International Hotel Investments p.l.c.

DIRECTORS' AND OTHER STATUTORY REPORTS

2006

CONTENTS

DIRECTORS' REPORT
For the Year Ended 31 December 2006

The Directors present their report, together with the audited financial statements of International Hotel Investments p.l.c. (the "Company") and the Group of which it is the parent, for the year ended 31 December 2006.

Board of Directors

Mr Alfred Pisani (Chairman and Chief Executive Officer)
Mr Joseph Fenech (Managing Director)
Mr Mustafa Khattabi (Appointed 21 November 2006)
Mr Simon Naudi
Mr Giuseppe Sita (Appointed 5 December 2006)
Dr Joseph J. Vella
Mr Frank Xerri de Caro
Mr Lawrence Zammit
Mr Abdurazagh I. Zmirli (Resigned 21 November 2006)

Principal activities

International Hotel Investments p.l.c. carries on the business of an investment company in connection with the ownership, development and operation of hotels, leisure facilities, and other activities related to the tourism industry. The Company holds a number of investments in subsidiary and associated companies (as detailed in the notes to the financial statements), through which it furthers the business of the Group.

Review of business development and financial position

The results of the operations for the year are as set out in the income statements. The Managing Director's Report reviews the business of the Group for the year and the financial position at 31 December 2006.

Going concern

As required by Listing Rule 9.40.19 issued by the Listing Authority, upon due consideration of the Company's improved operating performance and state of affairs, capital adequacy and solvency, the Directors confirm the Company's ability to continue operating as a going concern for the foreseeable future.

Future developments

The Chairman's Report details the developments in the business of the Group including those expected to materialise after the date of this report.

Reserves

The movements on reserves are as set out in the financial statements.

Approved by the Board of Directors on 20 April 2007 and signed on its behalf by:

Alfred Pisani
Chairman and Chief Executive Officer

Joseph Fenech
Managing Director

Registered Office
22 Europa Centre
Floriana FRN 1400
Malta

DIRECTORS' STATEMENT OF COMPLIANCE

The Code of Principles of Good Corporate Governance

Listed companies are subject to The Code of Principles of Good Corporate Governance (the "Code"). The adoption of the Code is not mandatory, but listed companies are required under the Listing Rules issued by the Listing Authority to include a Statement of Compliance with the Code in their Annual Report, accompanied by a report of the independent auditors thereon.

The Board of Directors (the "Directors" or the "Board") of International Hotel Investments p.l.c. ("IHI" or the "Company") reiterate their support for the Code and note that the adoption of the Code has resulted in positive effects accruing to the Company.

Compliance

The Board deems that, during the reporting period in question, the Company has been in compliance with the Code to the extent that was considered commensurate with the size and operations of the Company. Instances of divergence from the Code are disclosed and explained below.

The Board

The Board of Directors is entrusted with the overall direction and management of the Company, including the establishment of strategies for future development, and the approval of any proposed acquisitions by the Company in pursuing its investment strategies. Its responsibilities also involve the oversight of the Company's internal control procedures and financial performance, and the review of business risks facing the Company, thus ensuring that these are adequately identified, evaluated, managed and minimized. All the Directors have access to independent professional advice at the expense of the Company, should they so require.

The Board of Directors consists of three executive directors and five non-executive directors. The present mix of executive and non-executive directors is considered to create a healthy balance and serves to unite all shareholders' interests, whilst providing direction to the Company's management to help maintain a sustainable organisation. The Board is made up as follows:

Executive Directors		*Date of first appointment*
Mr Alfred Pisani	Chairman and Chief Executive Officer	29 March 2000
Mr Joseph Fenech	Managing Director	29 March 2000
Mr Simon Naudi		8 June 2005

Non-Executive Directors	*Date of first appointment*
Dr Joseph J. Vella	29 March 2000
Mr Lawrence Zammit	27 June 2001
Mr Frank Xerri de Caro	2 July 2004
Mr Mustafa Khattabi	21 November 2006
Mr Giuseppe Sita	5 December 2006

Mr Alfred Fabri acts as Secretary to the Board of Directors.

In accordance with the requirements of the Articles of Association, the term of office of the following Directors, Mr Alfred Pisani, Mr Joseph Fenech, Dr Joseph J. Vella, Mr Lawrence Zammit, Mr Frank Xerri de Caro and Mr Abdurazagh I. Zmirli, lapsed at the Annual General Meeting held on 31 May 2006, at which date they were re-appointed for a further term. On 21 November 2006, Mr Abdurazagh I. Zmirli was replaced by Mr Mustafa Khattabi.

The roles of Chairman and Chief Executive Officer are both carried out by Mr Alfred Pisani. Although the Code recommends that the role of Chairman and Chief Executive Officer are kept separate, the Directors believe that, in view of the particular circumstances of the Company, Mr Pisani should occupy both positions.

The non-executive directors constitute a majority on the Board and their main functions are to monitor the operations of the executive directors and their performance as well as to analyse any investment opportunities that are proposed by the executive directors. In addition, the non-executive directors have the role of acting as an important check on the possible conflicts of interest of the executive directors, which may exist as a result of their dual role as executive directors of the Company and their role as officers of IHI's parent company, Corinthia Palace Hotel Company Limited ("CPHCL") and its other subsidiaries.

Under the present circumstances, the Board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role, as the Board's performance is always under the scrutiny of the shareholders.

DIRECTORS' STATEMENT OF COMPLIANCE
On The Code of Principles of Good Corporate Governance

The Board met 12 times during the period under review. The number of Board Meetings attended by Directors for the year under review in terms of Principle 5.4 is as follows:

Mr Alfred Pisani	12
Mr Joseph Fenech	10
Mr Mustafa Khattabi	2 (appointed on 21 November 2006)
Mr Simon Naudi	10
Mr Giuseppe Sita	1 (appointed on 5 December 2006)
Dr Joseph J Vella	9
Mr Lawrence Zammit	8
Mr Frank Xerri de Caro	12
Mr Abdurazagh I. Zmirli	9 (resigned on 21 November 2006)

Terms of appointment

The appointment of Directors to the Board is reserved to shareholders or a number of members who individually or between them have a "qualifying holding", defined in the Articles of Association as 11% of the total issued share capital of the Company having voting rights.

A shareholder or a number of members who individually or between them hold the qualifying holding (11%) plus one share of the issued share capital of the Company are entitled to appoint one director for every such 11% shareholding held. Any shareholder who does not appoint a Director or Directors in terms of the qualifying holding, will participate in the annual election of directors at the Annual General Meeting of the Company. Shareholders who are entitled to appoint directors in terms of the qualifying holding shall be entitled to participate in the annual election of Directors, provided that in such an election they only use such shares, not otherwise used as part of the qualifying holding.

CPHCL currently owns 76.67% of the share capital of IHI. In terms of the Memorandum and Articles of Association of the Company, CPHCL is therefore entitled to appoint the majority of the Directors of the Company.

All Directors may be removed from their post by the shareholder appointing them, or by any ordinary resolution of the shareholders in general meeting. Unless appointed for a longer or shorter period or unless they resign or are removed, the Directors shall, unless otherwise specified in the letter of their appointment hold office for a period of one year. Directors are eligible for re-appointment upon the lapse of the period stated in their letter of appointment.

Save for the service contracts of the Chairman and of the Managing Director, none of the other Directors of the Company have a service contract with the Company. These contracts cover a three-year period.

Remuneration

There are no loans outstanding by the Company to any of its Directors, nor any guarantees issued for their benefit by the Company. For the financial year ended 31 December 2006, the Group paid an aggregate of EUR196,833 to its Directors as board members of the Company, and in certain cases, as board members of its subsidiaries and committees, as set out below:

	EUR
Mr Alfred Pisani	41,929
Mr Joseph Fenech	39,599
Mr Mustafa Khattabi	1,521
Mr Simon Naudi	11,647
Mr Giuseppe Sita	-
Dr Joseph J. Vella	23,294
Mr Frank Xerri de Caro	45,423
Mr Lawrence Zammit	16,306
Mr Abdurazagh I. Zmirli	17,114

The Articles of Association set out that the maximum limit of aggregate emoluments of the directors is to be established by the shareholders in Annual General Meeting. The Extraordinary General Meeting held on 31 January 2007 increased the aggregate amount of emoluments to Directors to a maximum of EUR400,000. Within this limit, the Directors have the power to fix their remuneration levels. The Company has adopted a practice whereby the executive directors vote at meetings deciding the remuneration packages of the non-executive directors, from which the latter abstain.

The Directors are fully aware of their obligations regarding dealings in securities of the Company as required by the Listing Rules in force during the year. Moreover, they are notified, by means of a letter, of block-out periods, prior to the issue of the Company's interim and annual financial information, during which they may not trade in the Company's shares.

DIRECTORS' STATEMENT OF COMPLIANCE
On The Code of Principles of Good Corporate Governance

Board-appointed committees

The Board has established the following committees:

Audit Committee

The Audit Committee's primary objective is to assist the Board in fulfilling its oversight responsibilities over the financial reporting processes, financial policies and internal control structure. The Committee oversees the conduct of the internal and external audit and acts to facilitate communication between the Board, management and upon the direct request of the Audit Committee, the internal audit team and the external auditors.

During the year under review, the Committee met seven times. The internal and external auditors are invited to attend these meetings. The Committee, set up in 2002, is made up of a majority of non-executive directors who are appointed for a period of three years and reports directly to the Board of Directors.

Mr Frank Xerri de Caro, a non-executive Director, acts as Chairman, whilst Mr Joseph Fenech and Mr Lawrence Zammit act as members, The Company Secretary, Mr Alfred Fabri acts as Secretary to the Committee. The Audit Committee is also responsible for the overview of the Internal Audit Function.

The role of the internal auditor is to carry out systematic risk-based reviews and appraisals of the operations of the Company (as well as of the subsidiaries and associates of the Group) for the purpose of advising management and the Board, through the Audit Committee, on the efficiency and effectiveness of management policies, practices and internal controls. The function is expected to promote the application of best practices within the organisation. During 2006, the internal audit function continued to advise the Audit Committee on aspects of the regulatory framework which affect the day-to-day operations of the hotels.

Nomination and Remuneration Committee

The function of this Committee is restricted to proposing the appointment of senior executives of IHI and its subsidiaries, and their remuneration package, together with those of the executive Directors. The members of the Committee are non-executive Directors on the Board, Mr Lawrence Zammit acting as Chairman, Mr Frank Xerri de Caro and Dr Joseph J. Vella as members, with Mr Alfred Fabri acting as Secretary to the Committee.

Monitoring Committee

The Committee is responsible for ensuring that proper budgets are set by management for every hotel owned by the Company in order to achieve maximum returns on investments. The Committee also monitors closely the performance of the hotels throughout the year to ensure that such budgets are actually achieved and that corrective action is taken as necessary in the light of changing circumstances.

Mr Joseph M. Pisani acts as Chairman, with Mr Joseph C. Caruana, and Mr Lino Soler as members. Mr Lino Soler acts as Secretary to the Monitoring Committee. The Committee reports directly to the Directors of the Company. In 2006, the Committee met every month to review the performance of each hotel. Meetings were also held as necessary with CHI Limited ("CHI"), the operator of the Company's hotels.

Related Parties Transactions Committee

The Directors are fully aware that the close association of the Company with CPHCL and its other subsidiaries is central to the attainment by the Company of its investment objectives and implementation of its strategies. In compliance with the thrust of the Code, which aims to instil greater transparency in the operations of listed companies, and since the Company transacts extensively with such and other related entities, the Directors have felt the need to set up a Related Parties Transactions Committee. The primary objective of the Committee is to assist the Board and the Audit Committee in ensuring that transactions entered into with related parties are carried out on an arm's length basis and are for the benefit of the Company, and that the Company and its subsidiaries accurately report all related parties transactions in the notes to their financial statements.

The Committee is currently made up of Dr Joseph J. Vella as Chairman and two members, namely, Mr Joseph Fenech and Mr Frank Xerri de Caro, whilst Mr Alfred Fabri acts as Secretary to the Committee.

The internal audit function performs an analysis of related party transactions which is then submitted to the Committee. This Committee reports on related parties transactions for deliberation by the Audit Committee as authorised under Listing Rule 8.72 to 8.75.

DIRECTORS' STATEMENT OF COMPLIANCE
On The Code of Principles of Good Corporate Governance

Management and employees

The Company is an investment company which does not require an elaborate management structure. The Company's CEO and Managing Director are executive directors of the Company. They are supported in their executive roles by CPHCL, with whom the Company has in place an Administrative Support Services Agreement.

The Agreement ensures that the Company can sustain its streamlined organisational structure at the top executive and central administrative level by having continued and guaranteed access to the top executive staff and support personnel of CPHCL and its other subsidiaries. The fees for services rendered are considered reasonable by the Audit Committee. The Agreement further evidences the commitment of CPHCL and its other subsidiaries to IHI and its future growth and development.

Commitment to shareholders and an informed market

The Company is highly committed to having an open and communicative relationship with its shareholders and investors. In this respect, over and above the statutory and regulatory requirements relating to the Annual General Meeting, the publication of interim and annual financial statements and respective Company announcements, the Company seeks to address the diverse information needs of its broad spectrum of shareholders in various ways. It held a Shareholders' Information Meeting six months after the statutory Annual General Meeting, as well as, issued three newsletters to its shareholders. It invests considerable time and effort in maintaining its website and making it user friendly, with a section dedicated specifically to investors. The Company holds an additional meeting for stockbrokers and institutional investors twice a year, to coincide with the publication of its financial statements. As a result of these initiatives, the investing public is kept abreast of all developments and key events concerning the Company, whether these take place in Malta or abroad.

The Company's commitment to its shareholders is exemplified by the special concessions which it makes available to them. In order to better serve the investing public, the Board has appointed the Company Secretary to be responsible for shareholder relations.

Approved by the Board of Directors on 20 April 2007 and signed on its behalf by:

Frank Xerri de Caro
Director and Chairman of Audit Committee

Lawrence Zammit
Director

SHAREHOLDER AND OTHER INFORMATION

The following information is being published by International Hotel Investments p.l.c. (the "Company") in terms of the Listing Rules of the Listing Authority.

Number of shareholders

	Total shareholders	
Range	**31 December 2006**	**14 April 2007**
1 to 1,000	387	388
1,001 to 5,000	1,982	1,951
5,001 and over	789	797
	3,158	3,136

The voting rights of these shares are as set out in note 22.1 to the financial statements.

Shareholders holding 5% or more of the share capital

	Number of shares	**Percentage holding (%)**
Corinthia Palace Hotel Company Limited:		
At 31 December 2006 and at 14 April 2007	124,288,375	76.67

Directors' interest in the shareholding of the Company

	Number of shares held	
	31 December 2006	**14 April 2007**
Mr Joseph Fenech	73,487	73,487
Dr Joseph J. Vella	49,605	49,605
Mr Simon Naudi	1,241	1,241
Mr Mustafa Khattabi	-	-
Mr Giuseppe Sita	-	-
Mr Frank Xerri de Caro	-	-
Mr Lawrence Zammit	-	-

Mr Alfred Pisani has a beneficial interest in the Company of 231,759 ordinary shares through the shareholding of A & A Pisani & Company Limited in Corinthia Palace Hotel Company Limited.

Contracts of significance

Administrative Support Services Agreement with Corinthia Palace Hotel Company Limited

The Company has an Administrative Support Services Agreement with Corinthia Palace Hotel Company Limited ("CPHCL"). The agreement ensures that the Company can sustain its streamlined organisational structure at senior level by having continued and guaranteed access to the top executive staff and support personnel of the Corinthia Group of which the Company is a member. In terms of the agreement, CPHCL is entitled to receive from the Company a fixed fee of Lm125,000 (EUR291,172) and a variable amount equivalent to 0.5% of the total turnover of each of the Company's hotel subsidiaries with an overall cap of Lm250,000 (EUR582,343) per annum.

Management Agreements with CHI Limited

CHI Limited ("CHI") has been appointed by CPHCL to operate, manage, and provide consultancy to its various hotel properties. In terms of the agreements CHI is entitled to receive the following fees:

• Management fee of 2% based on total revenue;

• Marketing fee of 1.5% based on room revenue; and

• Incentive fee of 8% on the achievement of pre-agreed budgeted gross operating profit levels (10% in 2006).

The agreements ensure that the hotel properties are supported by an experienced hotel operator and that they can make use of the "Corinthia" brand. In turn, in terms of an agreement with CPHCL, CHI is obliged to pay CPHCL royalty and marketing fees of 0.75% and 0.5% respectively, based on room revenue.

Previously published forecasts for 2006

In line with Listing Rule 9.40.6, the Board notes that the results for the year ended 31 December 2006 differ from those reported in the Circular to the Shareholders dated 16 November 2006 providing details on the acquisition of CHI, as set out below:

	Results for the year	**Published forecasts**	**Variances**
	EUR	**EUR**	**EUR**
Revenue	60,395,452	59,880,936	**514,516**
Direct costs	(39,097,007)	(38,493,514)	**(603,493)**
Other operating costs	(18,209,159)	(17,913,616)	**(295,543)**
Impairment loss on hotel property (see note 14.3 to the financial statements)	(7,150,000)	-	**(7,150,000)**
Revaluation to fair value of investment property (see note 16.1 to the financial statements)	2,213,083	-	**2,213,083**
Net finance costs	(9,347,848)	(9,591,088)	**243,240**
Share of profit of equity accounted investees	459,450	349,927	**109,523**
Income tax credit/(expense) (see below)	216,023	(825,363)	**1,041,386**
	(10,520,006)	(6,592,718)	**(3,927,288)**

The variance arising with respect to the figures reported for income tax is attributable to the deferred tax effects of the adjustments to the carrying amounts of property and the reversal of the previously recognised tax benefit of the losses of one of the subsidiary companies, no longer available for set-off against future taxable income.

Company Secretary and Registered Office

Mr Alfred Fabri
22 Europa Centre
Floriana FRN 1400
Malta

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REPORT OF THE INDEPENDENT AUDITORS

To the Shareholders of International Hotel Investments p.l.c.
Pursuant to Listing Rule 8.39 issued by the Listing Authority

Listing Rules 8.37 and 8.38 issued by the Listing Authority, require the Directors of International Hotel Investments p.l.c. (the "Company") to include in their annual report a statement of compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance (the "Statement of Compliance"), and the effective measures they have taken to ensure compliance with these Principles.

Our responsibility, as independent auditors of the Company, is laid down by Listing Rule 8.39, which requires us to include a report on this Statement of Compliance.

We read the Statement of Compliance and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with these financial statements. Our responsibilities do not extend to considering whether this statement is consistent with other information included in the annual report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance covers all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures, nor on the ability of the Company to continue in operational existence.

In our opinion, the accompanying Statement of Compliance provides the disclosures required by Listing Rules 8.37 and 8.38 issued by the Listing Authority.

HGalea Lauri

Hilary Galea-Lauri (Partner) for and on behalf of

KPMG
Certified Public Accountants

20 April 2007

International Hotel Investments p.l.c.

FINANCIAL STATEMENTS

2006

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PREPARATION OF FINANCIAL STATEMENTS AND DIRECTORS' RESPONSIBILITIES

Save as provided by Article 4 of Regulation 1606/2002/EC (the "IAS Regulation"), which applies to companies that at balance sheet date had their securities trading on a regulated market of any EU Member State, the Companies Act, 1995 (the "Act") requires the Directors of International Hotel Investments p.l.c. (the "Company") to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company and the Group as at the end of the financial period and of the profit or loss of the Company and the Group in accordance with International Financial Reporting Standards and International Financial Reporting Standards as adopted by the EU, respectively.

In preparing such financial statements, Article 14 of the Third Schedule to the Act, requires the Directors to:

- adopt the going concern basis unless it is inappropriate to presume that the Group will continue in business;
- select suitable accounting policies and apply them consistently from one accounting period to another;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis; and
- value separately the components of asset and liability items on a prudent basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and of the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Act.

The Directors are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors, through oversight of management, are responsible to ensure that the Group establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Group's business. This responsibility includes establishing and maintaining controls pertaining to the Group's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors on 20 April 2007 by:

Alfred Pisani
Chairman and Chief Executive Officer

Joseph Fenech
Managing Director

INCOME STATEMENT - GROUP
For the Year Ended 31 December 2006

	Note	2006 EUR	2005 EUR
Revenue	7	**60,395,452**	54,506,833
Direct costs		**(39,097,007)**	(36,554,060)
Gross profit		**21,298,445**	17,952,773
Marketing costs		**(4,302,364)**	(3,868,025)
Administrative expenses		**(13,695,941)**	(12,942,591)
Impairment (losses)/reversals on hotel properties	14.3	**(7,150,000)**	5,471,821
Revaluation to fair value of investment property	16.1	**2,213,083**	2,400,000
Other net operating (charges)/income	8	**(210,854)**	287,907
Results from operating activities		**(1,847,631)**	9,301,885
Finance income	9	**471,156**	178,371
Finance expenses	10	**(9,819,004)**	(9,301,572)
Net finance costs		**(9,347,848)**	(9,123,201)
Share of profit of equity accounted investees	18.1	**459,450**	578,635
(Loss)/profit before income tax	11	**(10,736,029)**	757,319
Income tax credit/(expense)	12	**216,023**	(1,494,109)
Loss for the year		**(10,520,006)**	(736,790)
Attributable to:			
Equity holders of the Company		**(10,475,632)**	(736,790)
Minority interest		**(44,374)**	-
Loss for the year		**(10,520,006)**	(736,790)
Loss per share	13	**(0.07)**	(0.01)

BALANCE SHEET - GROUP
As at 31 December 2006

	Note	2006 EUR	2005 EUR
ASSETS			
Property, plant and equipment	14	**333,001,716**	318,372,019
Intangible assets	15	**32,866,374**	-
Investment property	16	**26,800,000**	35,800,000
Investments in equity accounted investees	18	**639,545**	2,093,778
Derivative financial instrument		**-**	22,061
Loan receivable	20	**1,470,000**	1,470,000
Total non-current assets		**394,777,635**	357,757,858
Inventories		**2,367,977**	2,236,998
Trade receivables		**5,310,773**	5,156,227
Taxation recoverable		**400,869**	281,826
Other receivables	21	**7,347,821**	4,199,191
Cash at bank and in hand	29.2	**21,804,659**	4,306,625
Total current assets		**37,232,099**	16,180,867
Total assets		**432,009,734**	373,938,725
EQUITY			
Share capital	22.1	**162,101,484**	139,053,489
Revaluation reserve	22.2	**30,751,178**	24,780,402
Translation reserve	22.3	**(1,068,009)**	(1,068,009)
Other reserve	22.4	**602,720**	1,003,793
Reporting currency conversion difference	22.5	**443,352**	443,352
Accumulated losses	22.6	**(20,022,366)**	(10,432,435)
Other equity components	22.7	**4,207,458**	832,200
Total equity attributable to equity holders of the Company		**177,015,817**	154,612,792
Minority interest		**6,574,036**	-
Total equity		**183,589,853**	154,612,792
LIABILITIES			
Derivative financial instrument	19	**78,934**	-
Bank borrowings	23	**112,957,633**	107,385,443
Bonds	24	**45,077,411**	32,460,880
Parent company loan	25	**10,383,506**	13,418,871
Other interest-bearing borrowings	25	**1,671,475**	1,671,475
Provision for charges		**162,296**	162,296
Deferred taxation	26	**41,097,920**	26,654,646
Total non-current liabilities		**211,429,175**	181,753,611
Bank borrowings	23	**6,984,179**	11,807,729
Other interest-bearing borrowings	25	**2,424,470**	4,411,025
Current taxation		**1,098,620**	157,331
Trade payables		**6,414,856**	5,034,146
Other payables	27	**20,068,581**	16,162,091
Total current liabilities		**36,990,706**	37,572,322
Total liabilities		**248,419,881**	219,325,933
Total equity and liabilities		**432,009,734**	373,938,725

The consolidated financial statements on pages 36 to 39 and 44 to 85 were approved by the Board of Directors on 20 April 2007 and signed on its behalf by:

Alfred Pisani
Chairman and Chief Executive Officer

Joseph Fenech
Managing Director

STATEMENT OF CHANGES IN EQUITY - GROUP

For the Year Ended 31 December 2006

	Share capital	Revaluation reserve	Translation reserve	Other reserve	Reporting currency conversion difference	Accumulated losses	Other equity components	Total	Minority interest	Total equity
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance at 1 January 2005	129,053,489	13,869,923	(1,230,969)	812,988	443,352	(9,485,707)	832,200	134,295,276	-	134,295,276
Revaluation of hotel property, net of deferred taxation	-	10,910,479	-	-	-	-	-	10,910,479	-	10,910,479
Liquidation of subsidiary company	-	-	19,128	-	-	(19,133)	-	(5)	-	(5)
Foreign exchange translation differences	-	-	143,832	-	-	-	-	143,832	-	143,832
Income and expenses recognised directly in equity	-	10,910,479	162,960	-	-	(19,133)	-	11,054,306	-	11,054,306
Loss for the year	-	-	-	-	-	(736,790)	-	(736,790)	-	(736,790)
Total income and expenses for the year	-	10,910,479	162,960	-	-	(755,923)	-	10,317,516	-	10,317,516
Issue of shares	10,000,000	-	-	-	-	-	-	10,000,000	-	10,000,000
Transfer to other reserve	-	-	-	190,805	-	(190,805)	-	-	-	-
Balance at 31 December 2005	139,053,489	24,780,402	(1,068,009)	1,003,793	443,352	(10,432,435)	832,200	154,612,792	-	154,612,792
Balance at 1 January 2006	**139,053,489**	**24,780,402**	**(1,068,009)**	**1,003,793**	**443,352**	**(10,432,435)**	**832,200**	**154,612,792**	**-**	**154,612,792**
Adjustments in respect of Company's previously held 20% interest in CHI, net of deferred taxation:										
• Increase in equity from date of initial interest to date of additional interest acquired	**-**	**-**	**-**	**-**	**-**	**-**	**826,396**	**826,396**	**-**	**826,396**
• Fair value adjustment on acquisition	**-**	**-**	**-**	**-**	**-**	**-**	**3,033,490**	**3,033,490**	**-**	**3,033,490**
Minority interest in subsidiary acquired during the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,068,733**	**2,068,733**
Minority interest share of fair value adjustment on acquisition of subsidiary net of deferred taxation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,549,677**	**4,549,677**
Revaluation of hotel property, net of deferred taxation	**-**	**5,970,776**	**-**	**-**	**-**	**-**		**5,970,776**	**-**	**5,970,776**
Income and expenses recognised directly in equity	**-**	**5,970,776**	**-**	**-**	**-**	**-**	**3,859,886**	**9,830,662**	**6,618,410**	**16,449,072**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**(10,475,632)**	**-**	**(10,475,632)**	**(44,374)**	**(10,520,006)**
Total income and expenses for the year	**-**	**5,970,776**	**-**	**-**	**-**	**(10,475,632)**	**3,859,886**	**(644,970)**	**6,574,036**	**5,929,066**
Issue of shares	**23,047,995**	**-**	**-**	**-**	**-**	**-**		**23,047,995**	**-**	**23,047,995**
Transfer to accumulated losses	**-**	**-**	**-**	**(401,073)**	**-**	**885,701**	**(484,628)**	**-**	**-**	**-**
Balance at 31 December 2006	**162,101,484**	**30,751,178**	**(1,068,009)**	**602,720**	**443,352**	**(20,022,366)**	**4,207,458**	**177,015,817**	**6,574,036**	**183,589,853**

CASH FLOW STATEMENT - GROUP
For the Year Ended 31 December 2006

	Note	2006 EUR	2005 EUR
Cash flows from operating activities			
Cash received from customers		**60,240,892**	54,387,150
Cash paid to suppliers and employees		**(44,002,755)**	(41,561,526)
Net cash generated from operations		**16,238,137**	12,825,624
Taxation paid		**(1,224,115)**	(731,823)
Net cash from operating activities		**15,014,022**	12,093,801
Cash flows from investing activities			
Net payments to acquire property, plant and equipment		**(13,391,298)**	(21,824,291)
Acquisition of subsidiary, net of cash acquired		**1,053,821**	-
Interest received		**414,396**	178,371
Net cash used in investing activities		**(11,923,081)**	(21,645,920)
Cash flows from financing activities			
Proceeds from the issue of shares		**8,047,995**	10,000,000
Bank finance		**20,914,776**	18,438,160
Repayment of bank borrowings		**(20,532,946)**	(21,800,098)
Loans (repaid)/advanced (to)/by parent company and its other subsidiary companies		**(3,035,364)**	13,186,557
Proceeds from issue of Euro bond		**12,367,363**	-
Interest paid		**(9,300,039)**	(8,555,964)
Net cash from financing activities		**8,461,785**	11,268,655
Effect of exchange rate fluctuations:			
On the translation of cash flows of foreign operations		**-**	(11,579)
On cash and cash equivalents		**-**	(17,027)
		-	(28,606)
Net increase in cash and cash equivalents		**11,552,726**	1,687,930
Cash and cash equivalents at beginning of year		**1,922,550**	234,620
Cash and cash equivalents of previously held equity accounted company now a subsidiary	6.1	**5,578,498**	-
Cash and cash equivalents at end of year	29	**19,053,774**	1,922,550

	Note	2006 EUR	2005 EUR
Non-cash transaction			
Acquisition of subsidiary company	22.1	**15,000,000**	-

INCOME STATEMENT - COMPANY
For the Year Ended 31 December 2006

	Note	2006 EUR	2005 EUR
Interest receivable and similar income	7	**3,264,280**	2,118,572
Interest payable and similar charges		**(4,690,057)**	(4,023,417)
Administrative expenses		**(1,099,487)**	(716,607)
Revaluation to fair value of investments in subsidiaries	17.1	**7,553,244**	12,449,819
Operating net exchange differences		**(10,711)**	(337,897)
Profit before tax	11	**5,017,269**	9,490,470
Income tax expense	12	**(3,329,912)**	(4,236,035)
Profit for the year		**1,687,357**	5,254,435
Earnings per share	13	**0.01**	0.04

BALANCE SHEET - COMPANY
As at 31 December 2006

	Note	2006 EUR	2005 EUR
ASSETS			
Investments in subsidiaries	17	**225,234,107**	189,376,701
Investments in equity accounted investees	18	**118,828**	913,496
Derivative financial instrument		**-**	22,061
Loans receivable	20	**10,752,573**	15,509,835
Total non-current assets		**236,105,508**	205,822,093
Taxation recoverable		**322,705**	250,856
Other receivables	21	**9,146,880**	7,033,719
Cash at bank and in hand	29.2	**10,980,037**	54,927
Total current assets		**20,449,622**	7,339,502
Total assets		**256,555,130**	213,161,595
EQUITY			
Share capital	22.1	**162,101,484**	139,053,489
Other reserve	22.4	**17,572,926**	13,027,169
Reporting currency conversion difference	22.5	**443,352**	443,352
Accumulated losses	22.6	**(9,309,910)**	(6,936,138)
Other equity components	22.7	**347,572**	832,200
Total equity		**171,155,424**	146,420,072
LIABILITIES			
Derivative financial instrument	19	**78,934**	-
Bank borrowings	23	**8,133,200**	8,166,600
Bonds	24	**45,077,411**	32,460,880
Parent company loan	25	**10,383,506**	13,418,871
Deferred taxation	26	**14,381,390**	6,292,255
Total non-current liabilities		**78,054,441**	60,338,606
Bank borrowings	23	**1,662,882**	3,040,665
Trade payables		**132,715**	88,118
Other payables	27	**5,549,668**	3,274,134
Total current liabilities		**7,345,265**	6,402,917
Total liabilities		**85,399,706**	66,741,523
Total equity and liabilities		**256,555,130**	213,161,595

The official central parity rate of exchange issued by the Central Bank of Malta between the Euro and the Maltese Lira at 31 December 2006 stood at 0.4293.

The financial statements on pages 40 to 85 were approved by the Board of Directors on 20 April 2007 and signed on its behalf by:

Alfred Pisani
Chairman and Chief Executive Officer

Joseph Fenech
Managing Director

STATEMENT OF CHANGES IN EQUITY - COMPANY

For the Year Ended 31 December 2006

	Share capital	Other reserve*	Reporting currency conversion difference*	Accumulated losses	Other equity component	Total Equity
	EUR	EUR	EUR	EUR	EUR	EUR
Balance at 1 January 2005	129,053,489	4,743,982	443,352	(3,907,386)	832,200	131,165,637
Profit for the year	-	-	-	5,254,435	-	5,254,435
Total income and expenses for the year	-	-	-	5,254,435	-	5,254,435
Issue of shares	10,000,000	-	-	-	-	10,000,000
Transfer to other reserve	-	8,283,187	-	(8,283,187)	-	-
Balance at 31 December 2005	139,053,489	13,027,169	443,352	(6,936,138)	832,200	146,420,072
Balance at 1 January 2006	**139,053,489**	**13,027,169**	**443,352**	**(6,936,138)**	**832,200**	**146,420,072**
Profit for the year	**-**	**-**	**-**	**1,687,357**	**-**	**1,687,357**
Total income and expenses for the year	**-**	**-**	**-**	**1,687,357**	**-**	**1,687,357**
Issue of shares	**23,047,995**	**-**	**-**	**-**	**-**	**23,047,995**
Transfer to other reserve	**-**	**4,545,757**	**-**	**(4,061,129)**	**(484,628)**	**-**
Balance at 31 December 2006	**162,101,484**	**17,572,926**	**443,352**	**(9,309,910)**	**347,572**	**171,155,42**

* Not available for distribution by way of dividends.

CASH FLOW STATEMENT - COMPANY

For the Year Ended 31 December 2006

	Note	2006 EUR	2005 EUR
Cash flows from operating activities			
Financial income received		**717,386**	468,213
Financial interest and related expenses paid		**(3,159,163)**	(4,591,205)
Net cash used in operating activities	28	**(2,441,777)**	(4,122,992)
Cash flows from investing activities			
Payments to acquire property, plant and equipment		**(51,299)**	(119,978)
Net loans advanced to subsidiary companies		**(2,550,624)**	(7,330,724)
Net cash used in investing activities		**(2,601,923)**	(7,450,702)
Cash flows from financing activities			
Proceeds from issue of shares		**8,047,995**	10,000,000
Repayment of bank borrowings		**(1,433,400)**	(12,000,000)
Proceeds from issue of Euro bond		**12,367,363**	-
Loans advanced by parent company		**-**	13,418,871
Repayment of loans advanced by parent company		**(3,035,365)**	-
Net cash from financing activities		**15,946,593**	11,418,871
Effect of exchange rate fluctuations on cash and cash equivalents		**-**	(18,170)
Net increase/(decrease) in cash and cash equivalents		**10,902,893**	(172,993)
Cash and cash equivalents at beginning of year		**(152,338)**	20,655
Cash and cash equivalents at end of year	29	**10,750,555**	(152,338)

	Note	2006 EUR	2005 EUR
Non-cash trasactions			
Net loan advanced to subsidiary company, capitalised as part of net investment	17.1	**9,981,848**	15,272,460
Acquisition of subsidiary company	22.1	**15,000,000**	-

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2006

1 Reporting company

International Hotel Investments p.l.c. ("IHI" or the "Company") is a company domiciled and incorporated in Malta. The consolidated financial statements for the year ended 31 December 2006 comprise those of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. IHI is, in turn, a subsidiary company of Corinthia Palace Hotel Company Limited ("CPHCL" or the "Parent Company").

2 Basis of preparation

2.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with the relevant provisions of the Companies Act, 1995 enacted in Malta (the "Act"), which requires adherence to the overriding requirements of International Financial Reporting Standards (IFRS).

In the case of the Group. Article 4 of Regulation 1606/2002/EC (the "IAS Regulation") requires that, for each financial year starting on or after 1 January 2005, companies governed by the law of an EU Member State shall prepare their consolidated financial statements in conformity with IFRS as adopted by the EU if, at their balance sheet date, their securities are admitted to trading on a regulated market of any EU Member State. The IAS Regulation prevails over the relevant provisions of the Act, to the extent that the said provisions are incompatable with the requirements of the IAS Regulation.

2.1.1 New standards not yet effective and not adopted

IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the 2007 financial statements, will require extensive additional disclosures with respect to financial instruments and capital.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- hotel properties are measured at fair value;
- investment property is measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value; and
- derivative financial instruments are measured at fair value.

The methods used to measure fair values are discussed further in note 4.

2.3 Functional and presentation currency

The financial statements are presented in Euro (EUR), which is the Company's functional currency.

2.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 6 - determination of fair values on acquisition of subsidiary company
- Notes 12 and 33 - measurement of tax provisions
- Note 14 - valuation of hotel properties
- Note 15 - measurement of intangible assets
- Note 16 - valuation of investment property
- Note 17 - determination of fair values of investments in subsidiary companies

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

3.1 Basis of consolidation

3.1.1 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

3.1.2 Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has an obligation or made payments on behalf of the investee.

3.1.3 Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

3.2.1 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

3.2.2 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Euro, where applicable, at exchange rates at the reporting date.

Foreign currency differences are recognised directly in equity in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

3.3 Financial instruments

3.3.1 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

3 Significant accounting policies (continued)

3.3 Financial instruments (continued)

3.3.1 Non-derivative financial instruments (continued)

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3.14.

3.3.1.1 Investments at fair value through profit or loss

Investments in subsidiaries are included in the balance sheet of the Company at fair value through profit or loss at inception. An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

3.3.1.2 Other

Loans advanced by the Company or any of its subsidiaries, to other subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future, are treated as an extension to the Company's net investment in those subsidiaries and included as part of the carrying amount of investments in subsidiaries.

Other loans receivable by the Group, which do not have a fixed maturity date, but which are repayable after more than twelve months from the balance sheet date, are initially measured at the fair value of the consideration given, and subsequently measured at amortised cost less any impairment losses, and are included within non-current assets.

Loans payable by the Group, which do not have a fixed maturity date, but which are repayable after more than twelve months from the balance sheet date, are measured at the fair value of the consideration received and are included within non-current liabilities.

Other non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses.

3.3.2 Derivative financial instruments

The Group holds derivative financial instruments in the form of interest rate swaps to hedge its exposure to interest rate risks.

Derivatives are recognised initially at fair value. Attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value.

3.3.3 Compound financial instruments

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. All other convertible notes in respect of which the number of shares issued varies with changes in their fair value or which are issued in a foreign currency are classified as a liability and measured at amortised cost using the effective interest method.

3 Significant accounting policies (continued)

3.3 Financial instruments (continued)

3.3.4 Share capital

3.3.4.1 Ordinary shares

Incremental costs directly attributable to the issue of the ordinary shares are recognised as a deduction from equity.

3.3.4.2 Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

3.4 Property, plant and equipment

3.4.1 Recognition and measurement

Items of property, plant and equipment are initially measured at cost. Subsequent to initial recognition, land and buildings are revalued periodically, such that their carrying amount does not differ materially from that which would be determined using fair value at balance sheet date.

Any surpluses arising on revaluation are credited to a revaluation reserve. Any deficiencies resulting from decreases in value are deducted from this reserve to the extent that it is sufficient to absorb them, with any excess charged to the income statement.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

3.4.2 Reclassification to investment property

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in profit or loss.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised directly in equity. Any loss is recognised immediately in profit or loss.

3.4.3 Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3 Significant accounting policies (continued)

3.4 Property, plant and equipment (continued)

3.4.4 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Freehold land and assets in the course of construction are not depreciated. Crockery and utensils are accounted for on a replacement basis.

The estimate useful lives for the current and comparative periods are as follows:

• freehold buildings	50 years
• hotel plant and equipment	3 - 15 years
• furniture, fixtures and fittings	3 - 10 years
• motor vehicles	5 years

Depreciation methods, useful lives, as well as residual values, are reassessed at the reporting date.

3.5 Intangible assets

3.5.1 Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

3.5.1.1 Acquisitions

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

3.5.1.2 Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

3.5.2 Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

3.5.2.1 Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

3.5.2.2 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, other than goodwill, from the date they are available for use. The estimated useful life for the current period is twenty years.

3.6 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3 Significant accounting policies (continued)

3.7 Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are operating leases and, except for investment property, the leased assets are not recognised on the Group's balance sheet. Investment property held under an operating lease is recognised on the Group's balance sheet at its fair value.

3.8 Inventories

Inventories of food, beverage and consumables are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.9 Impairment

3.9.1 Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually, significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk circumstances.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

3.9.2 Non-financial assets

The carrying amount of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10 Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

3 Significant accounting policies (continued)

3.11 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3.12 Revenue

3.12.1 Services rendered

Revenue from services rendered is recognised when the outcome of the transactions can be estimated reliably and there are no significant uncertainties concerning the derivation of consideration or associated costs.

3.12.2 Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

3.13 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3.14 Finance income and expenses

Financial income comprises interest income on funds invested, dividend income and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings and foreign currency losses. All borrowing costs are recognised in profit or loss using the effective interest method.

3.15 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.16 Earnings per share

The Group presents earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect to all dilutive potential ordinary shares, which comprise convertible notes.

3 Significant accounting policies (continued)

3.17 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment), or in providing services rendered within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3.18 Unrealised profits

Part II of the Third Schedule to the Act requires that only profits realised at the balance sheet date may be included as part of retained earnings available for distribution. Any unrealised profits at this date, taken to the credit of the income statement, are transferred to non-distributable reserves.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

4.1 Intangible assets

The fair value of intangible assets arising on the business combination (see note 15.2) is based on recent market transactions concluded on an arm's length basis with a third party.

4.2 Property, plant and equipment

The directors have relied on an independent valuer in order to determine the fair value various hotel properties within the Group. Fair values have been determined using an income approach.

4.3 Investment property

Investment property is stated at fair value, determined annually by the directors, relying on an expert opinion. An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property at each reporting date. The fair values are determined by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

4.4 Investments in equity securities

The fair value of financial assets at fair value through profit or loss is determined by reference to the fair value of the underlying net assets of each entity within the Group.

4.5 Trade and other receivables

The fair value of trade and other receivables, other than short-term receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

4.6 Derivatives

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date taking into account current interest rates and the current creditworthiness of the swap counterparties.

5 Segment reporting

The Group is principally engaged in one specific business segment, namely, the ownership, development, and operation of hotels and other leisure facilities, all related to the tourism industry. It operates in three principal geographical areas, namely, the Mediterranean basin, in European member countries and other countries situated in Europe. Segment information is only presented for the Group's geographical segments.

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the geographical location of the hotels and other leisure facilities. Segment results, assets and liabilities include those directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, other borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

5 Segment reporting (continued)

	Malta											
	Hotel and Management companies		Corporate business		Other European Union countries		Other European countries		Consolidation adjustments		The Group	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	EUR	EUR	**EUR**	EUR	**EUR**	EUR	**EUR**	EUR	**EUR**	EUR	**EUR**	EUR
Total external revenues	**8,855,317**	9,700,964	**920,050**	867,100	**33,576,671**	27,673,083	**17,963,464**	17,132,786	**(920,050)**	(867,100)	**60,395,452**	54,506,833
Inter-segment revenues	**368,877**	-	**2,344,230**	1,251,472	**-**	-	**-**	-	**(2,713,107)**	(1,251,472)	**-**	-
Total segment revenue	**9,224,194**	9,700,964	**3,264,280**	2,118,572	**33,576,671**	27,673,083	**17,963,464**	17,132,786	**(3,633,157)**	(2,118,572)	**60,395,452**	54,506,833
Segment result - Results from operations before finance costs	**(744,048)**	3,090,144	**5,017,269**	9,490,470	**(7,100,105)**	(1,301,620)	**7,238,160**	8,285,094	**(6,258,907)**	(10,262,203)	**(1,847,631)**	9,301,885
Finance income											**471,156**	178,371
Finance expenses											**(9,819,004)**	(9,301,572)
Share of profit of equity accounted investee	**-**	-	**459,450**	578,635	**-**	-	**-**	-	**-**	-	**459,450**	578,635
Income tax credit/(expense)											**216,023**	(1,494,109)
Loss for the year											**(10,520,006)**	(736,790)

5 Segment reporting (continued)

	Malta											
	Hotel and Management companies		Corporate business		Other European Union countries		Other European countries		Consolidation adjustments		The Group	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	EUR	EUR	**EUR**	EUR	**EUR**	EUR	**EUR**	EUR	**EUR**	EUR	**EUR**	EUR
Segment assets	**52,221,999**	37,573,805	**256,436,301**	212,248,099	**219,729,957**	230,675,870	**129,778,571**	115,840,154	**(226,796,639)**	(224,492,981)	**431,370,189**	371,844,947
Investments in equity accounted investees	**-**	-	**118,829**	913,496	**-**	-	**-**	-	**520,716**	1,180,282	**639,545**	2,093,778
Total assets											**432,009,734**	373,938,725
Segment liabilities	**10,409,355**	4,448,330	**5,761,318**	3,362,255	**58,766,504**	57,050,484	**8,323,040**	25,977,130	**(55,599,226)**	(69,484,631)	**27,660,991**	21,353,568
Interest-bearing liabilities	**-**	-	**65,256,999**	57,087,016	**-**	-	**-**	-	**-**	-	**179,498,674**	171,155,423
Deferred taxation											**41,097,920**	26,654,646
Provisions for charges											**162,296**	162,296
Total liabilities											**248,419,881**	219,325,933
Capital expenditure	**3,693,127**	310,559	**-**	-	**2,714,805**	3,656,348	**7,810,836**	4,241,709	**(1,155,348)**	1,313,573	**13,063,420**	9,522,189
Depreciation	**1,517,691**	1,761,850	**-**	-	**7,213,986**	6,938,562	**1,524,495**	1,283,443	**-**	-	**10,256,172**	9,983,855
Amortisation of intangible asset	**-**	-	**-**	-	**-**	-	**-**	-	**194,454**	-	**194,454**	-
Impairment losses/(reversals)	**-**	(3,351,221)	**-**	-	**7,150,000**	(2,120,600)	**-**	-	**-**	-	**7,150,000**	(5,471,821)

6 Acquisition of subsidiary company

6.1 *Business combination*

On 31 October 2006, the Group acquired an additional 50% holding in CHI Limited ("CHI"). In the two months to 31 December 2006 CHI contributed a loss amounting to EUR21,519. If the acquisition had occurred on 1 January 2006, management estimates that the consolidated revenue would have been EUR66,419,342 and the consolidated loss for the year would have been EUR8,512,496.

The cost of acquisition is made up as follows:

	Note	EUR
Satisfied by the issue of shares in IHI	22.1	15,000,000
Deferred taxation		5,150,250
		20,150,250

The amount accrued for deferred taxation as part of the cost of acquisition, represents the estimated tax on the exempt capital gain arising on the intra-group transfer of the shares held by CPHCL in CHI (50% interest) to IHI, should this shareholding be sold outside the group of which CPHCL is the parent.

The acquisition had the following effect on the Group's consolidated assets and liabilities on acquisition date:

	Note	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
		EUR	EUR	EUR
Plant and equipment		155,082	-	**155,082**
Intangible asset	15.1	-	23,334,531	**23,334,531**
Deferred taxation	26	72,602	(8,167,086)	**(8,094,484)**
Trade receivables		104,630	-	**104,630**
Other receivables		5,806,133	-	**5,806,133**
Cash at bank and in hand		6,300,759	-	**6,300,759**
Bank borrowings		(722,261)	-	**(722,261)**
Current taxation		(1,130,688)	-	**(1,130,688)**
Trade payables		(499,876)	-	**(499,876)**
Other payables		(3,190,605)	-	**(3,190,605)**
Net identifiable assets and liabilities		6,895,776	15,167,445	**22,063,221**

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values.

7 Revenue

7.1 *The Group*

	2006	2005
	EUR	EUR
Hospitality services	**59,805,738**	54,506,833
Management and other fees receivable	**589,714**	-
	60,395,452	54,506,833

Management and other fees receivable represent income that is derived by one of the subsidiary companies for operating various hotel properties (not owned by IHI), and for the use of the "Corinthia" brand.

7 Revenue (continued)

7.2 The Company

	2006	2005
	EUR	EUR
Interest receivable on:		
Loans advanced to group companies	**677,393**	738,359
Loan advanced to related company	**58,774**	47,196
Bank deposits	**165,193**	1,156
	901,360	786,711
Dividend received from associated company	**1,709,910**	716,730
Interest rate differential of interest rate swap	**18,690**	80,389
Management fees charged to group companies	**634,320**	534,742
	3,264,280	2,118,572

8 Other net operating (charges)/income

8.1 The Group

	2006	2005
	EUR	EUR
Charges		
Operating net exchange differences	**(22,608)**	-
Amortisation of intangible asset	**(194,454)**	-
Other charges	**(2,044)**	-
	(219,106)	-
Income		
Operating net exchange differences	**-**	126,185
Other income	**8,252**	161,722
	8,252	287,907
	(210,854)	287,907

9 Finance income

9.1 The Group

	2006	2005
	EUR	EUR
Interest receivable on:		
Loan advanced to related company	**58,774**	50,003
Other balances	**34,232**	-
Bank deposits	**302,700**	47,979
	395,706	97,982
Interest rate differential of interest rate swap	**18,690**	80,389
Exchange differences	**56,760**	-
	471,156	178,371

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2006

10 Finance expenses

10.1 The Group

	2006	2005
	EUR	EUR
Interest payable on:		
Bank borrowings	5,662,780	5,569,312
Bonds	2,588,308	1,975,983
Loans advanced by parent company and its subsidiaries	867,811	489,833
Capital and other creditors	181,140	468,224
	9,300,039	8,503,352
Imputed interest on convertible bonds and amortisation of bond issue costs	249,168	223,955
Fair value loss on interest rate swap	100,995	329,427
Loss on liquidation of subsidiary company	-	10,675
Exchange differences	168,802	234,163
	9,819,004	9,301,572

11 Profit/(loss) before income tax

11.1 The profit/(loss) before income tax is stated after charging auditors' remuneration for the Group and the Company amounting to EUR145,938 and EUR48,000 respectively.

11.2 Personnel expenses incurred by the Group during the year are analysed as follows:

	The Group		The Company	
	2006	2005	2006	2005
	EUR	EUR	EUR	EUR
Directors' fees	196,833	165,577	180,526	153,930
Wages and salaries	15,379,886	14,437,782	11,647	-
Social security costs	2,714,052	2,682,261	-	-
	18,290,771	17,285,620	192,173	153,930

The weekly average number of persons employed by the Group during the year was as follows:

	2006	2005
	No.	No.
Management and administration	195	219
Operating	997	1,003
	1,192	1,222

12 Income tax credit/(expense)

12.1 Tax credit/(expense) in the income statement

	Note	The Group 2006 EUR	The Group 2005 EUR	The Company 2006 EUR	The Company 2005 EUR
Current tax expense					
Current year		**(915,632)**	(990,478)	**(391,027)**	-
Deferred tax credit/(expense)					
Origination and reversal of temporary differences		**1,856,361**	774,126	**(2,558,923)**	(4,236,035)
Revaluation to fair value of land and buildings		**443,660**	(1,241,968)	**-**	-
Revaluation to fair value of investment property		**(531,140)**	(616,320)	**-**	-
(Reversal)/benefit of tax losses		**(637,226)**	580,531	**(379,962)**	-
	26.1	**1,131,655**	(503,631)	**(2,938,885)**	(4,236,035)
Total income tax credit/(expense)		**216,023**	(1,494,109)	**(3,329,912)**	(4,236,035)

The tax credit/(expense) for the year and the result of the accounting (loss)/profit multiplied by the applicable tax rate enacted in Malta, the Company's country of incorporation, are reconciled as follows:

	The Group 2006 EUR	The Group 2005 EUR	The Company 2006 EUR	The Company 2005 EUR
(Loss)/profit before tax	**(10,736,029)**	757,319	**5,017,269**	9,490,470
Income tax at the domestic income rate of 35%	**3,757,610**	(265,060)	**(1,756,044)**	(3,321,665)
• Effect of different tax rates in foreign jurisdictions	**(275,996)**	391,201	**-**	-
• Tax over provided for in prior years	**(84,486)**	(205,803)	**(198,370)**	-
• Tax effect of expenses not deductible for tax purposes	**(1,483,519)**	(898,490)	**(1,183,035)**	(790,400)
• Tax benefit of unrelieved losses not recognised	**(1,485,047)**	(401,857)	**-**	-
• Tax effect of other consolidation adjustments	**23,488**	202,522	**-**	-
• Tax effect of other non-temporary differences	**(236,027)**	(192,652)	**(192,463)**	-
• Adjustment to opening deferred tax asset	**-**	(123,970)	**-**	(123,970)
Total income tax credit/(expense) for the year	**216,023**	(1,494,109)	**(3,329,912)**	(4,236,035)

12.2 Income tax recognised directly in equity

	Note	2006 EUR	2005 EUR
Relating to revaluation of property, plant and equipment	26	**1,885,508**	3,079,679

12.3 Source of estimation uncertainty

In order to establish the taxation provisions, management exercises significant judgement in view of the fact that the Group operates in various jurisdictions and as such there are diverse transactions for which the ultimate tax determination is uncertain. Provision is made for the estimated amount of taxation. In the event that the amount of actual tax due differs from the original amounts provided for, such variances will have an impact on the taxation charges for future periods.

13 (Loss)/earnings per share

13.1 Basic (loss)/earnings per share

The calculation of the basic (loss)/earnings per share for the year was based on the (loss)/profit attributable to the shareholders and the weighted average number of shares outstanding during the year, calculated as follows:

	2006	2005
	EUR	EUR
(Loss)/profit attributable to shareholders		
The Group	(10,520,006)	(736,790)
The Company	1,687,357	5,254,435

Weighted average number of shares

		2006		2005	
		Shares	Weighted average	Shares	Weighted average
	Note	No.	No.	No.	No.
At beginning of year		**139,053,489**	**139,053,489**	129,053,489	129,053,489
Effect of shares issued in:					
April 2005		**-**	**-**	10,000,000	7,342,466
July 2006		**1,972,995**	**902,713**	-	-
August 2006		**2,000,000**	**805,479**	-	-
September 2006		**2,500,000**	**801,370**	-	-
October 2006		**15,000,000**	**2,547,945**	-	-
November 2006		**575,000**	**74,041**	-	-
December 2006		**1,000,000**	**68,493**	-	-
Effect of bonus shares	13.1.1	**5,000,000**	**5,000,000**	5,000,000	5,000,000
At end of year		**167,101,484**	**149,253,530**	144,053,489	141,395,955

13.1.1 Bonus shares

By virtue of an extraordinary resolution dated 31 January 2007, the shareholders approved the capitalisation of an amount not exceeding EUR5,000,000 from the fair value reserves and issue of such number of fully paid up bonus shares of a nominal value of EUR1 each. The bonus shares are to be issued and allotted in a ratio of 1 bonus share for every 6 ordinary shares (subject to rounding) in issue as at 30 June 2006, less any shares held by CPHCL.

13 (Loss)/earnings per share (continued)

13.2 Diluted earnings per share

The calculation of the (loss)/profit for the year attributable to the shareholders for the purpose of calculating the diluted earnings per share is arrived at after taking into account changes in expenses that would result from the conversion of the dilutive potential ordinary shares as follows:

(Loss)/profit attributable to ordinary shareholders (diluted)

	The Group		**The Company**	
	2006	2005	**2006**	2005
	EUR	EUR	**EUR**	EUR
(Loss)/profit attributable to shareholders	**(10,520,006)**	(736,790)	**1,687,357**	5,254,435
After-tax effect of interest on convertible bonds	**466,465**	489,774	**466,465**	489,774
(Loss)/profit attributable to the shareholders (diluted)	**(10,053,541)**	(247,016)	**2,153,822**	5,744,209

Weighted average number of ordinary shares (diluted)

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and shares that would be issued following the successful completion of the negotiations referred to below.

- Convertible debt – The weighted average number of shares outstanding is increased by the weighted average number of additional shares which would have been outstanding, assuming the conversion of all dilutive potential shares. The additional amount of shares to be issued upon conversion is dependent on the arithmetic average of the daily trade weighted average price (TWAP) arrived at as explained in note 24.2 to these financial statements. The effect on the fully diluted earnings per share cannot be ascertained since it is not possible to forecast this price at date of conversion.

- In addition to the resolution referred to in note 13.1.1 relating to the bonus shares, on the same date, the shareholders approved a resolution whereby for a period of twelve months from the date of this resolution the Board of Directors was authorised and empowered to issue and allot out of the authorised share capital of the Company (note 22.1) as follows:

- 178,000,000 ordinary shares in the Company of a nominal value of EUR1 each share to Istithmar Hotels FZE (“Istithmar”) or such other wholly-owned company or entity as Istithmar may direct; and

- 192,000,000 ordinary shares in the Company of a nominal value of EUR1 each share to CPHCL as part of the purchase price for the acquisition by the Company from CPHCL of two hotels, namely the Corinthia Bab Africa Hotel and Commercial Centre in Tripoli, Libya and the Corinthia Towers Hotel in Prague, the Czech Republic.

In computing diluted earnings per share, the weighted average number of shares outstanding would need to be adjusted to take into account the effects of the bonus share issue referred to above and to the effect of such dilutive potential ordinary shares.

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14 Property, plant and equipment

14.1

		Revalued amount		Cost			
	Note	Total EUR	Land and buildings EUR	Hotel plant and equipment EUR	Furniture, fixtures and fittings EUR	Motor vehicles EUR	Payments on account on buildings in the course of construction EUR
Cost/revalued amount							
Balance at 1 January 2005		338,311,350	281,242,834	29,382,907	23,033,384	318,106	4,334,119
Effect of movement in foreign exchange rates		599,138	382,717	104,275	110,237	1,463	446
Additions		9,522,189	241,073	253,585	176,368	252	8,850,911
Reallocations		-	2,149,063	106,243	116,906	586	(2,372,798)
Disposals		(272,465)	-	(398)	(18,945)	(531)	(252,591)
Revaluation surplus		12,892,396	12,892,396	-	-	-	-
Balance at 31 December 2005		361,052,608	296,908,083	29,846,612	23,417,950	319,876	10,560,087
Balance at 1 January 2006		**361,052,608**	**296,908,083**	**29,846,612**	**23,417,950**	**319,876**	**10,560,087**
Acquired through business combination	6	**608,618**	**-**	**142,032**	**377,717**	**88,869**	**-**
Additions		**12,454,802**	**92,550**	**642,007**	**621,842**	**173,676**	**10,924,727**
Reallocations		**-**	**6,192,818**	**735,745**	**196,575**	**-**	**(7,125,138)**
Transfer from investment property	16.1	**11,213,083**	**-**	**-**	**-**	**-**	**11,213,083**
Disposals		**(187,363)**	**-**	**(157,014)**	**(6,617)**	**(23,732)**	**-**
Revaluation surplus	22.2	**6,564,772**	**6,564,772**	**-**	**-**	**-**	**-**
Balance at 31 December 2006		**391,706,520**	**309,758,223**	**31,209,382**	**24,607,467**	**558,689**	**25,572,759**
Depreciation and impairment losses							
Balance at 1 January 2005		39,062,152	18,941,952	9,046,618	10,869,838	203,744	-
Effect of movement in foreign exchange rates		233,390	68,484	64,630	98,349	1,927	-
Depreciation charge for the year		9,983,855	4,206,471	3,086,957	2,649,998	40,429	-
Net impairment losses reversed		(5,471,821)	(5,471,821)	-	-	-	-
Disposals		(29,225)	(23,656)	(388)	(5,181)	-	-
Revaluation surplus		(1,097,762)	(1,097,762)	-	-	-	-
Balance at 31 December 2005		42,680,589	16,623,668	12,197,817	13,613,004	246,100	-
Balance at 1 January 2006		**42,680,589**	**16,623,668**	**12,197,817**	**13,613,004**	**246,100**	**-**
Acquired through business combination	6	**453,536**	**-**	**111,987**	**255,185**	**86,364**	**-**
Depreciation charge for the year		**9,802,636**	**4,550,959**	**3,145,670**	**2,058,840**	**47,167**	**-**
Impairment losses	14.3	**7,150,000**	**7,150,000**	**-**	**-**	**-**	**-**
Disposals		**(90,445)**	**-**	**(69,307)**	**(4,849)**	**(16,289)**	**-**
Revaluation surplus	22.2	**(1,291,512)**	**(1,291,512)**	**-**	**-**	**-**	**-**
Balance at 31 December 2006		**58,704,804**	**27,033,115**	**15,386,167**	**15,922,180**	**363,342**	**-**
Carrying amounts							
At 1 January 2005		299,249,198	262,300,882	20,336,289	12,163,546	114,362	4,334,119
At 31 December 2005		318,372,019	280,284,415	17,648,795	9,804,946	73,776	10,560,087
At 1 January 2006		**318,372,019**	**280,284,415**	**17,648,795**	**9,804,946**	**73,776**	**10,560,087**
At 31 December 2006		**333,001,716**	**282,725,108**	**15,823,215**	**8,685,287**	**195,347**	**25,572,759**

14 Property, plant and equipment (continued)

14.2 Security

Land underlying the hotel belonging to Five Star Hotels Limited, a subsidiary company, comprises costs attributable to the acquisition, on temporary emphytheusis for a period of ninety-nine years reckoned from 1 September 1992, of a site situated in St George's Bay, limits of St Julian's, Malta. The land and buildings are subject to hypothecs in favour of the Group's bankers for funds borrowed (see note 23.2). In addition, this property has been hypothecated in favour of the Parent Company's bankers in connection with borrowing facilities availed of by this company (see note 30.4). These hypothecs rank after a special hypothec in favour of the Commissioner of Lands.

Another subsidiary company, IHI Benelux B.V., owns a hotel complex (hotel and shops/offices) and adjacent sites, located in St Petersburg. The hotel complex is mortgaged in favour of a bank as collateral for funds borrowed (see note 23.2). The land underlying the hotel complex is held on a long-term lease basis. The initial lease is for 49 years with the option to renew for a further period of 49 years.

The Corinthia Grand Hotel Royal and the Corinthia Lisboa Hotel, both hotel properties owned and operated by the Group, have been hypothecated as collateral in favour of credit institutions for funds borrowed (see note 23.2).

14.3 Impairment losses and reversals

At 31 December 2006, the Directors, using the work of independent valuers, assessed the Group's hotel properties for impairment. The assessment focused on the Corinthia San Gorg Hotel, the Corinthia Lisboa Hotel and the Corinthia Grand Hotel Royal. No factors arose in the course of the year which would necessitate an impairment review of the Corinthia Nevskij Palace Hotel (see note 14.4).

Impairment losses and reversals were recognised as follows:

Hotel property	Recognised at 1 January 2005	Reversals	Recognised at 31 December 2005
	EUR	EUR	EUR
Corinthia San Gorg Hotel	4,054,225	(3,351,221)	703,004
Corinthia Lisboa Hotel	6,500,000	-	6,500,000
Corinthia Grand Hotel Royal	2,120,600	(2,120,600)	-
	12,674,825	(5,471,821)	7,203,004

Hotel property	Recognised at 1 January 2006	Increase	Recognised at 31 December 2006
	EUR	EUR	EUR
Corinthia San Gorg Hotel	**703,004**	**-**	**703,004**
Corinthia Lisboa Hotel	**6,500,000**	**7,150,000**	**13,650,000**
Corinthia Grand Hotel Royal	**-**	**-**	**-**
	7,203,004	**7,150,000**	**14,353,004**

Impairment losses reflect lower than expected economic performances of the hotel properties, whereas reversals of such losses reflect improvements in previously projected net future cash flows from operations.

14 Property, plant and equipment (continued)

14.3 Impairment losses and reversals (continued)

In assessing the recoverable amount of the Corinthia Lisboa Hotel by reference to its value in use, the future cash flows to be derived from the continuing use and ultimate disposal were estimated in the currency in which they will be generated, and discounted by applying a pre-tax discount rate of 8.60% (2005 : 7.60%). This discount rate reflects the current market assessment of the time value of money and the risks specific to this hotel property for which the future cash flow estimates used in arriving at its carrying amount have not been adjusted.

14.3.1 Key assumptions and sources of estimation uncertainty

Key judgements and assumptions concerning the future and other key sources of estimation uncertainty which materially impacted the impairment assessment at the reporting date, include the projection of room revenue in the coming years and the execution risk associated with the attainment of the projected capabilities (including projected room revenue), of the hotel properties.

The Directors are satisfied that the judgements made are appropriate to the circumstances but, as with all projections relating to future events, there is a degree of uncertainty inherent in the figures and, it is reasonably possible, based on existing knowledge, that outcomes are different from assumptions. Consequently, actual results may differ significantly from those projected. Sustained variations from expectations would have a material impact on the impairment assessment, and hence, the carrying amounts at which the hotel properties are stated on the balance sheet (see note 14.1).

14.4 Revaluation to fair value of hotel properties

The value in use calculations resulting from the impairment reviews of the Group's hotel properties (see note 14.3) were also considered appropriate for the purpose of determining their fair value. This same basis was also used in arriving at the fair value of the Corinthia Nevskij Palace Hotel, which value exceeded its carrying amount. The resulting excess was accounted for as a revaluation surplus, net of related deferred taxation (see note 22.2).

In arriving at the projected operating cash flows, a detailed analysis of the facilities and performance capabilities of the hotel properties, their expectations and prospects in the various jurisdictions in which they operate, and ten-year projections of the cash flows from their operations based on this analysis was carried out.

These fair value assessments do not include a review of other factors such as, market liquidity, the possible outlook of potential acquirers and the value at which other comparable transactions may have been executed, which factors, may also impact the open market value of a property.

14.5 Historic cost of hotel properties

The carrying amounts of the land and buildings that would have been included in these financial statements had these assets been carried at cost less accumulated depreciation thereon would be less than those at which they are stated in these financial statments.

15 Intangible assets

15.1

	Note	Total EUR	Goodwill EUR	Other EUR
Cost				
Goodwill - arising on previously held 20% holding		607,658	607,658	-
Business combination	15.2	32,453,170	9,118,639	23,334,531
		33,060,828	9,726,297	23,334,531
Amortisation				
Charge for the year		194,454	-	194,454
At 31 December 2006		194,454	-	194,454
Carrying amount				
At 31 December 2006		32,866,374	9,726,297	23,140,077

15.2

	Note	EUR	EUR
Fair value of acquired CHI based on the acquisition price of a minority interest stake of 30% by Wyndham Hotels Group International Inc. ("WHGI")			41,363,333
Net assets of CHI as at date of IHI's acquisition of 50% interest	6.1		(6,895,776)
Value attributable to rights acquired under existing management contracts			34,467,557
Assumed value thereof arising on the operation of IHI's hotel properties			(11,133,026)
Intangible asset – assumed value thereof arising on the operation of other hotel properties			**23,334,531**
Consideration for IHI's 50% interest in CHI	6.1		20,150,250
Net assets of CHI as above		6,895,776	
Fair value adjustment – intangible asset recognised as above		23,334,531	
Deferred taxation on fair value adjustment	26.1	(8,167,086)	
		22,063,221	
Attributable to IHI's 50% interest			(11,031,611)
Goodwill – arising on 50% interest acquired			**9,118,639**

15.3 Amortisation charge

The amortisation charge is recognised in other net operating charges in the income statement.

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16 Investment property

16.1

	Note	2006 EUR	2005 EUR
Balance at 1 January		**35,800,000**	33,400,000
Fair value change	16.2	**2,213,083**	2,400,000
Transfer to property, plant and equipment		**(11,213,083)**	-
Balance at 31 December		**26,800,000**	35,800,000

16.2 Investment property owned by a subsidiary company, IHI Benelux B.V. at balance sheet date, comprises a vacant site and an office building adjacent to the Corinthia Nevskij Palace Hotel situated in St Petersburg, also owned by this company (see note 17.2). These properties are held on lease. The initial lease is for 49 years, with the option to renew for a further period of 49 years. The Group obtained the free and unencumbered title of these properties during 2003.

The site which is being developed into an extension to the Corinthia Nevskij Palace Hotel and underlying shopping mall, was transferred from investment property to assets in the course of construction in 2006 (see note 14.1).

The other site continues to be classified as an investment property.

The carrying amount of the remaining investment property is its fair value as determined by the directors, relying on the expert opinion of Colliers International, a firm of international real estate consultants licensed to conduct property valuations in the Russian Federation. The valuation, has been prepared in conformity with International Valuation Standards (IVS) 1 - 3, taking into account information, including but not limited to, relevant market and financial data, assembled by them through direct research, as well as representations provided by the directors.

17 Investments in subsidiaries

17.1

	Note	Total	Capital subscribed	Loans receivable	Fair value changes
		EUR	EUR	EUR	EUR
At 1 January 2005		169,703,390	71,374,387	92,281,321	6,047,682
Liquidated during the year		(107,232)	(164,496)	-	57,264
Loans capitalised		-	15,272,460	(15,272,460)	-
Loans advanced during year		26,431,818	-	26,431,818	-
Loans repaid during year		(19,101,094)	-	(19,101,094)	-
Net increase in fair value		12,449,819	-	-	12,449,819
At 31 December 2005		189,376,701	86,482,351	84,339,585	18,554,765
At 1 January 2006		**189,376,701**	**86,482,351**	**84,339,585**	**18,554,765**
Transfer from equity accounted investees	18.1	**846,026**	**846,026**	**-**	**-**
Business combination arising during year	6	**20,150,250**	**20,150,250**	**-**	**-**
Loans capitalised		**5,757,262**	**9,981,848**	**(4,224,586)**	**-**
Loans advanced during year		**6,266,961**	**-**	**6,266,961**	**-**
Loans repaid during year		**(4,716,337)**	**-**	**(4,716,337)**	**-**
Net increase in fair value		**7,553,244**	**-**	**-**	**7,553,244**
At 31 December 2006		**225,234,107**	**117,460,475**	**81,665,623**	**26,108,009**

17 Investments in subsidiaries (continued)

17.2 Subsidiary companies

Unquoted investments	Note	Registered office	Nature of business	% ownership
Five Star Hotels Limited		22, Europa Centre Floriana Malta	Owns and operates the Corinthia San Gorg Malta	100
Alfa Investimentos Turisticos Lda		Avenida Columbana Bardolo Pinheiro Lisboa 1099 – 031 Portugal	Owns and operates the Corinthia Lisboa Hotel and Congress Centre Lisbon	100
IHI Lisbon Limited		22, Europa Centre Floriana Malta	Investment company holding an equity stake in Alfa Investimentos Turisticos Lda	100
IHI St Petersburg LLC	17.3	57, Nevskij Prospect St Petersburg 191025 Russian Federation	Investment company	100
IHI Benelux B.V.	17.4	Frederick Roeskestraat 123 123, 1076 EE Amsterdam PO Box 72888 1070 AC Amsterdam The Netherlands	Owns and operates the Corinthia Nevskij Palace Hotel St Petersburg	100
IHI Hungary Zrt	17.5	Erzsebet Krt., 43-49 H-1073, Budapest Hungary	Owns and operates the Corinthia Grand Hotel Royal Budapest	100
IHI Zagreb d.d.		Centar Kaptol Nova Ves 11 10000 Zagreb Croatia	Investment company	100
CHI Limited	17.6	22, Europa Centre Floriana Malta	Hotel management company	70

17.3 The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The Group's financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of IHI Benelux B.V., one of the Company's subsidiaries operating in St Petersburg. The future business environment may differ from management's assessment. The operation and financial position of the Company is not at present affected by the impact of this environment.

17.4 The entire issued and paid-up share capital of IHI Benelux B.V. is pledged in favour of Raiffeisen Bank, InvestKredit and Bank Austria/ Creditanstalt as collateral for a bank loan (see note 23.2). The shareholders of this company will continue to exercise the voting rights attached to these shares.

17.5 IHI together with its subsidiary company IHI Hungary Zrt., ("the Borrower") had entered into an agreement with Kereskedelmi És Hitelbank Rt. ("K&H Bank") and Orszvágos Takarékpénztár És Kereskedelmi Rt. ("OTP Bank") for a facility, of EUR49,000,000 and which at balance sheet date amounted to EUR43,926,486 (see note 23.2). In accordance with the terms of the facility, IHI, as owner of the Borrower, has deposited the shares it holds in this subsidiary into an account held with OTP Bank.

17 Investments in subsidiaries (continued)

17.6 During the year, the Company acquired a 50% interest in CHI Limited, in addition to the 20% it already held, such that it is now controlled by the Group (Note 6). The remaining 30% is held by Wyndham Hotel Group International Inc. (the "Minority Shareholder").

Effective 31 October 2006, CHI Limited granted an option to its Minority Shareholder to subscribe for the number of shares which would increase the latter's interest in this subsidiary company to 50% at an option price linked to its earnings-based valuation. The option shall rest subject to achievement of pre-established financial objectives. In view of the substance and intrinsic terms of the arrangement, its fair value as at the balance sheet date is not deemed by the Directors to be determinable in a reliable manner.

18 Investments in equity accounted investees

18.1

	The Group	The Company
	EUR	EUR
At 1 January 2006	2,093,778	913,496
Shares acquired during the year	-	51,358
Share of profit	459,450	-
Dividend received	(1,248,758)	-
Effect of previously held associated company now a subsidiary	(664,925)	(846,026)
At 31 December 2006	**639,545**	**118,828**

18.2 Equity accounted investee - 20% holding

Unquoted investments	Registered office	Nature of business
Quality Project Management Limited	22 Europa Centre Floriana Malta	Project management company

Quality Project Management Limited ("QPM"), owns the 100% of the equity of Corinthia Construction (Overseas) Limited. The registered office of this company is the same as that of QPM.

18.3 Summary of financial information on equity accounted investees

	Assets	Liabilities	Equity	Revenues	Profit
	EUR	EUR	EUR	EUR	EUR
2005					
CHI Limited	11,341,704	(6,754,434)	4,587,270	14,765,155	2,321,500
Quality Project Management Limited	1,434,642	(817,782)	616,860	485,073	84,214
Corinthia Construction (Overseas) Limited	5,030,140	(3,068,677)	1,961,463	4,294,612	487,461
	17,806,486	(10,640,893)	7,165,593	19,544,840	2,893,175
2006					
Quality Project Management Limited	**1,529,050**	**(871,528)**	**657,522**	**1,094,239**	**40,662**
Corinthia Construction (Overseas) Limited	**6,096,184**	**(3,955,607)**	**2,140,577**	**6,130,771**	**209,814**
	7,625,234	**(4,827,135)**	**2,798,099**	**7,225,010**	**250,476**

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19 Derivative financial instrument

The interest rate swap agreement is subject to the following terms:

	EUR
Notional amount with remaining life of more than one year maturity - 2008	**8,000,000**
Interest rate:	
Receive fixed interest at the rate of	6.2% per annum
Pay variable interest at the rate of	6 month EURIBOR + 2.955%

20 Loans receivable

20.1

			Amount owed to	
	Note	Total	Group company	Other related company
		EUR	EUR	EUR
At 1 January 2006		15,509,835	14,039,835	1,470,000
Loan advanced during year		1,000,000	1,000,000	-
Capitalised as part of investment in subsidiaries	17.1	(5,757,262)	(5,757,262)	-
		10,752,573	9,282,573	1,470,000

20.2

		Terms		
	EUR	Interest	Repayable by	Security
Group company				
IHI Benelux B.V.	9,282,573	6 Month EURIBOR + 3.25%	31 December 2010	None
Related company				
Corinthia Investments Limited	1,470,000	EURIBOR + 1%	31 December 2015	None
	10,752,573			

21 Other receivables

21.1

	The Group		The Company	
	2006	2005	2006	2005
	EUR	EUR	**EUR**	EUR
Amounts owed by:				
Parent company	**858,144**	207,997	**-**	-
Group companies	**-**	-	**8,503,741**	6,466,429
Associated companies	**38,068**	644,127	**-**	13,332
Related companies	**908,698**	429,205	**204,349**	145,576
Other related parties	**281,368**	212	**-**	-
Loan owed by related company	**-**	119,071	**-**	-
Recoverable VAT on capital expenditure	**376,596**	1,119,187	**155,397**	87,014
Other debtors	**1,238,526**	934,403	**-**	16,955
Prepayments and accrued income	**3,646,421**	744,989	**283,393**	304,413
	7,347,821	4,199,191	**9,146,880**	7,033,719

21.2 The amounts owed by related parties are all unsecured and interest free.

22 Equity

22.1 Share capital

		Ordinary shares of EUR 1 each	
		2006	2005
	Note	**EUR**	EUR
On issue at 1 January		**139,053,489**	129,053,489
Issued for cash		**8,047,995**	10,000,000
Issued on business combination	6.1	**15,000,000**	-
On issue at 31 December - fully paid		**162,101,484**	139,053,489

At 31 December 2006, the authorised share capital comprised of 750,000,000 ordinary shares of EUR 1 each. By virtue of an extraordinary resolution dated 31 January 2007, the authorised share capital of the Company was increased from EUR750,000,000 to EUR1,000,000,000 and divided into two classes of ordinary shares, namely, 750,000,000 Ordinary Listed Shares of a nominal value of EUR1 each share and 250,000,000 Ordinary Unlisted Shares of a nominal value of EUR1 each, which upon the lapse of twelve months from the date of this resolution, the latter shares will be automatically re-designated as Ordinary Listed Shares.

Shareholders are entitled to vote at meetings of the shareholders of the Company on the basis of one vote for each share held. They are entitled to receive dividends as declared from time to time. The shares in issue shall, at all times, rank *pari passu* with respect to any distribution whether of dividends or capital, in a winding up or otherwise.

22.2 Revaluation reserve

	Note	Revaluation surplus	Deferred taxation	Net
		EUR	**EUR**	**EUR**
At 31 December 2005		32,240,057	(7,459,655)	24,780,402
Revaluation of hotel property carried out at year end	14.4	7,856,284	(1,885,508)	5,970,776
At 31 December 2006		**40,096,341**	**(9,345,163)**	**30,751,178**

22.3 Translation reserve

The Translation Reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign entities.

22.4 Other reserve

The reserve represents the following unrealised gains, net of related deferred taxation:

	2006	2005
	EUR	EUR
The Group		
Exchange gains	**357,872**	364,640
Tax benefit of unused tax losses	**244,848**	624,813
Fair value gain on interest rate swap	**-**	14,340
	602,720	1,003,793
The Company		
Fair value gain on investments in subsidiary companies	**16,970,206**	12,023,376
Exchange gains	**357,872**	364,640
Tax benefit of unused tax losses	**244,848**	624,813
Fair value gain on interest rate swap	**-**	14,340
	17,572,926	13,027,169

22 Equity (continued)

22.5 Reporting currency conversion difference

The reporting currency conversion difference represents the excess of total assets over the aggregate of total liabilities and funds attributable to the shareholders, following the re-denomination of the paid up share capital from Maltese Liri to Euro in 2003.

22.6 Accumulated losses

The loss for the year has been transferred to accumulated losses as set out in the statement of changes in equity for the year ended 31 December 2006.

22.7 Other equity components

	2006	2005
	EUR	EUR
The Group		
Equity component of convertible bonds	**347,572**	832,200
Increase in equity in respect of previously held 20% interest in CHI from date of initial interest to date of additonal interset acquired, net of deferred taxation	**3,859,886**	-
	4,207,458	832,200
The Company		
Equity component of convertible bonds	**347,572**	832,200

23 Bank borrowings

23.1

	The Group		The Company	
	2006	2005	**2006**	2005
	EUR	EUR	**EUR**	EUR
Non-current liabilities				
Bank loans	**112,957,633**	107,385,443	**8,133,200**	8,166,600
Current liabilities				
Bank loans	**4,233,294**	9,423,654	**1,433,400**	2,833,400
Bank overdrafts	**2,750,885**	2,384,075	**229,482**	207,265
	6,984,179	11,807,729	**1,662,882**	3,040,665
	119,941,812	119,193,172	**9,796,082**	11,207,265

23 Bank borrowings (continued)

23.2

Group company	Face value and Carrying amount 2006	Face value and Carrying amount 2005	Terms: Nominal interest rate	Terms: Year of maturity	Repayment: Within 1 Year	Repayment: Between 2-5 years	Repayment: After 5 years	Security
	EUR	EUR			**EUR**	**EUR**	**EUR**	
IHI p.l.c:								
Bank loan	**5,400,000**	6,000,000	6 month EURIBOR + 1.75%	2015	**600,000**	**2,400,000**	**2,400,000**	General Hypothec for EUR10 million over all Company's assets present and future. General Hypothecary Guarantee over all company present and future assets and Special Hypothecary Gurantee over the Corinthia San Gorg Hotel.
Bank loan	**4,166,600**	5,000,000	6 month EURIBOR + 2%	2011	**833,400**	**3,333,200**	**-**	First General Hypothec for EUR4,166,600 over all of the Company's assets present and future. Joint and several suretyship with a related company and a First Special Hypothec over property owned by this Company. Second Ranking Mortgage guarantee by Thermal Hotel Aquincum Rt over the Corinthia Aquincum Hotel.
Bank overdraft	**229,482**	207,265	4.924%	On Demand	**229,482**	**-**	**-**	Unsecured.
	9,796,082	11,207,265			**1,662,882**	**5,733,200**	**2,400,000**	

23 Bank borrowings (continued)

23.2 (continued)

Group company	Face value and Carrying amount 2006	Face value and Carrying amount 2005	Terms: Nominal interest rate	Terms: Year of maturity	Repayment: Within 1 Year	Repayment: Between 2-5 years	Repayment: After 5 years	Security
	EUR	EUR			**EUR**	**EUR**	**EUR**	
Five Star Hotels Limited:								
Bank overdraft	**1,512,241**	1,697,331	5.35%	On demand	**1,512,241**	**-**	**-**	General hypothec over assets belonging to Five Star Hotels Limited supported by a special hypothec and privilege over the leasehold land and buildings and a pledge over the Company's comprehensive insurance policies.
Bank loan	**4,620,757**	1,760,531	EURIBOR +1.75%	2015	**141,568**	**3,220,247**	**1,258,942**	
Alfa Investimentos Turisticos Lda:								
Bank overdraft	**-**	166,655	-	-	**-**	**-**	**-**	
Bank overdraft	**-**	312,824		-	**-**	**-**	**-**	
Bank loan	**42,090,000**	42,950,000	1 - 5 years 4.7025%, thereafter at 3 month EURIBOR + 1.25%	2022	**1,290,000**	**5,160,000**	**35,640,000**	Secured by mortgages over the Corinthia Lisboa Hotel including land.
IHI Benelux B.V.:								
Bank loan	**16,987,084**	14,070,014	3 month EURIBOR +3.25% during construction, thereafter margin at 3%	2009	**-**	**16,987,084**	**-**	Secured over the Corinthia Nevskij Palace Hotel and a pledge over the shares of IHI Benelux B.V. (see note 11.4), pledge over all present and future movable property held by this company and subordination of loans due to the Parent and a pledge over all bank accounts held.
Bank loan	**-**	2,834,309			**-**	**-**	**-**	
carried forward	**65,210,082**	63,791,664			**2,943,809**	**25,367,331**	**36,898,942**	

23 Bank borrowings (continued)

23.2 (continued)

Group company	Face value and Carrying amount 2006	2005	Terms: Nominal interest rate	Year of maturity	Repayment: Within 1 Year	Between 2-5 years	After 5 years	Security
	EUR	EUR			**EUR**	**EUR**	**EUR**	
brought forward	**65,210,082**	63,791,664			**2,943,809**	**25,367,331**	**36,898,942**	
IHI Hungary Zrt.: Bank loan	**43,926,486**	44,194,243	3 month EURIBOR +1.65%	2019	**1,368,326**	**6,435,329**	**36,122,831**	Secured by mortgages over the Corinthia Grand Hotel Royal and by a security deposit over the shares of IHI Hungary Zrt. (see note 17.5) and by a cash collateral (see note 29). In addition, IHI, CPHCL and Corinthia Investments Limited have provided additional financial guarantees to the bankers granting this loan. As part of this loan agreement no repayment of Group loans can be effected except with the consent of the Security Agent.
CHI Limited: Bank overdraft	**1,009,162**	-	Borrowings denominated in Lm are subject to 6.25% whilst borrowings denominated in Euro are subject to an effective interest rate of 5.06%	On Demand	**1,009,162**	**-**	**-**	Bank borrowings are secured by a general hypothec over the company's assets and by a guarantee by the Parent Company.
	110,145,730	107,985,907			**5,321,297**	**31,802,660**	**73,021,773**	
	119,941,812	119,193,172			**6,984,179**	**37,535,860**	**75,421,773**	

24 Bonds

24.1

	Note	2006	2005
		EUR	EUR
Convertible bonds	24.2	**10,940,986**	10,762,378
Lm bond	24.3	**13,780,292**	13,749,725
Euro bond I	24.3	**7,978,960**	7,948,777
Euro bond II	24.3	**12,377,173**	-
		45,077,411	32,460,880

24.2 Convertible bonds

	EUR
Proceeds from issue	12,283,000
Transaction costs	(365,681)
Net proceeds	11,917,319
Imputed interest and amortisation of transaction costs to 31 December 2005	(519,108)
Exchange differences	(635,833)
At 31 December 2005	10,762,378
Imputed interest and amortisation of transaction costs for 2006	178,608
At 31 December 2006	**10,940,986**

24.2.1 Conversion terms, dates and prices

During the period ended 31 December 2000 the Company issued 50,000 bonds with a face value of Lm100 each, which, unless previously purchased and cancelled or converted in accordance with the terms of issue, shall be redeemable at par on the 29 May 2010. Any bonds purchased by the Company on the open market shall be cancelled. The Company reserves the right to purchase bonds on the open market without notice.

Bondholders shall be entitled to exercise their conversion option on a conversion date during the conversion period by converting their bonds, or part thereof, into fully paid ordinary shares of the Company at the conversion price determined as set out below. Upon conversion, the right of the converting bondholder to repayment of the bond to be converted and any interest for the period between the applicable conversion date and redemption date shall be extinguished and released, and in consideration and in exchange thereof, the Company shall issue fully paid up ordinary shares as provided in the terms and conditions of issue. A conversion of part of a bond shall not be allowed.

The bonds entitle the holders thereof to an original entitlement of 100 shares for every bond. In the event that upon conversion the conversion price is higher than the share issue price, and a bondholder wishes to retain such original entitlement, such bondholder shall pay the cash difference as determined in accordance with the terms of the issue of the bonds. A bondholder may elect not to pay such cash difference and in lieu thereof shall accept the issue of a lower number of shares than his original entitlement. Shares shall not be issued at below their nominal value.

A bondholder may exercise the conversion option during the conversion period, which commenced on the 29 November 2005 and ends on 29 November 2009. In the case of bonds converted on any of the following conversion dates during any conversion term, the conversion price shall be determined in accordance with the arithmetic average of the daily trade weighted average price (TWAP) quoted by the Malta Stock Exchange during the three months immediately preceding the reference date less a percentage, as follows:

Conversion term	**Conversion dates**	**%**
First	29 November 2005; 29 May 2006 and 29 November 2006	10
Second	29 May 2007; 29 November 2007 and 28 May 2008	15
Third	29 November 2008; 29 May 2009 and 29 November 2009	20

To date no conversions of such bonds took place.

24 Bonds (continued)

24.2 Convertible bonds (continued)

24.2.2 Interest

The bonds carry an interest rate of 5% per annum payable annually in arrears on the 29 May in each year.

24.2.3 Security

The bonds constitute the general, direct, unconditional, unsecured and unsubordinated obligations of the Company and will rank *pari passu*, without any priority or preference, with all other present and future unsecured and unsubordinated obligations of the Company.

24.3 Lm and Euro bonds

During the year 2003, the Company offered to the general public an aggregate of Lm5,200,000 Bonds maturing in 2013, subject to an over-allotment option for a further amount of Lm4,170,000 in either or a combination of Bonds denominated in Maltese Lira and Bonds denominated in Euros. After the application of the over-allotment option, the bonds allotted by the Company amounted to Lm6,017,500 (equivalent to EUR14,308,927) 6.3% Bonds and EUR8,058,000 6.2% - 6.8% Bonds. Also, during the year 2006 the Company issued EUR12,500,000 6.5% bonds 2012-2014.

		Euro bonds	
	Lm bond	**I**	**II**
	EUR	**EUR**	**EUR**
Proceeds from issue	14,308,927	8,058,000	-
Transaction costs	(345,056)	(185,984)	-
Net proceeds	13,963,871	7,872,016	-
Amortisation of transaction costs to 31 December 2005	77,775	76,761	-
Exchange differences	(291,921)	-	-
At 31 December 2005	13,749,725	7,948,777	-
Proceeds from issue	-	-	12,500,000
Transaction costs	-	-	(132,637)
Amortisation of transaction costs	30,567	30,183	9,810
At 31 December 2006	**13,780,292**	**7,978,960**	**12,377,173**

24.3.1 Terms of repayment

Unless previously purchased and cancelled, the Lm bond and the Euro I bonds will be redeemed at their nominal value (together with interest accrued to the date fixed for redemption) on 15 February 2013.

In the case of the Euro II bond, the bonds shall become due for final redemption on 27 March 2014. The Company has however the right to redeem this bond or any part thereof at any time prior to the stated maturity date on either of the interest payment dates falling in 2012 and/or 2013. Redemption of the Euro II bond shall be made at their face value.

The Company may at any time purchase Bonds in the open market or otherwise at any price. All bonds so redeemed or purchased will be cancelled forthwith and may not be re-issued or re-sold.

24.3.2 Interest

The Lm Bond carries an interest rate of 6.3% per annum whereas the Euro I Bond carries interest at the rate of 6.2% per annum for the interest payment dates falling between the years 2004 up to and including 2010 and at the rate of 6.8% for the rest of the term of the Bond. In either case interest shall be payable annually in arrears on 15 February each year between the years 2004 and 2013. The Euro II bond bears interest at the rate of 6.5% per annum payable annually in arrears on the 27 March of each year.

24 Bonds (continued)

24.3 Lm and Euro bonds (continued)

24.3.3 Security

The bonds constitute the general, direct, unconditional, unsecured and unsubordinated obligations of the Company and will rank *pari passu*, without any priority or preference, with all other present and future unsecured and unsubordinated obligations of the Company.

25 Parent Company loan and other interest-bearing borrowings

25.1

	The Group		The Company	
	2006	2005	**2006**	2005
	EUR	EUR	**EUR**	EUR
Amounts owed to:				
Parent company	**10,673,189**	13,745,824	**10,383,506**	13,418,871
Associated companies	**1,764,752**	3,665,367	**-**	-
Other related companies	**2,041,510**	2,090,180	**-**	-
	14,479,451	19,501,371	**10,383,506**	13,418,871
Non-current liabilities				
Amounts owed to:				
Parent company	**10,383,506**	13,418,871	**10,383,506**	13,418,871
Other related company	**1,671,475**	1,671,475	**-**	-
	12,054,981	15,090,346	**10,383,506**	13,418,871
Current liabilities				
Amounts owed to:				
Parent company	**289,683**	326,953	**-**	-
Associated companies	**1,764,752**	3,665,367	**-**	-
Other related companies	**370,035**	418,705	**-**	-
	2,424,470	4,411,025	**-**	-

25.2 The terms of the amounts owed to the related parties are as follows:

		Terms		
	EUR	**Interest**	**Repayable by**	**Security**
Parent company	10,383,506	5.75%	At least after more than 12 months after balance sheet date	None
Parent company	289,683	5.5%	On demand	None
Associated companies	1,748,521	4.5%	On demand	None
Associated companies	16,231	5.0%	On demand	None
Related company	25,679	6.0%	On demand	None
Related company	344,356	6.0%	On demand	None
Related company	1,671,475	EURIBOR + 1%	Subordinated (see note 23.2))	None
	14,479,451			

26 Deferred taxation

26.1 Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

		The Group			The Company		
		1 January 2005	**31 December 2005**	**Movement**	**1 January 2005**	**31 December 2005**	**Movement**
	Note	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Property, plant and equipment:							
Excess of capital allowances over depreciation		3,602,391	3,093,012	509,379	-	-	-
Revaluation of land and buildings		18,715,819	23,097,708	(4,381,889)	-	-	-
Revaluation of investment property		5,482,104	6,098,425	(616,321)	-	-	-
Investment in subsidiaries		-	-	-	2,116,684	6,474,125	(4,357,441)
Derivative financial instruments		123,021	7,721	115,300	123,021	7,721	115,300
Provision for doubtful debts		(99,505)	(104,624)	5,119	-	-	-
Accrued charges		(280,461)	(273,408)	(7,053)	-	-	-
Provision for exchange differences		66,903	(42,901)	109,804	315,208	196,345	118,863
Equity component of convertible bonds		281,621	238,877	42,744	281,621	238,877	42,744
Unrelieved tax losses and unabsorbed capital allowances		(4,835,943)	(5,460,164)	624,221	(780,314)	(624,813)	(155,501)
		23,055,950	26,654,646	(3,598,696)	2,056,220	6,292,255	(4,236,035)
Recognised directly in equity							
Deferred taxation on revaluation of hotel property carried out at year end				3,079,679			-
Exchange translation reserve:							
Deferred tax liabilities for foreign entities							
Translated at foreign exchange rates at year end				15,386			-
Recognised in profit or loss	12.1			(503,631)			(4,236,035)

26 Deferred taxation (continued)

26.1 Recognised deferred tax assets and liabilities (continued)

		The Group			The Company		
		1 January 2006	31 December 2006	Movement	1 January 2006	31 December 2006	Movement
	Note	EUR	EUR	EUR	EUR	EUR	EUR
Property, plant and equipment:							
Excess of capital allowances over depreciation		3,093,012	1,657,835	1,435,177	-	-	-
Revaluation of land and buildings		23,097,708	24,539,557	(1,441,849)	-	-	-
Intangible asset		-	8,543,714	(8,543,714)	-	-	-
Revaluation of investment property	16.2	6,098,425	6,629,565	(531,140)	-	-	-
Investment in subsidiaries		-	5,150,250	(5,150,250)	6,474,125	14,268,010	(7,793,885)
Derivative financial instruments		7,721	(27,627)	35,348	7,721	(27,627)	35,348
Provision for doubtful debts		(104,624)	(214,703)	110,079	-	-	-
Accrued charges		(273,408)	(511,767)	238,359	-	-	-
Provision for exchange differences		(42,901)	(39,120)	(3,781)	196,345	192,701	3,644
Equity component of convertible bonds		238,877	193,154	45,723	238,877	193,154	45,723
Unrelieved tax losses and unabsorbed capital allowances		(5,460,164)	(4,822,938)	(637,226)	(624,813)	(244,848)	(379,965)
		26,654,646	41,097,920	(14,443,274)	6,292,255	14,381,390	(8,089,135)
Arising on business combination	6			5,150,250			5,150,250
Deferred tax relating to subsidiary acquired	6			(72,602)			-
Arising on intangible asset	15.2			8,167,086			-
Arising on increase in equity in respect of previously held 20% interest in CHI from date of initial interest to date of additonal interest acquired				444,687			-
				(753,853)			(2,938,885)
Recognised directly in equity							
Deferred taxation on revaluation of hotel property carried out at year end	22.2			1,885,508			-
Recognised in profit or loss	12.1			1,131,655			(2,938,885)

26 Deferred taxation (continued)

26.2 Unrecognised deferred tax assets (continued)

Deferred tax assets have not been recognised in respect of the following tax losses:

Expiry	**Amount**
	EUR
2007	804
2008	16,026
2009	5,695,389
2010	5,953,427
2011	5,667,983
2012	3,155,954
Unlimited	2,349
	20,491,932

Deferred tax benefits arising out of certain tax losses which may become available for set-off against future taxable income have not been recognised in these financial statements as it cannot be determined whether the respective group companies can claim the right to utilise such losses.

27 Other payables

27.1

	The Group		**The Company**	
	2006	2005	**2006**	2005
	EUR	EUR	**EUR**	EUR
Advance deposits	**2,550,209**	2,273,358	**-**	-
Amounts owed to:				
Parent company	**4,839,931**	1,735,264	**2,766,099**	1,273,390
Group companies	**-**	-	**148,094**	-
Associated companies	**346,316**	483,554	**-**	-
Other related companies	**1,150,410**	569,447	**127,931**	155,910
Capital creditors	**628,757**	1,730,247	**-**	51,299
Other creditors	**1,811,334**	1,575,403	**15,713**	5,184
Accruals	**8,741,624**	7,794,818	**2,491,831**	1,788,351
	20,068,581	16,162,091	**5,549,668**	3,274,134

27.2 The amounts owed to related parties are all unsecured and interest free.

28 Net cash from/(used in) operations

	The Group		The Company	
	2006	2005	**2006**	2005
	EUR	EUR	**EUR**	EUR
(Loss)/profit before income tax	**(10,736,029)**	757,319	**5,017,269**	9,490,470
Adjustments for:				
Depreciation	**10,256,172**	9,983,855	**-**	-
Dividends received by way of shares from former equity accounted investee	**-**	-	**(51,359)**	-
Loss on disposal of property, plant and equipment	**96,918**	30,946	**-**	-
Provision for charges	**-**	(32,354)	**-**	-
Amortisation of intangible asset	**194,454**	-	**-**	-
Liquidation of subsidiary company	**-**	10,675	**-**	10,675
Impairment - charges/(reversals)	**7,150,000**	(5,471,821)	**-**	-
Fair value changes - investments in subsidiaries	**-**	-	**(7,553,244)**	(12,449,819)
Interest receivable and similar income	**(414,396)**	(178,371)	**-**	-
Fair value loss on interest rate swap	**100,995**	329,427	**100,995**	329,427
Interest payable and similar charges	**9,300,039**	8,503,352	**-**	-
Imputed interest and amortisation of transaction costs	**249,168**	223,955	**249,168**	223,956
Realised exchange differences	**168,802**	(180,610)	**10,413**	339,609
Unrealised exchange differences	**(56,760)**	288,588	**298**	(1,711)
Revaluation to fair value of investment property	**(2,213,083)**	(2,400,000)	**-**	-
Income from equity accounted investees	**(459,450)**	(578,635)	**-**	-
Former equity accounted investee now a subsidiary	**1,197,400**	-	**-**	-
	14,834,230	11,286,326	**(2,226,460)**	(2,057,393)
Working capital changes:				
Inventories	**(130,908)**	(110,025)	**-**	-
Debtors	**(2,975,650)**	(728,544)	**(2,576,032)**	(1,711,894)
Advance deposits	**276,851**	939,994	**-**	-
Other creditors	**4,233,614**	1,437,873	**2,360,715**	(353,705)
	16,238,137	12,825,624	**(2,441,777)**	(4,122,992)
Taxation paid	**(1,224,115)**	(731,823)	**-**	-
	15,014,022	12,093,801	**(2,441,777)**	(4,122,992)

29 Cash and cash equivalents

29.1

		The Group		The Company	
		2006	2005	**2006**	2005
	Note	**EUR**	EUR	**EUR**	EUR
Cash at bank and in hand		**21,804,659**	4,306,625	**10,980,037**	54,927
Bank overdrafts	23.1	**(2,750,885)**	(2,384,075)	**(229,482)**	(207,265)
		19,053,774	1,922,550	**(10,750,555)**	(152,338)

29.2 The Group's cash at bank includes primary funds arising out of the acquisition of the 30% equity interest in CHI by WHGI which have been allocated to the Development Fund earmarked for funding future acquisitions of management agreements and the Branding Fund for the purposes of re-branding the current hotel portfolio.

Also, included within cash at bank and in hand is the balance remaining out of the proceeds of the Euro bond issued during the year amounting to EUR6,949,000 forming part of the financing package earmarked for the development surrounding the Corinthia Nevskij Palace Hotel in St Petersburg.

Cash at bank includes an amount of EUR1,135,123 (2005: EUR2,121,123) pledged by way of collateral for amounts borrowed (see note 23) and an amount of EUR6,000,000 held as term deposit with a term of two months maturing within one month from balance sheet date, which are subject to an effective interest rate of 3.43%.

30 Related parties

30.1 Parent and ultimate controlling party

The Company is a subsidiary of CPHCL, the registered office of which is situated at 22 Europa Centre, Floriana, Malta. CPHCL prepares the consolidated financial statements of the Group of which IHI and its subsidiaries form part. These financial statements are filed and available for public inspection at the Registrar of Companies in Malta. CPHCL is considered to be the ultimate controlling party of the Company.

30.2 Transactions with key management personnel

30.2.1 Key management personnel compensation

In addition to the remuneration paid to the directors included in personnel expenses (see note 11), in the course of its operations, the IHI Group has a number of arrangements in place with its shareholders, officers, executives and other related parties, whereby concessions are made available for hospitality services rendered to them according to accepted industry norms. All transactions with other related parties are carried out on an arm's length basis.

30.2.2 Other transactions with key management personnel

The Chairman and CEO has a beneficial interest in IHI of 231,759 ordinary shares, through the shareholding of A & A Pisani & Company Limited in CPHCL. Details of shareholdings held by other directors are set out in the shareholder and other information section in the Annual Report.

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30 Related parties (continued)

30.3 Other related party transactions

During the year, the Group entered into transactions with related parties as detailed below, in addition to those as set out in the Cash Flow Statement:

	The Group		The Company	
	2006	2005	**2006**	2005
	EUR	EUR	**EUR**	EUR
Revenue				
Services rendered to the Parent Company and its subsidiaries by:				
Five Star Hotels Limited	**106,771**	139,250	**-**	-
IHI Hungary Zrt.	**8,310**	8,189	**-**	-
Alfa Investimentos Turisticos Lda	**31,210**	18,269	**-**	-
IHI Benelux B.V.	**6,022**	3,115	**-**	-
CHI Limited	**589,714**	-	**-**	-
Services rendered to Associated Companies by:				
Five Star Hotels Limited	**2,816**	114,554	**-**	-
IHI Hungary Zrt.	**42,198**	23,403	**-**	-
IHI Benelux B.V.	**485**	43,747	**-**	-
IHI St Petersburg LLC	**-**	71,251	**-**	-
	787,526	421,778	**-**	-
Direct costs				
Charged by the Parent Company and its subsidiaries to:	**249,944**	580,165	**-**	-
IHI Hungary Zrt.	**30,322**	20,503	**-**	-
Alfa Investimentos Turisticos Lda	**389**	68,300	**-**	-
IHI Benelux B.V.	**1,511**	-	**-**	-
CHI Limited	**87,521**	-	**-**	-
	369,687	668,968	**-**	-
Marketing costs				
Charged by CHI Limited to:				
Five Star Hotels Limited	**109,097**	32,118	**-**	-
IHI Hungary Zrt.	**148,820**	273,527	**-**	-
Alfa Investimentos Turisticos Lda	**116,260**	103,990	**-**	-
IHI Benelux B.V.	**152,217**	158,883	**-**	-
	526,394	568,518	**-**	-
Administrative expenses				
Management fee charged by Parent Company to:				
IHI p.l.c.	**582,006**	559,068	**582,006**	559,068
CHI Limited	**14,000**	-	**-**	-
Management fee charged by CHI Limited to:				
Five Star Hotels Limited	**145,457**	198,657	**-**	-
IHI Hungary Zrt.	**319,079**	323,813	**-**	-
Alfa Investimentos Turisticos Lda	**243,739**	227,956	**-**	-
IHI Benelux B.V.	**295,631**	322,554	**-**	-
Incentive fee charged by CHI Limited to:				
Five Star Hotels Limited	**-**	191,474	**-**	-
IHI Hungary Zrt.	**585,521**	234,638	**-**	-
Consultancy and sub-licence fees charged by CHI Limited to:				
IHI Benelux B.V.	**767,809**	859,926	**-**	-
	2,953,242	2,918,086	**582,006**	559,068
carried forward	**3,849,323**	4,155,572	**582,006**	559,068

30 Related parties (continued)

30.3 Other related party transactions (continued)

	The Group		The Company	
	2006	2005	**2006**	2005
	EUR	EUR	**EUR**	EUR
brought forward	**3,849,323**	4,155,572	**582,006**	559,068
Sundry expenses				
Charged/(Recharged) by/(to) the Parent Company and its subsidiary companies to:				
IHI p.l.c.	**-**	29,032	**-**	29,032
Five Star Hotels Limited	**(212,863)**	-	**-**	-
IHI Hungary Zrt.	**22,787**	29,577	**-**	-
Alfa Investimentos Turisticos Lda	**51,401**	584	**-**	-
IHI Benelux B.V.	**-**	501	**-**	-
CHI Limited	**179,188**	-	**-**	-
Charged by CHI Limited to:				
Five Star Hotels Limited	**-**	144,840	**-**	-
IHI Hungary Zrt.	**-**	41,286	**-**	-
Alfa Investimentos Turisticos Lda	**-**	101,299	**-**	-
	40,513	347,119	**-**	29,032
Charged by QPM to:				
IHI Hungary Zrt.	**7,818**	-	**-**	-
Alfa Investimentos Turisticos Lda	**10,915**	-	**-**	-
	18,733	-	**-**	-
Financing				
Interest receivable (see note 9)	**(58,774)**	(50,003)	**(58,774)**	(47,196)
Interest payable (see note 10)	**867,811**	489,833	**669,439**	248,295
	809,037	439,830	**610,665**	201,099
Expensed	**4,717,606**	4,942,521	**1,192,671**	789,199

Related party transactions between CHI and other subsidiaries forming part of IHI relate to the period prior to date when CHI became a subsidiary.

Property, plant and equipment				
Construction and related services				
Provided by QPM and				
Corinthia Construction (Overseas) Limited to:				
IHI Hungary Zrt.	**196,183**	(77,706)	**-**	-
Alfa Investimentos Turisticos Lda	**23,390**	69,881	**-**	-
IHI Benelux B.V.	**980,827**	108,000	**-**	-
Capitalised	**1,200,400**	100,175	**-**	-

30.4 In addition, Five Star Hotels Limited, a subsidiary company, is party to a joint and several guarantee, and a general and special hypothecary guarantee over the Corinthia San Gorg Hotel, originally for EUR14,428,252, now standing at EUR9,156,558, in favour of Corinthia Palace Hotel Company Limited. In addition, this subsidiary company issued general hypothecary guarantees over all its assets and special hypothecary guarantees over the Corinthia San Gorg Hotel in favour of Corinthia Palace Hotel Company Limited (see note 14.2).

30.5 Related party balances

Information regarding balances with related parties is set out in notes 20, 21, 25 and 27 to the financial statements.

31 Capital commitments

	The Group	
	2006	2005
	EUR	EUR
Property, plant and equipment:		
Contracted for:		
Five Star Hotels Limited (Corinthia San Gorg Hotel)	**2,727,885**	-
IHI Hungary Zrt. (Corinthia Grand Hotel Royal)	**-**	1,000,000
IHI Benelux B.V. (Corinthia Nevskij Palace Hotel)	**9,079,081**	4,000,000
	11,806,966	5,000,000
Authorised but not yet contracted for:		
Five Star Hotels Limited (Corinthia San Gorg Hotel)	**-**	5,000,000
IHI Benelux B.V. (Corinthia Nevskij Palace Hotel)	**204,837**	250,000
Alfa Investimentos Turisticos Lda (Corinthia Lisboa Hotel)	**4,490,000**	-
	4,694,837	5,250,000
	16,501,803	10,250,000

32 Financial instruments

32.1 Exposure risks

Exposure to credit, interest rate and foreign currency risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to interest rates.

32.2 Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers requiring continuing credit. The Group does not require collateral in respect of financial assets. Credit risk with respect to debtors is limited due to the spread of customers comprising the Group's debtor base. Debtors are presented net of provisions towards doubtful recoveries.

The Group's cash is held with financial institutions which have credit ratings, such that management does not expect any institution to fail to meet repayments of amounts held on deposit.

At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

32.3 Interest rate risk

The Group adopts a policy of ensuring that its exposure to changes in interest rates on interest-bearing borrowings due to the Parent Company and its other subsidiaries and to the bondholders is limited, by entering into financial arrangements subject to fixed rates of interest. Other financial arrangements with banks comprise a combination of facilities subject to fixed, EURIBOR and LIBOR rates of interest. EURIBOR (Euro InterBank Offered Rate) is the rate at which euro inter-bank term deposits within the euro zone are offered by one prime bank to another prime bank. LIBOR (London InterBank Offered Rate) is the rate on dollar-denominated deposits, also known as Eurodollars, traded between banks in London. Both these Offered Rates fluctuate daily.

In addition, with a view of mitigating interest rate risk, the Company entered into an interest rate swap agreement with a local financial institution. Swaps are over-the-counter agreements between two parties to exchange future cash flows based upon agreed notional amounts. As such therefore, under the interest rate swap agreement, the Company agreed with the counter-party to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The Group is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in interest rates relative to the contractual rates of the contract.

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they re-price.

32 Financial instruments (continued)

32.3 *Interest rate risk (continued)*

		2006							2005						
	Note	Average effective interest rate	Total	6 months or less	6 -12 months	1 - 2 years	2 - 5 years	More than 5 years	Average effective interest rate	Total	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
		%	EUR	EUR	EUR	EUR	EUR	EUR	%	EUR	EUR	EUR	EUR	EUR	EUR
Effect of interest rate swap	19.1	0.23	-	8,000,000	-	-	(8,000,000)	-	1.00	-	8,000,000	-	-	(8,000,000)	-
Loan to related company:															
Euro floating rate loan	20. 21	4.00	1,470,000	-	-	1,470,000	-	-	2.88	1,589,071	119,071	-	1,470,000	-	-
Cash at bank and in hand	29	1.55	21,804,659	21,804,659	-	-	-	-	1.11	4,306,625	4,306,625	-	-	-	-
Bank loans:															
Euro floating rate loan	23.2	2.73	(4,620,757)	-	(4,620,757)	-	-	-	4.00	(1,760,531)	-	(1,760,531)	-	-	-
Euro fixed rate loan	23.2	4.71	(42,090,000)	-	-	-	(42,090,000)	-	2.36	(42,950,000)	-	-	-	(42,950,000)	-
Euro floating rate loan	23.2	5.18	(9,566,600)	(9,566,600)	-	-	-	-	5.37	(72,098,566)	(72,098,566)	-	-	-	-
Euro floating rate loan	23.2	4.52	(43,926,486)	(43,926,486)	-	-	-	-	-	-	-	-	-	-	-
Euro floating rate loan	23.2	6.20	(16,987,084)	(16,987,084)	-	-	-	-	-	-	-	-	-	-	-
Bank overdrafts:															
Lm floating rate	23.2	5.35	(1,512,241)	-	(1,512,241)	-	-	-	3.15	(1,697,331)	-	(1,697,331)	-	-	-
Euro floating rate	23.2	4.10	(1,009,162)	-	(1,009,162)	-	-	-	2.12	(686,744)	(479,479)	(207,265)	-	-	-
Euro floating rate	23.2	1.96	(229,482)	-	(229,482)	-	-	-	-	-	-	-	-	-	-
Debt securities in issue:															
Lm fixed rate convertible bond	24.2	5.32	(10,940,986)	-	-	-	-	(10,940,986)	5.45	(10,762,378)	-	-	-	-	(10,762,378)
Lm fixed rate bond	24.3	6.41	(13,780,292)	-	-	-	-	(13,780,292)	6.47	(13,749,725)	-	-	-	-	(13,749,725)
Euro fixed rate bond	24.3	6.26	(7,978,960)	-	-	-	-	(7,978,960)	6.29	(7,948,777)	-	-	-	-	(7,948,777)
Euro fixed rate bond	24.3	5.04	(12,377,173)	-	-	-	-	(12,377,173)	-	-	-	-	-	-	-
Other interest-bearing liabilities:															
Lm fixed rate loans	25	5.67	(675,949)	-	(675,949)	-	-	-	3.22	(1,287,184)	-	(1,287,184)	-	-	-
Lm fixed rate loan		-	-	-	-	-	-	-	4.58	(418,705)	-	(418,705)	-	-	-
Euro fixed rate loan		-	-	-	-	-	-	-	5.00	(986,986)	-	(986,986)	-	-	-
Euro fixed rate loan	25	6.80	(1,748,521)	-	(1,748,521)	-	-	-	6.80	(1,718,150)	-	(1,718,150)	-	-	-
Euro fixed rate loan	25	5.50	(10,383,506)	-	-	-	-	(10,383,506)	5.00	(13,418,871)	-	-	-	-	(13,418,871)
Euro floating rate loan	25	4.07	(1,671,475)	-	-	(1,671,475)	-	-	5.00	(1,671,475)	-	-	(1,671,475)	-	-
			(156,224,015)	(40,675,511)	(9,796,112)	(201,475)	(50,090,000)	(55,460,917)		(165,259,727)	(60,152,349)	(8,076,152)	(201,475)	(50,950,000)	(45,879,751)

32 Financial instruments (continued)

32.4 Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the Euro. The currencies giving rise to this risk are the Hungarian Forint, US Dollar and Russian Rouble. In addition, the Group does not hedge its investments in its foreign subsidiaries and is similarly exposed to currency risk arising on the translation of the assets and liabilities of such subsidiaries where the functional currency at the subsdairy company level is other than the Euro. The Group relies on natural hedges between inflows and outflows in currencies other than the Euro, and does not otherwise hedge against exchange gains or losses which may arise on the realisation of amounts receivable and the settlement of amounts payable in foreign currencies, which amounts may be significant.

33 Contingent events

33.1 At balance sheet date, the Group had the following contingent liabilities arising from:

	EUR
Guarantees issued by the bankers of one of the subsidiary companies in favour of third parties.	300,000
Litigation relating to termination of employment	34,960

While liability is not admitted, if defence against these actions is unsuccessful, the disclosed amounts could become due. Based on legal advice, the directors do not expect the respective companies to be found liable. As a result no provision towards these amounts have been made in these financial statements.

33.2 The Group is subject to tax in various jurisdictions. A number of possible claims may be raised by the tax authorities in these jurisdictions which may expose it to substantial amounts payable, should these authorities find against the respective companies. No provision has been made towards such amounts on the basis that the likelihood of occurrence of these claims is considered by the Directors to be remote.

34 Comparative information

Certain comparative amounts have been reclassified to conform with the current year's presentation.

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REPORT OF THE INDEPENDENT AUDITORS

To the Shareholders of International Hotel Investments p.l.c.
On the Financial Statements

We have audited the accompanying financial statements of International Hotel Investments p.l.c. (the "Company"), and of the Group of which the Company is the Parent, which comprise the balance sheets as at 31 December 2006, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the Group's financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and those of the Company in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

To the Shareholders of International Hotel Investments p.l.c.
On the Financial Statements

Opinions

In our opinion, the financial statements give a true and fair view:

- of the financial position of the Group as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

- of the financial position of the Company as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Also, in our opinion, the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995 enacted in Malta.

Hilary Galea-Lauri (Partner) for and on behalf of

KPMG
Certified Public Accountants

20 April 2007

International Hotel Investments p.l.c.

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