	106,835
Fifth year	173,977	–
Thereafter	18,477	–
	209,760	112,100

For securities and pledges, see Note 17.

Note 19 Other liabilities

	As at 31 December	
	2010 €'000	2009 €'000
Derivative financial instruments (see Note 31h)	12,950	8,251
Lease liability	10,858	5,798
Loans from jointly controlled entities (see Note 29)	18,287	16,720
Other loans from third parties	14,876	–
Loans from partners in jointly controlled entities	8,133	19,819
Other	195	423
	65,299	51,011

Note 20 Other payables and accruals

	As at 31 December	
	2010 €'000	2009 €'000
Employees	1,434	1,221
VAT and taxes[2]	4,215	1,805
Accrued interest	1,314	1,247
Accrued expenses	12,819	4,834
Other loans from third parties	5,349	–
Accrued rent	3,663	2,394
Derivative financial instruments (see Note 31h)	6,062	–
Related parties[1]	2,563	1,627
	37,419	13,128

[1] The amount owed to related parties bears no interest and has no repayment date.
[2] Includes corporate income taxes in 2010 of €292,000 (2009: €463,000).

Note 21 Revenues

	As at 31 December	
	2010 €'000	2009 €'000
Rooms	93,357	49,923
Food and beverage	36,018	19,387
Minor operating	2,504	1,637
Management fee (see Note 17c(1))	4,602	5,518
Franchise fee (see Note 17c(1))	2,297	2,858
Marketing	813	745
Other	238	258
	139,829	80,326

Note 22 Operating expenses

	As at 31 December	
	2010 €'000	2009 €'000
Salaries and related expenses	42,369	24,149
IT expenses	1,188	847
Utilities	4,800	2,910
Supplies	2,080	985
Laundry, linen and cleaning	2,780	1,771
Administration costs	4,281	1,946
Communication, travel and transport	1,368	1,116
Maintenance	2,279	1,729
Marketing expenses	1,950	1,575
Food and beverage	7,791	3,924
Franchise fees, reservation and commissions	9,970	6,449
Leases	954	242
Insurance	5,752	2,300
Other expenses	5,820	4,239
	93,382	54,182

Note 23 Financial expenses

	As at 31 December	
	2010 €'000	2009 €'000
Interest and other finance expenses on bank loans	27,510	21,880
Interest and other finance expenses to jointly controlled entities (see Note 29b)	836	734
Interest and other finance expenses to related parties	826	807
Interest on restricted deposits	1,126	3,126
Finance lease liability	578	558
Breakage of hedge financial instruments	8,920	–
Refinance expenses	314	–
Loss on sale of available-for-sale investments	–	246
Other	44	161
	40,154	27,512
Less – borrowing costs capitalised	(11,281)	(8,572)
	28,873	18,940

Note 24 Financial income

	As at 31 December	
	2010 €'000	2009 €'000
Interest on restricted deposit	76	2,232
Profit on sale of available for sale investments	346	–
Interest on bank deposits	321	609
Interest from related parties (see Note 29 (b))	2,206	956
Interest on VAT loans to unit holders	252	–
Adjustment to fair value on derivative financial instruments	1,403	–
Interest revenue penalty on late completion	339	–
Foreign exchange differences	321	583
Interest from forfeited deposits	3,512	–
Interest and other finance income from jointly controlled entities	682	678
Interest and other finance expenses from partners in jointly controlled entities	939	739
Other	24	–
	10,421	5,797

Note 25 Other income (net)

	As at 31 December	
	2010 €'000	2009 €'000
Negative goodwill upon acquisition (Note 3)	9,997	–
Pre opening expenses of Park Plaza Westminster Bridge hotel	(2,637)	–
Capital gain from obtaining control in a former jointly controlled entity (see Note 3c)	41,435	–
Reclassification adjustment in respect of foreign currency translation reserve (see Note 3c)	9,390	–
Income from forfeited deposits	2,166	–
	60,351	–

Note 26 Income taxes

a. 1. Taxes on income (tax benefit) included in the income statement:

	As at 31 December	
	2010 €'000	2009 €'000
Current taxes	(265)	395
Deferred taxes	(1,156)	(106)
	(1,421)	289

2. Taxes have not been recognised on components of equity as they are not expected to be taxable.

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	Apart-hotel units and property, plant and equipment €'000	Other €'000	Total €'000
Balance as at 31 December 2008	3,342	(4,108)	(8,271)	(119)	(9,156)
Amounts charged to income statement	81	(94)		119	106
Adjustments for exchange rate differences	–	–	(605)	–	(605)
Balance as at 31 December 2009	3,423	(4,202)	(8,876)	–	(9,655)
Amounts charged to income statement	(654)	1,481	329	–	1,156
Adjustments for exchange rate differences	–	–	(271)	–	(271)
Balance as at 31 December 2010	2,769	(2,721)	(8,818)	–	(8,770)

Note 26 Income taxes continued

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

	As at 31 December	
	2010 €'000	2009 €'000
Profit (loss) before income taxes	60,482	(7,160)
Expected tax at the tax rate of The Netherlands 25.5%[1]	15,423	(1,826)
Adjustments in respect of:		
Income at 0% tax rate	(4,721)	(5,511)
Non-deductible expenses	1,599	6,276
Settlement with carried forward losses	–	(182)
Reduction in UK tax rate	(329)	–
Non-taxable income	(15,098)	–
Tax losses for which no deferred tax was recorded	4,964	1,350
Timing differences for which no deferred taxed were recorded	(2,847)	–
Taxes in previous years	(338)	–
Other	(74)	182
Income tax expense reported in the income statement	(1,421)	289

[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 is 25.5%.
   b. Taxation in the U.K.: corporate income tax rate for domiciled companies is 28% and for non-domiciled 22%. On 9 December 2010 the Government in the United Kingdom has decided to reduce the tax rate for 2011 to 27% effective from 1 April 2011. After the balance sheet date the tax rate for 2011 was reduced to 26%. The impact of the reduction of the tax rate to 26% would create an additional tax income of £0.3 million (€0.3 million).
   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 €165.4 million (2009: €111.2 million). The Group did not establish deferred tax assets in respect of losses amounting to €154.5 million (2009: €97.9 million) of which non-United Kingdom tax losses amounting to €86.6 million may be utilised for a period up to eight years. The remaining United Kingdom tax losses may be carried forward indefinitely.

Note 27 Earnings per share

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

	As at 31 December	
	2010 €'000	2009 €'000
Profit (loss)	61,903	(7,449)
Weighted average number of Ordinary shares outstanding	40,815	41,460

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

For management purposes, the Group's activities are divided into Owned Hotel Operations and Management Activities (for further details see Note 17c(1)). Owned Hotel Operations are further divided into three reportable segments: The Netherlands, Germany and Hungary, and the United Kingdom. The operating results of each of the aforementioned segments are monitored separately for the purpose of resource allocations and performance assessment. Segment performance is evaluated based on EBITDA, which is measured on the same basis as for financial reporting purposes in the statement of income.

	As at 31 December 2010					
	The Netherlands €'000	Germany and Hungary €'000	United Kingdom €'000	Management €'000	Holding companies and adjustments[2] €'000	Consolidated €'000
Revenue						
Third party	22,847	27,700	81,179	8,103	–	139,829
Inter-segment	–	–	389	12,618	(13,007)	–
Total revenue	22,847	27,700	81,568	20,721	(13,007)	139,829
Segment EBITDA	7,607	(286)	24,512	10,438	(4,638)	37,633
Depreciation and amortisation						(12,409)
Financial expenses						(28,873)
Financial income						10,421
Interest expenses on advance payments from unit holders						(4,279)
Other income, net						60,351
Share in loss of associate						(2,362)
Loss before taxes						60,482

	The Netherlands	Germany and Hungary	United Kingdom	Adjustments	Consolidated
Geographical information					
Non-current assets[1]	75,166	7,620	682,523	43,076	808,385

[1] Non-current assets for this purpose consist of property, plant and equipment, prepaid leasehold payments and intangible assets, and Apart-hotel units.
[2] Consist of inter-company eliminations. For further details, see Note 17c(1) and Note 29.

	As at 31 December 2009					
	The Netherlands €'000	Germany and Hungary €'000	United Kingdom €'000	Management €'000	Holding companies and adjustments[2] €'000	Consolidated €'000
Revenue						
Third party	19,779	23,456	27,518	9,573	–	80,326
Inter-segment	–	–	1,504	6,869	(8,373)	–
Total revenue	19,779	23,456	29,022	16,442	(8,373)	80,326
Segment EBITDA	6,474	(3,725)	11,369	5,928	(3,802)	16,244
Depreciation and amortisation						(9,066)
Financial expenses						(18,940)
Financial income						5,797
Share in loss of associate						(1,195)
Loss before taxes						(7,160)

	The Netherlands	Germany and Hungary	United Kingdom	Adjustments	Consolidated
Geographical information					
Non-current assets[1]	59,775	7,428	121,173	45,385	233,761

[1] Non-current assets for this purpose consist of property, plant and equipment, prepaid leasehold payments and intangible assets.
[2] Consist of inter-company eliminations. For further details, see Note 17c(1) and Note 29.

Note 29 Related parties

a. Balances with related parties*:

	31 December	
	2010 €'000	2009 €'000
Loans to jointly controlled entities[3]	18,795	17,338
Loan to associate – WH/DMREF Bora[1]	25,695	23,715
Short-term receivables	1,252	1,184
Trade receivables –Leeds Hotel and Nottingham Hotel[2]	–	3,328
Loans from jointly controlled entities[4]	18,287	16,720
Trade receivables – Arenaturist group[1]	3,985	2,452
Trade receivables – jointly controlled entities	–	4,367
Trade payables – WW Gear Construction Limited (see Note 17c3)	14,002	–
Short-term payables – WW Gear Construction Limited	2,208	1,627
Short-term payables – other	355	–

b. Transactions with related parties*:

	As at 31 December	
	2010 €'000	2009 €'000
Management fees income – Arenaturist[1]	1,225	1,113
Reimbursement of expenses – Arenaturist[1]	347	396
Expenses related to jointly controlled entities		
– Conference	454	459
– Salaries	164	164
– Legal	427	427
Fee income – Leeds Hotel and Nottingham Hotel[2]		
– Management fee	173	329
– Franchise fees	58	99
– Marketing fees	38	66
– Reservation fees	115	148
– Reimbursement and other fees	41	84
Interest from associate – (WH/DMREF Bora)[1]	2,206	956
Interest and other financial expenses to jointly controlled entities	836	734
Interest income from jointly controlled entities	682	678
Construction costs incurred and capitalised to inventories	31,206	77,230

* 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 Prior to 2 August 2010, Leeds Hotel and Nottingham Hotel were each wholly-owned by the principal shareholder of the Company. On 2 August 2010, the Company purchased Leeds Hotel and Nottingham Hotel (see Note 3b).

3 Includes loans to jointly controlled entities in the amount of €11.0 million (2009: €10.9 million) bearing fixed interest of 6.125% per annum, a loan of €5.8 million (2009: €5.3 million) bearing an interest of LIBOR+2% per annum and a loan of €2.0 million (2009: €1.1 million) bearing no interest.

4 Includes loans from jointly controlled entities in the amount of €18.3 million (2009: €16.7 million) bearing fixed interest of 4% per annum.

Note 29 Related parties continued

c. Compensation to key management personnel (Executive and Non-Executive Board members) for the year ended in 31 December 2010:

	Position	Base salary	Pension	Other benefits	Total
		€'000	€'000	€'000	€'000
Boris Ivesha	Chief Executive Officer	395	117	74	586
Chen Moravsky	Chief Financial Officer	275	33	72	380
Eli Papouchado	Non-Executive Chairman of the Board	117	–	–	117
Kevin McAuliffe	Non-Executive Director	46	–	–	46
Nigel Jones	Non-Executive Director	41	–	–	41
Elisha Flax	Non-Executive Director	47	–	–	47
		921	150	146	1,217

Director's interests in employee share incentive plan

As at 31 December 2010 the Chief Financial Officer holds share options to purchase Ordinary shares in the amount of 95,000. The Options are fully exercisable with an exercise price of £1.00 (€1.12). The options will expire in 2017. Non-share options have been granted to Non-Executive members of the Board.

Note 30 Jointly controlled entities

The Group has an interest in jointly controlled entities (Appendix B) which are engaged in the development, 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:

	As at 31 December	
	2010 €'000	2009 €'000
Non-current assets	91,500	172,848
Current assets	3,380	12,877
	94,880	185,725
Non-current liabilities	61,506	182,157
Current liabilities	12,003	23,756
	73,509	205,913
	21,371	(20,188)

	As at 31 December	
	2010 €'000	2009 €'000
Revenues	45,032	41,297
Operating expenses	(29,378)	(25,820)
EBITDAR	15,654	15,477
Rental expenses	(1,008)	(503)
EBITDA	14,646	14,974
Depreciation and amortisation	(4,032)	(4,945)
EBIT	10,614	10,029
Financial expenses, net	(18,434)	(11,464)
Loss before income taxes	(7,820)	(1,435)
Income tax benefit (expense)	629	(349)
Loss for the year	(7,191)	(1,784)

Note 31 Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank borrowings, cash and cash equivalents, restricted deposits and investment in shares and bonds. 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.

a. Foreign currency risk:
The Group is exposed to minimal 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.

b. 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 has two variable interest rate debts relating to a short-term loan for the renovation of a hotel building and a GBP short-term loan for the construction of the Westminster Bridge Hotel London. The interest expense on these loans is capitalised during the construction period. In April 2010 the construction of the Westminster Bridge Hotel was partially completed and the hotel started to operate. The interest on the GBP short term loan was recorded in the profit and loss. Based on this sensitivity analysis calculation, the management expects that with an increase/decrease of the three-month market (Libor) interest rate by 50 bps the results of the Group would be changed by €290,000.

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. Furthermore, the Group uses fixed interest rate debts. For this reason the Group's cash flow is not sensitive to possible changes in market interest rates. Possible changes in interest rates do, however, affect the Group's equity or results as the fair value of the swap agreements changes with interest rate changes. These swaps are designated to hedge underlying debt obligations.

The fair value of the swaps of the Group as at 31 December 2010 amounts to a liability of €15.0 million (2009: liability of €8.2 million). The movements in the value have been accounted for in equity and profit and loss respectively. The Group performed a sensitivity analysis for the effect of market interest rate changes on the fair value of the swaps which was calculated by an external valuator. 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 would increase/decrease by €0.2 million (2009: €1.8 million) and the results would increase/decrease by €2.2 million (2009: nil).

The Group uses short-term deposits (weekly and monthly) for cash balances held in banks.

Restricted deposits that were received from unit holders (see Note 17b) were held in bank accounts in the United Kingdom bearing interest at a average annual rate of 0.2% (2009: 4.6%).

As at 31 December 2010, the Group has additional deposits in the amount of €4.4 million. The interest income is subject to changes in the interest rates. In 2010, the average received interest rate was 0.2%-0.3% (2009: 0.5%). If the interest rate increase/decrease is an average of 50bps, the profit of the Group would not change materially due to low interest given on deposits.

c. Credit risk:
The Group trades only with recognised, creditworthy 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 collection 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 maximum credit exposure equals the carrying amount of the trade receivables and other receivables since the amount of all trade and other receivables have 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.

The Group, as at 31 December 2010, has a balance of €4.0 million (2009: €6.4 million) from Associates. The Group has agreed that most of the outstanding amount will be settled in the course of 2011.

d. Market risk:
The Group as at 31 December 2010 has an available-for-sale investment in securities, in the amount of €1.7 million (2009: €14.5 million). The securities are presented at their quoted market price and changes in market price are recorded in equity. If the market prices of the securities increase/decrease by an average of 1%, the equity of the Group would increase/decrease by €17,000 (2009: €145,000).

Note 31 Financial risk management objectives and policies continued

e. 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 when required.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2010 and 2009 based on contractual undiscounted payments.

	As at 31 December 2010					
	Less than 3 months €'000	3 to 12 months €'000	1 to 2 years €'000	3 to 5 years €'000	> 5 years €'000	Total €'000
Interest bearing loans and borrowings [1,2]	4,401	130,907	62,974	208,025	74,628	480,935
Deposits received from unit holders	–	(21,999)	–	–	–	(21,999)
Deposits hold in banks	–	18,234	–	–	–	18,234
Derivative financial instruments	1,515	4,546	10,669	–	–	16,730
Loans to jointly controlled entities and partners in jointly controlled entities	–	–	12,480	–	22,676	35,156
Loans from jointly controlled entities and partners in jointly controlled entities	–	–	(12,080)	–	(23,306)	(35,386)
Other financial liabilities	–	–	–	123	72	195
Loans to Elbit	1,637	4,787	13,416	3,047	1,016	23,903
Lease liability [4]	261	783	2,089	3,133	111,546	117,812
Trade payables	6,250	18,748	–	–	–	24,998
Other liabilities	9,047	12,830	–	–	–	21,877
	23,111	168,836	89,548	214,329	186,632	682,455

	As at 31 December 2009					
	Less than 3 months €'000	3 to 12 months €'000	1 to 2 years €'000	3 to 5 years €'000	> 5 years €'000	Total €'000
Interest bearing loans and borrowings [1,2]	4,232	287,950	30,756	177,572	–	500,510
Deposits received from unit holders	825	64,582	–	–	–	65,407
Deposits hold in banks	(110)	(64,689)	–	–	–	(64,799)
Other restricted deposits	–	(1,937)	–	–	–	(1,937)
Loans to jointly controlled entities and partners in jointly controlled entities	–	–	–	5,709	40,651	46,360
Loans from jointly controlled entities and partners in jointly controlled entities	–	–	–	(5,767)	(37,569)	(43,336)
Other financial liabilities	–	–	–	117	306	423
Lease liability [4]	139	418	1,115	1,673	60,118	63,463
Trade payables	4,853	–	–	–	–	4,853
Other liabilities	4,360	6,963	–	–	–	11,323
	14,299	293,287	31,871	179,304	63,506	582,267

1 See Note 17(a) for further information.

2 The Company has an outstanding loan in the amount of €108.4 million (2009: €163.0 million), which was due to be repaid in May 2011(See Note 32(2)).

3 For further details in respect of a Guarantee provided to the partner in a jointly controlled entity, see Note 17a(2).

4 Lease liability includes two leases with upward rent reviews based on future market rates in one lease and changes in the CPI in the other lease and, thus, future payments have been estimated using current market rentals and current United Kingdom based CPIs, respectively.

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. In 2009 the gearing ratio was above 70%, due to the construction of the Westminster Bridge Hotel project and is expected to reflect temporary deviation.

Note 31 Financial risk management objectives and policies continued

Capital management continued

	2010 €'000	2009 €'000
Interest bearing loans and borrowings	400,864	449,732
Less – cash and cash equivalents	(25,637)	(34,418)
Less – other liquid assets	(5,298)	(11,394)
Net debt	369,929	403,920
Equity	203,218	139,735
Hedging reserve	1,087	9,096
Total capital	204,305	148,831
Capital and net debt	574,234	552,751
Gearing ratio	64.4%	73.1%

	Carrying amount		Fair value	
	31 December		31 December	
	2010 €'000	2009 €'000	2010 €'000	2009 €'000
Financial assets				
Other non-current financial assets	27,389	35,306	27,254	39,075
Restricted deposits	21,999	66,516	21,999	66,516
Other current financial assets	1,671	14,536	1,671	14,536
Trade receivables	17,176	14,385	17,176	14,385
Other receivables	8,051	1,820	8,051	1,820
Cash and cash equivalents	25,637	34,418	25,637	34,418
Total assets	101,923	166,981	101,788	170,750

	Carrying amount		Fair value	
	31 December		31 December	
	2010 €'000	2009 €'000	2010 €'000	2009 €'000
Financial liabilities				
Floating rate borrowings	326,891	407,530	326,891	407,530
Fixed rate borrowings	73,974	42,202	76,603	41,867
Derivative financial instruments	19,012	–	19,012	–
Other financial liabilities	46,840	36,962	46,571	40,101
Lease liability	10,858	5,798	10,858	5,798
Trade payables	24,998	4,853	24,998	4,853
Deposits received from unit holders	18,234	63,757	18,234	63,757
Other payables and accruals	21,676	11,323	21,676	11,323
Total	542,483	580,676	544,842	583,480

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

- Cash and cash equivalents, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables.
- The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- Fair value of available-for-sale financial assets is derived from quoted market prices in active markets.
- The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives are valued using valuation techniques, for swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, and interest rate curves.

  As at 31 December 2010, the mark-to-market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

Note 31 Financial risk management objectives and policies continued

2. Fair value hierarchy:

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

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

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

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

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

Assets:

	31 December 2010 €000	Level 1 €000	Level 2 €000	Level 3 €000
Available-for-sale financial assets:				
Equity shares	1,671	1,671	–	–

Liabilities:

	31 December 2010 €000	Level 1 €000	Level 2 €000	Level 3 €000
Financial liabilities:				
Interest rate swaps	19,012	–	19,012	–

During the year as at 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

Assets:

	31 December 2009 €000	Level 1 €000	Level 2 €000	Level 3 €000
Available-for-sale financial assets:	3,142	3,142	–	–
Equity shares	11,394	1,194	–	–

Liabilities:

	31 December 2010 €000	Level 1 €000	Level 2 €000	Level 3 €000
Financial liabilities:				
Interest rate swaps	8,251	–	8,251	–

During the year as at 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

h. Derivative financial instruments:

The majority of the Group's borrowings are at variable interest rates based on LIBOR. To limit its exposure to changes in the rates of the LIBOR and EURIBOR on its cash flows and interest expense the Group has entered into various interest rate swaps, as described below:

1. 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 £185.0 million (attributed to the Group £99.0 million) received from Goldman Sachs International Bank with fixed interest rate of 7.72% for the period until 2011. On 26 November 2010 the Group had refinanced the loan with Aareal (see Note 17a (1)). A separate arrangement with Aareal has been made to meet the costs of terminating the existing interest rate swap (the Close-Out Costs) amounting to £14.4 million which, as part of the overall financing, were settled by Aareal. The Borrowers have undertaken to pay to Aareal the value of the Close-Out Costs plus interest over the next three years by way of additional margin (the Close-Out Margin) on the fixed rate of interest under the new interest rate swap with Aareal referred to below.

   Contract with nominal values of £130.6 million (€151.6 million) has fixed interest quarterly payments at a rate of 5,295 % per annum (including Close Out Costs Margin) for periods up until November 2013 and for the period November 2013 until November 2015 at a rate of 3,275%.

   As at 31 December 2010, the fair value of the swap is estimated at a liability of £12.0 million (€13.9 million) (2009 liability of £11.6 million (€13.5 million) attributable to the Group liability of £6.3 million (€7.1 million)). The interest swap of the expected future interest was assessed to be not effective. The change in fair value of the interest rate swap of £1.7 million (€2.0 million) (attributable to the Group £0.9 million (€1.0 million) has been recorded in the profit and loss. The swap of the expected future interest of 2009 was assessed to be very effective and the change of £4.3 million (€5.0 million) (attributable to the Group £2.3 million (€2.7 million) had been recorded in the other comprehensive income. For further information see Note 17 a (1).

Note 31 Financial risk management objectives and policies continued

h. Derivative financial instruments continued:

2. In 2008, PHRE, PHH and PHM entered into an interest rate swap according to which PHRE, PHH and PHM swapped the variable interest rate of three months EURIBOR on a loan in the amount of €21.0 million received from Aareal Bank AG, bearing fixed quarterly interest payments, at the rate of 3.77% per annum, for the period until September 2013. As at 31 December 2010, the fair value of the swap is estimated at a liability of €1.1 million (2009: liability of €1.1 million). The swap of the expected future interest of was assessed to be very effective and the change recorded in the other comprehensive income. The amount recorded in the other comprehensive income was immaterial for both 2010 and 2009.

3. In 2004 Laguna and Katmandu, which were purchased by the Group in August 2010, entered into an interest rate swap according to which they swapped the variable interest rate, according to which:

   Laguna swapped the variable interest rate of three month LIBOR on a loan in the amount of £15.0 million (€17.4 million) received from The Royal Bank of Scotland plc., bearing fixed quarterly interest payments, at the rate of 5.13% for the period until January 2019. As at 31 December 2010, the fair value of the swap is estimated at a liability of £2.2 million (€2.6 million). The swap of the expected future interest was assessed to be not effective since the Group did not obtain the proper documentation and the amount of £0.3 million (€0.3 million) was recorded in the profit and loss as interest income.

   Katmandu swapped the variable interest rate of three month LIBOR on a loan in the amount of £6.0 million (€6.9 million) received from The Royal Bank of Scotland plc., bearing fixed quarterly interest payments, at the rate of 5.54% for the period until October 2010. As at 31 May 2027, the fair value of the swap is estimated at a liability of £1.3 million (€1.5 million). The swap of the expected future interest of was assessed to be not effective since the Group did not obtain the proper documentation and the amount of £0.1 million (€0.1 million) was recorded in the income statement as interest income.

Note 32 Post balance sheet events

1. PHRE, PHH and PHM facility agreement (see Note 17 a(3)) provides that the Borrowers must ensure that the aggregate amount of the outstanding facilities do not exceed 70% of the value of the Park Plaza Vondelpark hotel as set out in the most recent valuation (LTV test). In addition, the Borrowers must ensure that, on each interest payment date, the Debt Service Cover Ratio (the Net Operating Income of the hotel for each of the four preceding financial quarters relative to the principal, interest and other costs payable by the Borrowers for the next four financial quarters) (DSCR test) is not less than 120%. As at 31 December 2010 and 31 March 2011 PHRE, PHH and PHM failed the DSCR test and as at 31 March 2011 the aggregate amount of the outstanding Facility exceeded 70% of the hotel value. On 12 April 2011 the borrowers reached an agreement with the lender to reduce the principal facility amount by €0.9 Million in order to cure the position as at 31 December 2010 and 31 March 2011 (DSCR test) and 31 March 2011 (LTV test). In addition certain requirements under the facility agreement were waived for a period of 12 months ending 30 June 2012.

2. On 1 June 2011, Marlbray signed an agreement to refinance the existing facility of Westminster Bridge Hotel London with Bank Hapoalim for a further seven years until 1 June 2018. As at 31 December 2010, the outstanding amount of the facility was £93.4 million (€108.4 million).

   The amended facility is split into two facilities (the "facilities") for an overall amount of £115.0 million (€133.5 million) with the existing indebtedness as at the date of the agreement of £93.9 million (€109.0 million) remaining in place and a new facility of £21.1 million (€24.5 million) being added to finance working capital, general corporate purposes and certain projects.

   The facilities are repayable commencing in September 2011 in quarterly instalments for an amount equal to 2% per annum of the drawn amount until September 2016, increased to 2.5% per annum of the drawn amount until the maturity date of the facilities. The remaining balance of the principal is repayable on the final maturity date.

   The facilities will bear an interest of 2.65% per annum over 3-month Sterling LIBOR (which will increase by 2% on any part of the facilities that causes the loan to value ratio (as set out below) to exceed 70%). In addition, Marlbray has undertaken among others to pay £125,000 per annum as an agency and security trustee fee. Subsequent to its entry into the facilities, Marlbray will enter into an interest rate swap to hedge the risk of any fluctuations in the interest rate.

   The agreement provides that Marlbray must ensure that the aggregate amount of the outstanding facilities does not exceed 75% of the value of the hotel as set out in the most recent valuation. In addition, Marlbray must ensure that, on each interest payment date, the Debt Service Cover Ratio (DSCR) (the Net Operating Income of the hotels for each of the four preceding financial quarters relative to the principal, interest and other costs payable by Marlbray for the next four financial quarters) is not less than 115% for the first year of the loan and thereafter is 130% and that the DSCR ratio is not less than the applicable percentages more five times during the life of the facilities.

3. On 30 May 2011 Victoria Monument B.V. entered into a deed of amendment to the credit agreement dated 14 December 2006 with Bank Hapoalim, as amended and restated from time to time, and under which the Final Maturity Date had been extended to 31 August 2011. (see Note 17a(4)).

Appendices to financial statements

Appendix A: Subsidiaries and investments included in the group

	Principal activity	Country of incorporation	Direct and indirect holdings %
Euro Sea Hotels N.V.[2]	Holding Company	The Netherlands	100
The Mandarin Hotel B.V.[2]	Hotel operation	The Netherlands	100
Suf Holding B.V.[2]	Holding company	The Netherlands	100
Victory Enterprises I B.V.[2]	Holding company	The Netherlands	100
Victoria Monument B.V.[2]	Holding company	The Netherlands	50
V.H.R.I. B.V.[2]	Holding company	The Netherlands	50
V.H.R.M.S. B.V. [2]	Hotel operation	The Netherlands	50
Utrecht Victoria Hotel C.V.[2]	Hotel operation	The Netherlands	50
Victoria Hotel C.V.[2]	Hotel operation	The Netherlands	50
Riverbank Hotel Operator Limited[2]	Hotel operation	United Kingdom	100
Riverbank Hotel Holding B.V.[2]	Holding company	The Netherlands	100
Victoria London Hotel Holding B.V.[2]	Holding company	The Netherlands	100
Victoria Park Plaza Operator Limited[2]	Hotel operation	United Kingdom	100
Victoria Pub Holding B.V.[2]	Holding company	The Netherlands	100
Sherlock Holmes Park Plaza Limited[2]	Hotel operation	United Kingdom	100
Grandis Netherlands Holding B.V.[2]	Holding company	The Netherlands	100
Marlbray Limited[2]	Holding company	United Kingdom	100
1 Westminster Bridge Plaza Management Company Limited[2]	Hotel operation	United Kingdom	100[4]
Park Plaza Hospitality Services (UK) Limited[2]	Hotel operation	United Kingdom	100
WH/DMREF Bora B.V.[2, 3]	Holding company	The Netherlands	20
W2005/Twenty Eight B.V.	Holding company	The Netherlands	20
Bora Finco B.V.	Holding company	The Netherlands	20
Waterford Investments Limited.[1]	Holding company	Guernsey	100
Leno Investments Limited. [1]	Holding company	Guernsey	100
Leno Finance Limited.[2]	Holding company	Guernsey	100
Laguna Estates (Leeds) Limited.[2]	Holding company	Guernsey	100
Katmandu Limited.[2]	Holding company	British Virgin Islands	100
Sandbach Investments Limited.[2]	Holding company	British Virgin Islands	100
Hotel Leeds Holding B.V.[2]	Holding company	The Netherlands	100
Hotel Nottingham Holding B.V.[2]	Holding company	The Netherlands	100
Nottingham Park Plaza Operator Limited.[2]	Hotel Operation	United Kingdom	100
Park Plaza Hotels Europe Holdings B.V.[2]	Holding company	The Netherlands	100
Park Plaza Hotels Europe B.V.[2]	Management	The Netherlands	100
Park Plaza Hotels (Germany) Services GmbH[2]	Management	Germany	100
Park Plaza Hotels Europe (Germany) B.V.[2]	Management	The Netherlands	100
Sugarhill Investments B.V.[2]	Holding company	The Netherlands	100
Park Plaza Germany Holdings GmbH[2]	Holding company	Germany	100
Park Plaza Berlin Hotelbetriebsgesellschaft mbH[2]	Hotel operation	Germany	100
Park Plaza Hotels Berlin Wallstrasse GmbH[2]	Hotel operation	Germany	100
Park Plaza Betriebsgesellschaft mbH	Holding company	Germany	100
art'otel berlin mitte/Park Plaza Betriebsgesellschaft mbH[2]	Hotel operation	Germany	100
art'otel berlin city center west GmbH[2]	Hotel operation	Germany	100
art'otel dresden/Park Plaza Betriebsgesellschaft mbH[2]	Hotel operation	Germany	100
art'otel SW Hotelbetriebs Kft[2]	Hotel operation	Hungary	100
art'otel Köln Betriebsgesellschaft[2] mbH	Hotel operation	Germany	100
Park Plaza Nürnberg GmbH[2]	Hotel operation	Germany	100
Parkvondel Hotel Holding B.V.[2]	Holding company	The Netherlands	100
Parkvondel Hotel Real Estate B.V.[2]	Holding company	The Netherlands	100
Parkvondel Hotel Management B.V.[2]	Hotel operation	The Netherlands	100
Golden Wall Investments Limited[1]	Holding company	British Virgin Islands	100
Apex Holdings (UK) Limited[1]	Holding company	British Virgin Islands	100
Aspirations Limited[2]	Holding company	British Virgin Islands	50
Park Plaza Coöperatief UA[1]	Holding company	The Netherlands	100
Park Plaza Hotels (UK) Services Limited[2]	Management	United Kingdom	100

1 Direct holdings.
2 Indirect holdings.
3 Investment in an associate.
4 Such percentage reflects 100% of the voting rights in the Company

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 C.V.	Hotel operation	The Netherlands	50
Victoria Hotel C.V.	Hotel operation	The Netherlands	50
Melbourne Personeel B.V.	Hotel operation	The Netherlands	50
Schiphol Victoria Hotel C.V.	Holding company	The Netherlands	50
Victoria Schiphol Holding B.V.	Holding company	The Netherlands	50
Melbourne Holding B.V.	Hotel operation	The Netherlands	50
Melbourne Onroerende Zaken B.V.	Holding company	The Netherlands	50
Victoria Monument B.V.	Holding company	The Netherlands	50
Aspirations Limited	Holding company	British Virgin Islands	50

Appendix C:
The following information is a combination of financial information extracted from the IFRS financial reporting packages of each of the jointly controlled entities Riverbank Hotel Holding BV, Grandis Netherlands Holdings BV and Victoria London Hotel Holding BV, as prepared for inclusion in the Consolidated financial statements of the Company on a proportional consolidation basis for each of the three years ended 31 December 2010, 2009, 2008. The proportion already held, the proportion acquired on 31 December 2010 and the resulting totals are presented. The combination is an arithmetic addition of the financial information of each of the jointly controlled entities, and hence the information does not include the acquisition accounting adjustments related to these entities which have been made in the consolidated financial statements.

	Year ended 31 December 2010			Year ended 31 December 2009			Year ended 31 December 2008		
	Proportion already Held	Proportion acquired	Total	Proportion already Held	Proportion acquired	Total	Proportion already Held	Proportion acquired	Total
Assets									
Non-current assets:									
Property, plant and equipment	91,499	79,875	171,374	105,241	91,745	196,986	101,580	87,790	189,370
Other non-current financial assets	518	381	899	–	–	–	–	–	–
	92,017	80,256	172,273	105,241	91,745	196,986	101,580	87,790	189,370
Current assets:									
Restricted cash	–	–	–	1,626	1,426	3,052	93	82	175
Inventories	148	134	282	162	147	309	132	120	252
Trade receivables	1,361	1,183	2,544	1,635	1,442	3,077	1,571	1,400	2,971
Other receivables and prepayments	1,509	1,346	2,855	1,948	1,721	3,669	1,592	1,395	2,987
Cash and cash equivalents	4,077	3,689	7,766	4,302	3,876	8,178	3,556	3,207	6,763
	7,095	6,352	13,447	9,673	8,612	18,285	6,944	6,204	13,148
Total assets	99,112	86,608	185,720	114,914	100,357	215,271	108,524	93,994	202,518
Equity and liabilities									
Equity	(44,465)	(37,344)	(81,809)	(48,501)	(41,116)	(89,617)	(41,515)	(35,998)	(77,513)
Non-current liabilities:									
Bank borrowings	84,564	74,750	159,314	110,346	96,759	207,105	104,100	91,276	195,375
Other liabilities	43,187	35,470	78,657	40,208	33,479	73,687	35,557	29,721	65,279
	127,751	110,220	237,971	150,554	130,238	280,792	139,657	120,997	260,654
Current liabilities:									
Trade payables	1,945	1,738	3,683	1,067	920	1,987	635	571	1,207
Other payables and accruals	12,506	10,869	23,375	10,038	8,777	18,815	8,111	6,989	15,100
Bank borrowings	1,375	1,125	2,500	1,755	1,539	3,294	1,636	1,434	3,070
	15,826	13,732	29,558	12,860	11,236	24,096	10,382	8,995	19,377
Total equity and liabilities	99,112	86,608	185,720	114,914	100,357	215,271	108,524	93,994	202,518

	Year ended 31 December 2010			Year ended 31 December 2009			Year ended 31 December 2008		
	Proportion already Held	Proportion acquired	Total	Proportion already Held	Proportion acquired	Total	Proportion already Held	Proportion acquired	Total
Revenues	30,091	26,468	56,559	29,022	25,633	54,655	33,273	29,302	62,574
Operating cost	18,944	16,632	35,576	17,167	15,102	32,269	21,689	19,049	40,738
EBITDAR	11,147	9,836	20,983	11,855	10,531	22,386	11,583	10,253	21,836
Rental expenses	980	803	1,783	477	394	871	473	387	860
EBITDA	10,167	9,033	19,200	11,378	10,137	21,515	11,110	9,866	20,976
Depreciation and amortisation	3,195	2,663	5,858	4,209	3,651	7,860	5,900	5,032	10,932
EBIT	6,972	6,370	13,342	7,168	6,486	13,654	5,210	4,834	10,044
Financial expenses	18,630	16,283	34,913	10,652	9,299	19,951	17,078	15,160	32,238
Financial income	1,540	1,424	2,964	16	14	29	87	79	166
Loss before tax	(10,118)	(8,489)	(18,607)	(3,468)	(2,800)	(6,268)	(11,781)	(10,247)	(22,028)
Income tax benefit (expense)	298	298	596	(320)	(320)	(640)	(29)	(29)	(58)
Loss for the year	(9,820)	(9,191)	(18,011)	(3,788)	(3,120)	(6,908)	(11,810)	(10,276)	(22,086)

Independent auditors' report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARK PLAZA HOTELS LIMITED

We have audited the consolidated financial statements ("the financial statements") of Park Plaza Hotels Limited and subsidiaries ("the Group") for the year ended 31 December 2010 which comprise the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 auditor's 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 auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Ernst & Young LLP

Guernsey, Channel Islands
1 June 2011

Current and committed projects

Project	Location	Operating structure	No of rooms	Status
Extension of art'otel berlin city center west	Berlin, Germany	Operating lease	60	Expected to open 2012
art'otel amsterdam	Amsterdam, The Netherlands	Co-owned and management contract	105	Expected to open 2012
Park Plaza Nuremberg	Nuremberg, Germany	Owned	175	Expected to open 2013
art'otel london hoxton	London, the United Kingdom	Joint venture and management contract	352	Expected to open 2013
Number of rooms in development pipeline			692	

The franchise agreements for art'otel potsdam and the Park Plaza Marrakech project were terminated in the year.

Contacts

Directors

Eli Papouchado	(Non-Executive Chairman)
Boris Ivesha	(President and Chief Executive Officer)
Chen Moravsky	(Chief Financial Officer)
Elisha Flax	(Non-Executive Director)
Kevin McAuliffe	(Non-Executive Director)
Nigel Jones	(Non-Executive Director)

Park Plaza Hotels Corporate Office

Viñoly Tower, 5th floor
Claude Debussylaan 14
1082 MD Amsterdam
The Netherlands
T: +31 (0)20 717 8603
F: +31 (0)20 717 8699
E: cmoravsky@pphe.com
www.parkplazahotels.net

Contacts

Chen Moravsky	(Chief Financial Officer and Board Member)
Inbar Zilberman	(General Counsel)
Robert Henke	(Vice President Marketing & Branding)

Administrator

C.L. Secretaries Limited
1st and 2nd Floors
Elizabeth House
Les Ruettes Brayes
St. Peter Port
Guernsey GY1 1EW
Channel Islands

Auditors to the Company and Reporting Accountants

Ernst & Young LLP
PO Box 9 Royal Chambers
St. Julian's Avenue
St. Peter Port
Guernsey GY1 4AF
Channel Islands

Legal Advisors to the Company as to English law

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

Legal Advisors to the Company as to Guernsey law

Carey Olsen
Carey House
P.O. Box 98
Les Banques
St. Peter Port
Guernsey GY1 4BZ
Channel Islands

Registered Office

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

Registrar

Capita Registrars (Guernsey) Limited
Mont Crevelt House
Bulwer Avenue
St Sampson
Guernsey GY2 4LH
Channel Islands

Company Secretary

C.L. Secretaries Limited
1st and 2nd Floors
Elizabeth House
Les Ruettes Brayes
St. Peter Port
Guernsey GY1 1EW
Channel Islands

Financial Adviser and broker

Investec Investment Banking
A division of Investec Bank plc
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

For reservations:
www.parkplaza.com
www.artotels.com
www.arenaturist.com
www.arenacamps.com

Strategic partner:
www.carlson.com

Notes

This annual report is printed on 100% recycled Cocoon Offset Paper and Cocoon 50% Silk Paper.

Cocoon Offset is certified according to the rules of the Forest Stewardship Council.

Designed and produced by luminous.co.uk

PARK PLAZA | HOTELS

Park Plaza
Hotels & Resorts

artotel

Park Plaza Hotels Corporate Office
Viñoly Tower, 5th floor
Claude Debussylaan 14
1082 MD Amsterdam
The Netherlands
T: +31 (0)20 717 8603
F: +31 (0)20 717 8699
www.parkplazahotels.net