International Hotel Investments p.l.c.

Directors' Reports
and
Financial Statements
2004

Company Registration Number: C 26136

CONTENTS

DIRECTORS' REPORT

For the Year Ended 31 December 2004

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 2004.

Board of Directors

Mr Alfred Pisani (Chairman and Chief Executive Officer)
Mr Louis E Galea (Deputy Chairman) (Deceased 13 April 2005)
Mr Joseph Fenech (Managing Director)
Dr Joseph J Vella
Mr Frank Xerri de Caro (Appointed 2 July 2004)
Mr Lawrence Zammit
Mr Abdurazagh I Zmirli (Appointed 1 January 2005)

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 (refer to notes 12(b) and 13(b) 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 profit and loss account on page 41 of the financial statements.

The Managing Director's Report included in the Annual Report set out on pages 16 to 19 reviews the business of the Group for the year and the financial position at 31 December 2004.

Future Developments

The Chairman's Report included in the Annual Report set out on pages 12 to 15 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 on pages 44 and 45 of the financial statements.

Approved by the Board of Directors on 5 May 2005 and signed on its behalf by:

Mr Alfred Pisani
Chairman and Chief Executive Officer

Mr Joseph Fenech
Managing Director

22 Europa Centre
Floriana VLT15
Malta

SHAREHOLDER AND OTHER INFORMATION

The following information is being published in terms of the Listing Rules of the Listing Authority.

Number of Shareholders

	Total Shareholders	
Range	**31/12/04**	**17/04/05**
1 to 1000	381	389
1001 to 5000	2,219	2,208
5001 and over	805	807
	3,405	3,404

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 time, rank *pari passu* with respect to any distribution whether of dividends or capital, in a winding up or otherwise.

Shareholders Holding 5% or more of the Share Capital

	Number of Shares	**Percentage Holding (%)**
Corinthia Palace Hotel Company Limited:		
At 31 December 2004	99,288,375	76.93
At 17 April 2005	109,288,375	78.59

Directors' Interest in the Shareholding of the Company

	Number of Shares held	
	31/12/04	**17/04/05**
Mr Joseph Fenech	64,487	64,487
Dr Joseph J Vella	49,605	49,605
Mr Louis E Galea	5,953	Deceased 13/04/05
Mr Frank Xerri de Caro	-	-
Mr Lawrence Zammit	-	-
Mr Abdurazagh I Zmirli	Appointed 01/01/05	-

Mr Alfred Pisani has a beneficial interest in the Company of 182,064 ordinary shares through the shareholding of A & A Pisani & Company Limited in Corinthia Palace Hotel Company Limited.

SHAREHOLDER AND OTHER INFORMATION

Contracts of Significance

The following information is given in terms of Listing Rules 9.51.3 and 9.51.14.

Administrative Support Services Agreement with Corinthia Palace Hotel Company Limited

The Company has an Administrative Support Services Agreement with Corinthia Palace Hotel Company Limited. 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, Corinthia Palace Hotel Company Limited is entitled to receive from the Company a fixed fee of Lm125,000 (EUR287,000) 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 (EUR575,000) per annum.

Management Agreements with C.H.I. Limited (CHI)

The Group has appointed CHI in order to operate, manage, and provide consultancy at the following hotels:

- Corinthia San Gorg Hotel in Malta
- Corinthia Nevskij Palace Hotel in The Russian Federation
- Corinthia Grand Hotel Royal in Hungary
- Corinthia Alfa Hotel in Portugal

The agreements ensure that the hotel properties are supported by an experienced hotel operator and can make use of the "Corinthia" brand. 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
- Incentive fee of 10% on the achievement of pre-agreed budgeted Gross Operating Profit levels

In the case of the Corinthia Alfa Hotel, the agreement also provided for the provision of assistance and advice for the re-opening of the hotel at a pre-determined fee of EUR225,000.

Company Secretary and Registered Address

Mr Alfred Fabri
22 Europa Centre
Floriana VLT 15
Malta

Telephone (+356) 21 233 141

CORPORATE GOVERNANCE DISCLOSURES - DIRECTORS' STATEMENT OF COMPLIANCE

As from January 2004 the Listing Authority has assumed responsibility for the monitoring of the compliance of listed companies in Malta. The Code of Principles of Good Corporate Governance ("the Code" or "the Principles") was originally issued by the Malta Stock Exchange ("the MSE") and now features as part of the new Listing Rules. By virtue of Listing Rule 8.26, listed companies are required to include a Statement of Compliance in their Annual Report setting out the extent to which they have adopted these Principles.

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 complementary to 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 minimised. 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 two executive directors and currently four non-executive directors following the demise of Mr Louis E Galea on 13 April 2005. The present mix of executive and non-executive 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
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 Abdurazagh I Zmirli		1 January 2005

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, the late Mr Louis E Galea, Mr Joseph Fenech, Dr J J Vella and Mr Lawrence Zammit, lapsed at the Annual General Meeting held on 2 July 2004, at which date they were re-appointed for a further term. At the same meeting Mr Frank Xerri de Caro was appointed to the Board whereas Mr Abdurazagh I Zmirli was appointed with effect from 1 January 2005.

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.

CORPORATE GOVERNANCE DISCLOSURES - DIRECTORS' STATEMENT OF COMPLIANCE

The non-executive directors constitute a majority on the Board and are independent of Corinthia Palace Hotel Company Limited (IHI's parent). 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 Corinthia Palace Hotel Company Limited and its other subsidiaries.

The Board met 13 times during the period under review.

Terms of Appointment of Directors

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 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% 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.

Corinthia Palace Hotel Company Limited currently owns 78.59% of the share capital of IHI. In terms of the Memorandum and Articles of Association of the Company, Corinthia Palace Hotel Company Limited is therefore entitled to appoint a 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 executive directors, none of the other Directors of the Company have a service contract with the Company. The signed contracts with the executive directors 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 ending 31 December 2004, the Company paid an aggregate of EUR110,215 to its directors. The Board has resolved to disclose Directors' fees in an aggregate rather than as separate figures for each director as required by the Code.

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 Annual General Meeting held on 27 June 2003 increased the aggregate amount of emoluments to directors to a maximum of Lm60,000 (EUR145,239). 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.

In 2004, the Nomination and Remuneration Committees were merged. During the year the merged Committee met four times. The function of this Committee is to propose 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 both non-executive directors on the Board, Mr Frank Xerri de Caro and Dr Joseph J Vella, with Mr Alfred Fabri acting as Secretary to the Committee.

The Directors' interest in the shareholding of the Company is included in the Shareholder and Other Information on page 32.

The Directors are fully aware of their obligations regarding dealings in securities of the Company as required by the Listing Rules of the Listing Authority 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.

CORPORATE GOVERNANCE DISCLOSURES - DIRECTORS' STATEMENT OF COMPLIANCE

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, the external auditors and the internal audit team.

During the year under review, the Committee met eight times. The internal and external auditors attended these meetings, upon the direct request of the Audit Committee. 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 (the Managing Director) and Mr Lawrence Zammit act as members. The Company Secretary, Mr Alfred Fabri acts as Secretary to the Committee.

The Audit Committee has been approved in terms of Listing Rule 8.65.1 to review related party transactions of the Group, by means of a letter from the Listing Authority to the Company dated 28 September 2004, thereby foregoing the need for approval of transactions with related parties in a general meeting.

Internal Audit
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 internal management policies, practices and controls. The function is expected to promote the application of best practices within the organisation. During 2004, the internal audit function has taken on another dimension, namely that of advising the Audit Committee on aspects of the regulatory framework which affect the day-to-day operations of the hotels.

The internal auditor reports directly to the Audit Committee.

Monitoring Committee
The Committee is responsible for ensuring that proper budgets are set 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 2004, the Committee met every month to review the performance of each hotel. Meetings were also held as necessary with C.H.I. Limited, the operator of the Company's hotels.

Related Parties Transactions Committee
The Directors are fully aware that the close association of the Company with Corinthia Palace Hotel Company Limited 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 due to the fact that 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 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 party transactions in the notes to their financial statements.

CORPORATE GOVERNANCE DISCLOSURES - DIRECTORS' STATEMENT OF COMPLIANCE

The Committee is currently made up of two members, namely, Mr Joseph Fenech and Dr Joseph J Vella whilst Mr Alfred Fabri acts as Secretary.

The internal audit function performs an analysis of related party transactions which is then submitted to the Committee. This Committee reports on related party transactions for deliberation by the Audit Committee as authorised under Listing Rule 8.65.1.

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 the only two executive directors of the Company. They are supported in their executive roles by Corinthia Palace Hotel Company Limited, with whom the Company entered into an Administrative Support Services Agreement. This agreement was last renewed on 31 December 2004 and covers two years from that date.

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 Corinthia Palace Hotel Company Limited and its other subsidiaries. The fees for services rendered are considered reasonable by the Board. The Agreement further evidences the commitment of Corinthia Palace Hotel Company Limited and its other subsidiaries to IHI and its future development and growth.

Commitment to Shareholders and an Informed Market

The Company is highly committed to having an open and communicative relationship with its shareholders and investors at large. In this respect, over and above the statutory and regulatory requirements relating to the Annual General Meeting, 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 invests considerable time and effort in maintaining its website and making it user friendly, with a section dedicated specifically to investors. As a result of these press releases, 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 reductions and concessions, which it makes available to its investors.

In order to better serve the investing public, the Board has appointed the Company Secretary, to be responsible for shareholder relations.

The Company holds an additional meeting for stockbrokers and institutional investors twice a year, to coincide with the publication of the financial statements.

Going Concern

The Directors have reviewed the Group's operational and cash flow forecasts. On the basis of this review, after making enquiries and, in the light of the current financial position, the existing banking facilities and other funding arrangements, and those that are in the course of negotiation, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, in preparing the financial statements, they continue to adopt the going concern basis as explained in note 1(b) to these financial statements.

Approved by the Board of Directors on 5 May 2005 and signed on its behalf by:

Mr Frank Xerri de Caro	Mr Lawrence Zammit
Director and Chairman of Audit Committee	Director

REPORT OF THE AUDITORS

To the Members of International Hotel Investments p.l.c.
Pursuant to Listing Rule 8.28 issued by the Listing Authority

KPMG

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Malta

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Listing Rules 8.26 and 8.27 issued by the Listing Authority, require the Company's directors 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, and the effective measures they have taken to ensure compliance with these Principles.

Our responsibility, as auditors of the Company, is laid down by Listing Rule 8.28, 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 directors' Statement of Compliance set out on pages 34 to 37 provides the disclosures required by Listing Rules 8.26 and 8.27 issued by the Listing Authority.

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

KPMG
Certified Public Accountants

5 May 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act, 1995 requires the Directors 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 for that period.

In preparing such financial statements, the Directors are required 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;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items on a prudent basis; and
- report comparative figures corresponding to those of the preceding accounting period.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT

To the Members of International Hotel Investments p.l.c.

KPMG

Portico Building
Marina Street
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We have audited the financial statements set out on pages 41 to 90. As described on page 39, these financial statements are the responsibility of the Company's Directors. 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 issued by the International Auditing and Assurance Standards Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2004 and of the results of their operations and their cash flows for the year then ended in accordance with the requirements of International Financial Reporting Standards promulgated by the International Accounting Standards Board, and have been properly prepared in accordance with the provisions of the Companies Act, 1995 enacted in Malta.

Whilst not qualifying our opinion, we draw attention to note 1(b) to the financial statements, explaining the going concern basis underlying the preparation of the financial statements, whereby the Directors envisage that the Group will have adequate resources available to continue in operational existence for the foreseeable future.

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

KPMG
Certified Public Accountants

5 May 2005

PROFIT AND LOSS ACCOUNTS

For the Year Ended 31 December 2004

	Note	The Group		The Company	
	30	**2004**	2003	**2004**	2003
		EUR	EUR	**EUR**	EUR
Revenue	2	**46,623,923**	34,719,489	**1,972,950**	1,252,891
Direct Costs		**(31,575,021)**	(23,929,800)	**(3,798,584)**	(2,822,045)
Gross Profit/(Loss)		**15,048,902**	10,789,689	**(1,825,634)**	(1,569,154)
Marketing Costs		**(3,179,934)**	(2,991,418)	**-**	-
Administrative Expenses		**(10,945,104)**	(10,050,737)	**(572,749)**	(1,156,976)
Net Impairment Losses	3	**(2,170,600)**	(18,260,384)	**-**	-
Revaluation to Fair Value of Available-for-Sale Investments	12(a)	**-**	-	**(812,296)**	6,859,978
Operating Net Exchange Differences		**236,861**	(155,244)	**171,376**	788,566
Other Net Operating (Charges)/Income		**(203,202)**	209,207	**-**	-
Operating (Loss)/Profit	4	**(1,213,077)**	(20,458,887)	**(3,039,303)**	4,922,414
Staff Indemnities	5	**-**	(1,165,000)	**-**	-
Pre-Operating Expenses	5	**(2,269,027)**	(2,926,000)	**-**	-
Interest Receivable and Similar Income	6	**502,847**	526,787	**-**	-
Interest Payable and Similar Charges	7	**(8,783,994)**	(8,071,071)	**-**	-
Other Net Exchange Differences		**(40,641)**	1,611,560	**-**	-
Revaluation to Fair Value of Investment Property	11	**-**	22,842,102	**-**	-
Income from Associates	13(a)	**458,863**	263,494	**-**	-
(Loss)/Profit before Taxation		**(11,345,029)**	(7,377,015)	**(3,039,303)**	4,922,414
Taxation	8	**3,230,298**	(5,161,781)	**360,421**	(2,249,957)
(Loss)/Profit for the Year		**(8,114,731)**	(12,538,796)	**(2,678,882)**	2,672,457
(Loss)/Earnings per Share	9	**(0.07)**	(0.10)	**(0.02)**	0.02

BALANCE SHEETS

At 31 December 2004

	Note	The Group		The Company	
	30	**2004**	2003	**2004**	2003
		EUR	EUR	**EUR**	EUR
Non-Current Assets					
Property, Plant and Equipment	10	**299,249,198**	285,109,941	**-**	-
Investment Property	11	**33,400,000**	33,400,000	**-**	-
Investments in Subsidiary Companies	12	**-**	-	**169,703,390**	156,608,617
Investments in Associated Companies	13	**1,981,018**	1,982,455	**913,496**	913,496
Derivative Financial Instrument	14	**351,488**	178,083	**351,488**	178,083
Loans Receivable	15	**1,470,000**	1,470,000	**15,509,835**	15,509,835
		336,451,704	322,140,479	**186,478,209**	173,210,031
Current Assets					
Inventories		**2,121,293**	1,622,386	**-**	-
Trade Debtors		**5,036,545**	3,663,368	**-**	-
Other Debtors	16	**2,646,862**	6,117,574	**5,304,787**	4,875,287
Taxation Recoverable		**633,979**	98,112	**-**	-
Cash at Bank and in Hand		**2,854,831**	5,228,975	**20,655**	26,284
		13,293,510	16,730,415	**5,325,442**	4,901,571
Current Liabilities					
Bank Borrowings	17	**24,283,668**	11,382,674	**12,000,000**	2,000,000
Other Interest-Bearing Liabilities	19	**3,879,980**	1,099,369	**116,684**	454,670
Trade Creditors		**4,660,648**	4,917,748	**296,020**	389,689
Other Creditors	20	**25,652,167**	28,342,013	**3,239,261**	3,901,317
		58,476,463	45,741,804	**15,651,965**	6,745,676
Net Current Liabilities		**(45,182,953)**	(29,011,389)	**(10,326,523)**	(1,844,105)
Total Assets less Current Liabilities		**291,268,751**	293,129,090	**176,151,686**	171,365,926
Non-Current Liabilities					
Bank Borrowings	17	**98,468,209**	104,808,040	**11,000,000**	13,000,040
Debt Securities in Issue	18	**31,929,829**	31,887,753	**31,929,829**	31,887,753
Other Interest-Bearing Liabilities	19	**3,324,837**	1,888,300	**-**	216,825
Deferred Taxation	21	**23,055,950**	26,940,094	**2,056,220**	2,416,789
Provision for Charges		**194,650**	345,000	**-**	-
		156,973,475	165,869,187	**44,986,049**	47,521,407
		134,295,276	127,259,903	**131,165,637**	123,844,519

BALANCE SHEETS

At 31 December 2004

	Note	The Group		The Company	
	30	**2004**	2003	**2004**	2003
		EUR	EUR	EUR	EUR
Capital and Reserves					
Called Up Issued Share Capital	22	**129,053,489**	119,053,489	**129,053,489**	119,053,489
Revaluation Reserve	23(a)	**13,869,923**	8,624,343	**-**	-
Translation Reserve	23(b)	**(1,230,969)**	(1,135,493)	**-**	-
Reporting Currency Conversion Difference	23(c)	**443,352**	443,352	**443,352**	443,352
Convertible Bonds Reserve	23(d)	**832,200**	832,200	**832,200**	832,200
Other Reserve	23(e)	**812,988**	627,736	**4,743,982**	5,086,722
Accumulated Losses	23(f)	**(9,485,707)**	(1,185,724)	**(3,907,386)**	(1,571,244)
		134,295,276	127,259,903	**131,165,637**	123,844,519

The financial statements on pages 41 to 90 were approved by the Board of Directors on 5 May 2005 and were signed on its behalf by:

Mr Alfred Pisani
Chairman and Chief Executive Officer

Mr Joseph Fenech
Managing Director

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2004

The Group	Total	Called Up Issued Share Capital	Revaluation Reserve*	Translation Reserve	Reporting Currency Conversion Difference*	Convertible Bonds Reserve*	Other Reserve*	Retained Earnings/ (Accumulated Losses)
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
At 1 January 2003	140,293,952	119,051,165	8,624,343	(637,916)	443,352	832,200	-	11,980,808
Issue of Shares	2,324	2,324	-	-	-	-	-	-
Foreign Exchange Translation Differences	(497,577)	-	-	(497,577)	-	-	-	-
Loss for the Year	(12,538,796)	-	-	-	-	-	-	(12,538,796)
Transfer to Other Reserve	-	-	-	-	-	-	627,736	(627,736)
At 31 December 2003	127,259,903	119,053,489	8,624,343	(1,135,493)	443,352	832,200	627,736	(1,185,724)
Issue of Shares	10,000,000	10,000,000	-	-	-	-	-	-
Adjustment to Deferred Taxation on Prior Year Revaluation of Hotel Property (Note 21(c))	1,459,504	-	1,459,504	-	-	-	-	-
Revaluation of Hotel Property, Net of Deferred Taxation (Note 23(a))	3,786,076	-	3,786,076	-	-	-	-	-
Foreign Exchange Translation Differences	(95,476)	-	-	(95,476)	-	-	-	-
Loss for the Year	(8,114,731)	-	-	-	-	-	-	(8,114,731)
Transfer to Other Reserve	-	-	-	-	-	-	185,252	(185,252)
At 31 December 2004	**134,295,276**	**129,053,489**	**13,869,923**	**(1,230,969)**	**443,352**	**832,200**	**812,988**	**(9,485,707)**

* Not available for distribution by way of dividends.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2004

The Company	Total	Called Up Issued Share Capital	Reporting Currency Conversion Difference*	Convertible Bonds Reserve*	Other Reserve*	Retained Earnings/ (Accumulated Losses)
	EUR	EUR	EUR	EUR	EUR	EUR
At 1 January 2003	121,169,738	119,051,165	443,352	832,200	-	843,021
Issue of Shares	2,324	2,324	-	-	-	-
Loss for the Year	2,672,457	-	-	-	-	2,672,457
Transfer to Other Reserve	-	-	-	-	5,086,722	(5,086,722)
At 31 December 2003	123,844,519	119,053,489	443,352	832,200	5,086,722	(1,571,244)
Issue of Shares	10,000,000	10,000,000	-	-	-	-
Loss for the Year	(2,678,882)	-	-	-	-	(2,678,882)
Transfer from Other Reserve	-	-	-	-	(342,740)	342,740
At 31 December 2004	**131,165,637**	**129,053,489**	**443,352**	**832,200**	**4,743,982**	**(3,907,386)**

* Not available for distribution by way of dividends.

CASH FLOW STATEMENTS

For the Year Ended 31 December 2004

	Note	The Group		The Company	
	30	**2004**	2003	**2004**	2003
		EUR	EUR	**EUR**	EUR
Operating Activities					
(Loss)/Profit before Taxation		**(11,345,029)**	(7,377,015)	**(3,039,303)**	4,922,414
Adjustments for:					
Depreciation		**9,917,339**	6,974,981	**-**	12,614
Loss on Disposal of Tangible Assets		**335,960**	416,000	**-**	-
Provision for Charges		**(150,350)**	(216,000)	**-**	-
Capitalised Development Costs Written Off		**-**	443,410	**-**	443,410
Net Impairment Losses		**2,170,600**	18,260,384	**-**	-
Revaluation to Fair Value of Available-for-Sale Investments		**-**	-	**812,296**	(6,859,978)
Staff Indemnities		**-**	1,165,000	**-**	-
Pre-Operating Expenses		**2,269,027**	2,926,000	**-**	-
Interest Receivable and Similar Income		**(329,441)**	(348,704)	**-**	-
Fair Value Gain on Interest Rate Swap		**(173,405)**	(178,083)	**(173,405)**	(178,083)
Interest Payable and Similar Charges		**8,574,452**	7,880,927	**-**	-
Imputed Interest and Amortisation of Transaction Costs		**209,544**	190,144	**209,545**	190,144
Realised Exchange Differences		**(236,861)**	(604,629)	**(59,778)**	(901)
Unrealised Exchange Differences		**92,075**	(1,269,927)	**(111,598)**	(787,665)
Revaluation to Fair Value of Investment Property		**-**	(22,842,102)	**-**	-
Income from Associates		**(458,863)**	(263,494)	**-**	-
		10,875,048	5,156,892	**(2,362,243)**	(2,258,045)
Working Capital Changes:					
Inventories		**(502,130)**	230,134	**-**	-
Debtors		**(1,496,747)**	1,856,906	**(439,265)**	(664,869)
Advance Deposits		**(1,930,659)**	2,585,979	**-**	-
Other Creditors		**2,685,370**	(521,451)	**549,950**	1,161,646
Net Cash Generated from/(Absorbed by Operations)		**9,630,882**	9,308,460	**(2,251,558)**	(1,761,268)
Staff Indemnities		**-**	(1,165,000)	**-**	-
Pre-Operating Expenses		**(2,269,027)**	(2,926,000)	**-**	-
Taxation Paid		**(915,452)**	(875,493)	**-**	(185,676)
Net Cash from/(used in) Operating Activities		**6,446,403**	4,341,967	**(2,251,558)**	(1,946,944)
Investing Activities					
Payments to Acquire Property, Plant and Equipment		**(17,869,561)**	(30,804,068)	**(1,475,645)**	(878,019)
Proceeds from Disposal of Property, Plant and Equipment		**257,019**	54,698	**-**	-
Net Loans Advanced to Subsidiary Companies, Capitalised as part of Net Investment		**-**	-	**(13,907,069)**	(1,181,287)
Interest Received		**310,267**	297,881	**-**	-
Payments for Costs Incidental to the Acquisition of Investments in Group Companies		**-**	(64,631)	**-**	(64,631)
Net Cash used in Investing Activities		**(17,302,275)**	(30,516,120)	**(15,382,714)**	(2,123,937)
Carried Forward		**(10,855,872)**	(26,174,153)	**(17,634,272)**	(4,070,881)

CASH FLOW STATEMENTS

For the Year Ended 31 December 2004

	Note	The Group		The Company	
	30	**2004**	2003	**2004**	2003
		EUR	EUR	**EUR**	EUR
Brought Forward		**(10,855,872)**	(26,174,153)	**(17,634,272)**	(4,070,881)
Financing Activities					
Proceeds from Issue of Shares		**10,000,000**	2,324	**10,000,000**	2,324
Funds Previously Held by Custodian Bank		**-**	1,718,000	**-**	-
Bank Finance		**15,000,000**	45,500,040	**10,000,000**	15,000,040
Repayment of Bank Borrowings		**(9,182,548)**	(19,152,750)	**(2,000,040)**	-
Proceeds from Issue of Bonds		**-**	21,835,887	**-**	21,835,887
Loans Advanced by Parent Company and its Other Subsidiary Companies		**-**	-	**194,823**	-
Repayment of Loans Advanced by Parent Company and its Other Subsidiary Companies		**(100,142)**	(26,148,254)	**(549,863)**	(26,214,367)
Loan Advanced by Group Company		**-**	-	**-**	76,558
Repayment of Loans Advanced by Group Companies		**-**	-	**-**	(6,781,854)
Interest Paid		**(7,975,399)**	(6,344,543)	**-**	-
Net Cash from Financing Activities		**7,741,911**	17,410,704	**17,644,920**	3,918,588
Effect of Exchange Rate Fluctuations:					
On the Translation of Cash Flows of Foreign Operations		**(46,823)**	(2,205)	**-**	-
On Cash and Cash Equivalents		**11,755**	52,848	**(16,277)**	-
Net Decrease in Cash and Cash Equivalents		**(3,149,029)**	(8,712,806)	**(5,629)**	(152,293)
Cash and Cash Equivalents at Beginning of Year		**3,383,649**	12,096,455	**26,284**	178,577
Cash and Cash Equivalents at End of Year	24	**234,620**	3,383,649	**20,655**	26,284

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies

International Hotel Investments p.l.c. (referred to as "IHI") is a company domiciled in Malta. The consolidated financial statements comprise those of IHI (also referred to as "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 (referred to as "the Parent Company" or "CPHCL").

(a) Statement of Compliance

The financial statements have been prepared in accordance with the provisions of the Companies Act, 1995 (the "Act") enacted in Malta, which requires adherence to International Financial Reporting Standards (IFRSs) and their interpretations adopted by the International Accounting Standards Board (IASB).

The Act specifies that in the event that any one of its provisions is in conflict or not compatible with IFRSs or its application is compatible with the obligation for the financial statements to give a true and fair view, that provision shall be departed from in order to give a true and fair view.

IFRS 3, *Business Combinations*, IAS 36 (Revised 2004), *Impairment of Assets*, and IAS 38 (Revised 2004), *Intangible Assets*, have been adopted before their effective date.

(b) Basis of Preparation

The financial statements are prepared on the going concern basis (see below) and on the historical cost basis, except that the following assets are stated at their fair value: property, investments in subsidiary companies and derivative financial instruments.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 29.

The accounting policies have been consistently applied by Group enterprises and are consistent with those used in previous years.

Going Concern Basis

The Directors have considered the going concern basis underlying the preparation of these financial statements, which assumes that the Group's lenders will continue to provide the financial support necessary to enable it to finance its ongoing investment and refurbishment programmes relating to its hotel properties, and meet its debts as they fall due.

During the initial years of operation, the Group has undertaken substantial capital investment, incurring costs in the acquisition and redevelopment of four hotel properties which created a heavy outflow of capital with no significant returns. Such acquisitions have been financed mainly through the raising of capital by way of equity and bonds listed on the Malta Stock Exchange and loans advanced by its bankers.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(b) Basis of Preparation (Cont.)

Going Concern Basis (Cont.)

The Group's business is in the main dependent on the operation of city centre hotel properties. The hotel industry globally has been characterised by changes in economic and market conditions, which have adversely affected the Group's business and operating results. Furthermore, one of the Group's hotels, the Corinthia Alfa Hotel and Congress Centre in Lisbon was launched during May 2004 and, in line with industry norms, witnessed a slow build-up in its performance in its first months of operation.

The Directors envisage that the lifting of the economic embargo against Libya in 2004, the re-opening of the Corinthia Alfa Hotel and Congress Centre in Lisbon in May 2004, together with the accession of Malta and Hungary to the European Union also in May 2004 and the recovery of the hospitality industry, will contribute positively and will serve to enhance the Group's ability to generate future income streams. In this scenario, the Directors are confident that the Group will retain market share across all its hotel operations at room rates sufficient to sustain profitable operations, such that the recoverable amounts of the hotel properties are at least equal to the carrying amounts at which they are stated at 31 December 2004.

On the strength of their assessment, the Directors anticipate that the Group will continue to operate within the banking limits currently agreed and within those that they expect will be agreed when the Group's bankers consider renewing the facilities for further terms. Additional funding arrangements negotiated or in the course of negotiation are outlined below:

- One of the Group's subsidiaries has successfully negotiated long-term funding from its bankers for EUR12.5 million in connection with the refurbishment of its hotel property situated in Portugal. Drawdown of this amount is subject to fulfilling a number of conditions precedent attached to this facility, expected to be made available and utilised during 2005. In view of an initial moratorium on repayments, this loan will substitute an equal amount of liabilities falling due within one year from balance sheet date. In addition, the overdraft facility available in the operation of this hotel has been increased by a further EUR250,000.

- Another of the Group's subsidiaries has extended the financing period for certain liabilities owed to a third party and totalling EUR2 million till 31 March 2006. The trems of this agreement have been agreed to in principle by the subsidiary company and the third party.

- Facilities amounting to EUR7 million have been negotiated to fund in part the Group's capital expenditure commitments as set out in Note 26 to these financial statements.

- Since balance sheet date, the parent company has injected EUR10 million by way of equity (Note 22(b)) and has committed itself, together with its other subsidiaries, to continue providing the Group sufficient financial support, as may be required from time to time, to enable it to pay its debts, fund its own operations and continue to operate as a going concern. In addition, the Parent Company and its other subsidiaries have irrevocably subordinated their rights to repayment of amounts owing by the Group. Also, the repayment date of amounts totalling EUR6.9 million (Note 25(c)) due by the Group to its Parent Company and its other subsidiaries at balance sheet date, has since been postponed for more than 2 years from this date.

Based on the foregoing, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. As a result, the financial statements do not include any adjustments in the event that the Directors' expectations do not materialise, and/or the Group does not succeed to secure or renew the funding arrangements outlined above.

(c) Measurement and Presentation Currencies

The measurement currency adopted is the Euro (EUR) as this better provides information that reflects the economic substance of the underlying events and circumstances relevant to the Group of which it is the parent. With the exception of a subsidiary company registered in Malta, all the significant subsidiary companies use the Euro as the currency for measuring items in their financial statements. The Group has determined the Euro as the currency for preparing its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(d) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, 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 associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) Eliminations on Consolidation

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

(e) Foreign Currency

(i) Foreign Currency Transactions

Transactions in foreign currencies are translated to Euro at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account. Any unrealised exchange gains at balance sheet date are transferred from the profit and loss (reserve) account to a non-distributable reserve. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value, are translated to Euro at foreign exchange rate ruling at the dates the values were determined.

(ii) Financial Statements of Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Euro at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Euro at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity (Translation Reserve).

(iii) Net Investment in Foreign Operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to Translation Reserve. They are released into the profit and loss account upon disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(e) Foreign Currency (Cont.)

(iv) Exchange Differences Arising on Intra-Group Balances

Exchange differences arising on a monetary item that, in substance, forms part of the net investment of the Company or of one of its subsidiaries, in a foreign entity, is recognised in the profit and loss account in the respective company's financial statements, but classified as equity, through the Translation Reserve, in those of the Group, until disposal of the net investment, at which time they are recognised in the profit and loss account. Such monetary items are those for which settlement is neither planned nor likely to occur in the foreseeable future and exclude trade receivable and trade payables.

(f) Property, Plant and Equipment

(i) Owned Assets

Tangible assets are initially measured at cost. Subsequent to initial recognition, land and buildings are revalued periodically, such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. All tangible assets, other than freehold land, crockery and utensils and assets in the course of construction, are stated net of accumulated depreciation (see below) and impairment losses (refer accounting policy (n)).

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 profit and loss account.

The cost of constructed assets includes the cost of materials, direct labour and an appropriate proportion of overheads, and, where applicable, interest costs incurred in financing (refer accounting policy (s)(ii)), together with any other costs, to the extent that they are incurred prior to the commencement of the use of these assets. The latter costs also include local property taxes. Where an item of tangible assets comprises major components having different useful lives, they are accounted for as separate items of tangible assets.

(ii) Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Tangible assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses (refer accounting policy (n)). Operating lease payments are accounted for in accordance with accounting policy (s)(i).

(iii) Subsequent Expenditure

Expenditure incurred to replace a component of an item of a tangible asset that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditure is recognised in the profit and loss account as an expense when incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(f) Property, Plant and Equipment (Cont.)

(iv) Depreciation

Depreciation is calculated to write down the carrying amount of all tangible assets, other than freehold land, crockery and utensils and assets in the course of construction, by equal annual instalments over their expected useful economic lives. Crockery and utensils, which are included in hotel plant and equipment, are dealt with on a replacement basis.

The rates of depreciation used for the other tangible assets are based on the following useful lives:

	Years
• Freehold Buildings	25 - 50
• Leasehold Land and Buildings	Over Term of Lease
• Hotel Plant and Equipment	3 - 15
• Furniture, Fixtures and Fittings	3 - 10
• Motor Vehicles	5

(g) Investment Property

Investment property is stated at fair value, determined annually by the Directors, relying on expert opinions. Any gain or loss arising from a change in fair value is recognised in the profit and loss account. Rental income from investment property is accounted for as described in accounting policy (r)(iv).

(h) Investments

Investments in subsidiaries included in the balance sheet of the Company are accounted for as available-for-sale financial assets as described in IAS 39, *Financial Instruments: Recognition and Measurement*. These investments are accounted for in the Group's financial statements as set out in accounting policy (d)(i).

On initial recognition, available-for-sale financial assets are measured at cost, being the fair value of the consideration given. Transaction costs are included in the initial measurement of such assets. After initial recognition, such assets are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal. Gains or losses arising from a change in the fair value of these assets are included in net profit or loss for the period in which they arise.

Investments in associates are shown in the balance sheet of the Company at cost. These investments are accounted for in the Group's financial statements as set out in accounting policy (d)(ii).

(i) Derivative Financial Instruments

The Company uses derivative financial instruments in the form of interest rate swaps to hedge its exposure to interest rate risks. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequently to initial recognition, derivative financial instruments are stated at fair value. Where a derivate financial instrument is designated as a hedge, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in the profit and loss account immediately. Gains or losses resulting from changes in the fair value of derivatives accounted for as trading instruments are also recognised in the profit and loss account.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(j) Loans Receivable

Loans receivable originated by the Company which have a fixed maturity are measured at amortised cost using the effective interest rate method, whereas those that do not have a fixed maturity are measured at the fair value of the consideration given.

Loans advanced by the Company to its subsidiary companies 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 subsidiary companies and included as part of the carrying amount of investments in subsidiaries (refer accounting policy (h)).

Loans receivable are subject to review for impairment as set out in accounting policy (n).

(k) 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 these inventories is based on the weighted average principle and includes expenditure incurred in acquiring and bringing them to their existing location and condition.

(l) Trade and Other Receivables

Trade and other receivables, excluding loans receivable originated by the Company (refer accounting policy (j)), are stated at their cost less impairment losses (refer accounting policy (n)).

(m) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call bank 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 purpose of the statement of cash flows.

(n) Impairment

The carrying amounts of assets other than investment property (refer accounting policy (g)), inventories (refer accounting policy (k)) and deferred tax assets (refer accounting policy (u)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount (see (i) below) is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless the asset is carried at revalued amount, in which case the impairment is treated as a revaluation decrease, to the extent of the credit balance on the revaluation reserve.

(i) Calculation of Recoverable Amount

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of Impairment

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 had been recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(o) Interest-Bearing Borrowings

(i) Convertible Bonds

Convertible bonds 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, net of attributable transaction costs. The equity component of the convertible bonds is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The liability component is stated at amortised cost, with the difference between such cost and redemption value being recognised in the profit and loss account over the term of the bonds, on an effective interest basis.

(ii) Other Interest-Bearing Borrowings

Other interest-bearing borrowings are recognised initially at cost less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis.

(p) Trade and Other Payables

Trade and other payables are stated at cost.

(q) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(r) Revenue

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

(ii) Interest income is recognised in the profit and loss account on a time proportion basis that takes into account the effective yield on the asset.

(iii) Dividend income is recognised in the profit and loss account on the date when the right to receive payment is established.

(iv) Rental income from investment property is recognised in the profit and loss account 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.

(s) Expenses

(i) Operating Lease Payments

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(s) Expenses (Cont.)

(ii) Borrowing Costs

Borrowing costs are recognised as an expense during the period in which they are incurred, except to the extent that they specifically relate to a qualifying asset, in which case they are capitalised. The interest expense component of finance lease payments is recognised in the profit and loss account using the effective interest rate method.

(t) Employee Benefits

The Group contributes towards State pensions in accordance with legislation applicable in the various jurisdictions in which it operates. Related costs are expensed in the period in which they are incurred.

(u) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly to 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided 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. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities 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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised and/or sufficient taxable temporary differences exist. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(v) 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.

2 Segment Disclosures

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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2004

2 Segment Disclosures (Cont.)

	Malta											
	Hotel Property		**Corporate Business**		**Other European Union Countries**		**Other European Countries**		**Consolidation Adjustments**		**The Group**	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR	**EUR**	EUR	**EUR**	EUR	**EUR**	EUR	**EUR**	EUR
Revenue												
External	**8,771,904**	9,594,843	**301,714**	311,310	**21,313,487**	7,741,339	**16,538,532**	17,383,307	**(301,714)**	(311,310)	**46,623,923**	34,719,489
Inter-Segment	**-**	-	**1,671,236**	941,581	**-**	-	**-**	3,525,000	**(1,671,236)**	(4,466,581)	**-**	-
	8,771,904	9,594,843	**1,972,950**	1,252,891	**21,313,487**	7,741,339	**16,538,532**	20,908,307	**(1,972,950)**	(4,777,891)	**46,623,923**	34,719,489
Segment Result - Operating (Loss)/Profit	**(525,597)**	(8,327,886)	**(3,039,303)**	4,922,414	**(5,993,115)**	(15,947,153)	**5,621,075**	5,594,645	**2,723,863**	(6,700,907)	**(1,213,077)**	(20,458,887)
Staff Indemnities	**-**	-	**-**	-	**-**	(1,165,000)	**-**	-	**-**	-	**-**	(1,165,000)
Pre-Operating Expenses	**-**	-	**-**	-	**(2,269,027)**	(2,926,000)	**-**	-	**-**	-	**(2,269,027)**	(2,926,000)
Interest Receivable and Similar Income											**502,847**	526,787
Interest Payable and Similar Charges											**(8,783,994)**	(8,071,071)
Other Net Exchange Differences											**(40,641)**	1,611,560
Revaluation to Fair Value of Investment Property											**-**	22,842,102
Income from Associates	**-**	-	**458,863**	263,494	**-**	-	**-**	-	**-**	-	**458,863**	263,494
Taxation											**3,230,298**	(5,161,781)
Loss for the Year											**(8,114,731)**	(12,538,796)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

2 Segment Disclosures (Cont.)

	Malta											
	Hotel Property		Corporate Business		Other European Union Countries		Other European Countries		Consolidation Adjustments		The Group	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR	**EUR**	EUR	**EUR**	EUR	**EUR**	EUR	**EUR**	EUR
Segment Assets	**34,422,724**	36,799,287	**190,890,155**	177,198,106	**227,934,109**	237,833,144	**107,965,914**	100,650,991	**(213,980,795)**	(215,691,201)	**347,232,107**	336,790,327
Investments in Associates	**-**	-	**913,496**	913,496	**-**	-	**-**	-	**1,067,522**	1,068,959	**1,981,018**	1,982,455
Unallocated Assets											**532,089**	98,112
Total Assets											**349,745,214**	338,870,894
Segment Liabilities	**3,564,310**	3,721,680	**3,535,281**	4,291,006	**60,458,392**	97,068,069	**21,299,440**	6,743,634	**(58,544,608)**	(78,564,628)	**30,312,815**	33,259,761
Interest-Bearing Liabilities	**-**	-	**55,046,513**	47,559,288	**-**	-	**-**	-	**-**	-	**161,886,523**	151,066,136
Deferred Taxation											**23,055,950**	26,940,094
Provisions for Charges											**194,650**	345,000
Total Liabilities											**215,449,938**	211,610,991
Capital Expenditure	**67,009**	200,462	**-**	-	**19,521,426**	28,842,992	**2,461,572**	(741,159)	**-**	-	**22,050,007**	28,302,295
Depreciation	**1,851,449**	1,907,876	**-**	12,614	**6,855,944**	3,744,340	**1,209,946**	1,310,151	**-**	-	**9,917,339**	6,974,981
Net Impairment Losses	**-**	4,054,225	**-**	-	**2,170,600**	6,450,000	**-**	-	**-**	-	**2,170,600**	10,504,225

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

2 Segment Disclosures (Cont.)

The Company

	2004	2003
	EUR	EUR
Interest Receivable on:		
Loans Advanced to Group Companies	**749,376**	685,417
Loan Advanced to Related Company	**47,302**	51,077
Bank Deposits	**1,073**	27,460
	797,751	763,954
Dividend Received from Associated Company	**460,300**	-
Fair Value Gain on Interest Rate Swap (Note 14)	**173,405**	178,083
Interest Rate Differential of Interest Rate Swap (Note 14)	**79,934**	54,690
Management Fees Charged to Group Companies	**461,560**	256,164
	1,972,950	1,252,891

3 Net Impairment Losses

	2004	2003
	EUR	EUR
Incurred		
Goodwill	**-**	7,756,159
Property (Note 10(e))	**6,500,000**	10,504,225
	6,500,000	18,260,384
Reversed		
Property Note (10(e))	**(4,329,400)**	-
	2,170,600	18,260,384

4 Operating (Loss)/Profit

(a) The operating results are stated after charging the following:

	The Group		The Company	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
Operating Lease Charges	**279,049**	333,427	**-**	-
Directors' Fees	**110,215**	94,765	**105,541**	90,072
Auditors' Remuneration	**121,617**	109,971	**27,157**	23,167

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

4 Operating (Loss)/Profit (Cont.)

(b) Staff costs incurred by the Group during the year are analysed as follows:

	2004	2003
	EUR	EUR
Wages and Salaries	**12,339,767**	10,663,486
Social Security Costs	**2,339,852**	1,802,069
	14,679,619	12,465,555
Staff Indemnities	**-**	(1,165,000)
Payroll Costs included within Pre-Operating Expenses (Note 5)	**(1,173,983)**	(1,253,000)
	13,505,636	10,047,555

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

	2004	2003
	No.	No.
Management and Administration	**257**	187
Operating	**890**	792
	1,147	979

5 Staff Indemnities and Pre-Operating Expenses

	2004	2003
	EUR	EUR
Staff Indemnities:		
Alfa Investimentos Turisticos Lda	**-**	(1,165,000)
Pre-Operating Expenses:		
Alfa Investimentos Turisticos Lda	**(2,269,027)**	(2,926,000)

Pre-Operating Expenses relate to costs incurred in relation to the period from the beginning of the year to the date that the Hotel opened for business on 1 May 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

6 Interest Receivable and Similar Income

	2004	2003
	EUR	EUR
Interest Receivable on:		
Loan Advanced to Related Company (Note 25(d))	**67,826**	51,077
Bank Deposits	**181,682**	242,937
	249,508	294,014
Fair Value Gain on Interest Rate Swap (Note 14)	**173,405**	178,083
Interest Rate Differential of Interest Rate Swap (Note 14)	**79,934**	54,690
	502,847	526,787

7 Interest Payable and Similar Charges

	2004	2003
	EUR	EUR
Interest Payable on:		
Bank Borrowings	**5,914,262**	5,779,880
Debt Securities in Issue	**1,964,574**	1,793,054
Loans Advanced by Parent Company and its Subsidiaries (Note 25(d))	**490,533**	307,993
Capital Creditors	**205,083**	-
	8,574,452	7,880,927
Imputed Interest on Convertible Bonds and Amortisation of Bond Issue Costs (Note 18)	**209,542**	190,144
	8,783,994	8,071,071

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

8 Taxation

(a)

	The Group		The Company	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
Current Taxation				
Income Tax on the Taxable Income for the Year	**(559,752)**	(788,968)	**-**	-
Tax Over Provided for in Prior Years	**180,314**	200,855	**-**	-
Final Withholding Tax on Interest Received	**(148)**	(9)	**(148)**	(9)
	(379,586)	(588,122)	**(148)**	(9)
Deferred Taxation				
Origination and Reversal of Temporary Differences	**984,767**	(1,610,378)	**360,569**	(2,249,948)
Reduction in Tax Rates in Foreign Jurisdictions	**-**	2,569,803	**-**	-
Impairment Losses on Property	**-**	2,450,979	**-**	-
Adjustment Relating to the Prior Year				
Revaluation to Fair Value of Investment Property (Note 21(b))	**2,688,631**	-	**-**	-
Revaluation to Fair Value of Investment Property	**-**	(8,170,736)	**-**	-
Benefit of Tax Losses Recognised	**(63,514)**	186,673	**-**	-
Note 21(a)	**3,609,884**	(4,573,659)	**360,569**	(2,249,948)
Tax Income/(Expense)	**3,230,298**	(5,161,781)	**360,421**	(2,249,957)

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2004

8 Taxation (Cont.)

(b) The tax income/(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		The Company	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
(Loss)/Profit before Taxation	**(11,345,029)**	(7,377,015)	**(3,039,303)**	4,922,414
Tax at the domestic rate of 35%	**3,970,760**	2,581,955	**1,063,756**	(1,722,845)
• Effect of different tax rates in foreign jurisdictions	**(773,237)**	(3,087,842)	**-**	-
• Effect of reduction in tax rates in foreign jurisdictions	**-**	2,569,803	**-**	-
• Tax effect of double taxation treaty relief	**398,119**	621,651	**-**	-
• Effect of adjustment relating to the prior year revaluation to fair value of investment property	**2,688,631**	-	**-**	-
• Tax over provided for in prior years	**180,314**	200,855	**-**	-
• Adjustment to opening deferred tax asset	**(42,840)**	-	**(42,840)**	-
• Effect of different tax rates on bank interest received	**189**	11	**189**	11
• Tax effect of tax free dividends received from associated company	**-**	-	**161,105**	-
• Tax effect of expenses not deductible for tax purposes	**(1,121,788)**	(704,096)	**(821,789)**	(527,123)
• Tax benefit of unrelieved losses not recognised	**(2,206,058)**	(4,995,808)	**-**	-
• Tax effect of impairment loss on goodwill	**-**	(2,566,899)	**-**	-
• Tax effect of other consolidation adjustments	**163,073**	275,575	**-**	-
• Tax effect of other non-temporary differences	**(26,865)**	(56,986)	**-**	-
Tax Income/(Expense) for the Year	**3,230,298**	(5,161,781)	**360,421**	(2,249,957)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

9 (Loss)/Earnings per Share

All shares in issue are ordinary by class of shares.

(a) Basic (Loss)/Earnings per Share

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

	2004	2003
	EUR	EUR
(Loss)/Profit Attributable to Shareholders		
The Group	**(8,114,731)**	(12,538,796)
The Company	**(2,678,882)**	2,672,457

Weighted Average Number of Shares

	2004		2003	
	Issued Shares No.	**Weighted Average No.**	Issued Shares No.	Weighted Average No.
At Beginning of Year	**119,053,489**	**119,053,489**	48,000,000	48,000,000
Effect of Shares Issued in December 2004 (Note 22(b))	**10,000,000**	**792,350**	-	-
Effect of Change in the Nominal Value of Shares from EUR2.48 to EUR1	**-**	**-**	71,051,165	71,051,165
Effect of Shares Issued in December 2003	**-**	**-**	2,324	140
At End of Year	**129,053,489**	**119,845,839**	119,053,489	119,051,305

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

9 (Loss)/Earnings per Share (Cont.)

(b) Diluted Earnings per Share

The calculation of the loss 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:

	The Group		**The Company**	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
(Loss)/Profit Attributable to Shareholders	**(8,114,731)**	(12,538,796)	**(2,678,882)**	2,672,457
After-Tax Effect of Interest on Convertible Bonds	**482,268**	465,228	**482,268**	465,228
(Loss)/Profit Attributable to the Shareholders (Diluted)	**(7,632,463)**	(12,073,568)	**(2,196,614)**	3,137,685

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 18(b) to these financial statements. The fully diluted earnings per share cannot be ascertained since it is not possible to forecast this price at date of conversion.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

10 Property, Plant and Equipment

(a)

		Revalued Amount	Cost			
	Total	**Land and Buildings**	**Hotel Plant and Equipment**	**Furniture, Fixtures and Fittings**	**Motor Vehicles**	**Payments on Account and Buildings in the Course of Construction**
	EUR	EUR	EUR	EUR	EUR	EUR
Cost/Revalued Amount						
At 1 January 2004	315,366,256	192,933,824	21,561,136	10,084,853	282,919	90,503,524
Effect of Movement in Foreign Exchange Rates	(326,282)	(208,704)	(56,771)	(60,009)	(798)	-
Additions	22,050,007	-	347,865	225,554	36,815	21,439,773
Reallocations	-	87,109,553	7,626,403	12,809,919	-	(107,545,875)
Disposals	(643,216)	(456,424)	(95,726)	(26,933)	(830)	(63,303)
Revaluation Surplus (Note 23(a))	1,864,585	1,864,585	-	-	-	-
At 31 December 2004	338,311,350	281,242,834	29,382,907	23,033,384	318,106	4,334,119
Depreciation and Impairment Losses						
At 1 January 2004	30,256,315	15,116,918	7,111,151	7,861,189	167,057	-
Effect of Movement in Foreign Exchange Rates	(114,771)	(35,262)	(30,896)	(47,856)	(757)	-
Depreciation Charge for the Year	9,917,339	4,810,948	2,738,114	2,330,833	37,444	-
Net Impairment Losses (Note 10(e))	2,170,600	2,170,600	-	-	-	-
Reallocations	-	(4,158)	(735,956)	740,114	-	-
Disposals	(50,237)	-	(35,795)	(14,442)	-	-
Revaluation Surplus (Note 23(a))	(3,117,094)	(3,117,094)	-	-	-	-
At 31 December 2004	39,062,152	18,941,952	9,046,618	10,869,838	203,744	-
Carrying Amount						
At 31 December 2004	**299,249,198**	**262,300,882**	**20,336,289**	**12,163,546**	**114,362**	**4,334,119**
At 31 December 2003	285,109,941	177,816,906	14,449,985	2,223,664	115,862	90,503,524

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

10 Property, Plant and Equipment (Cont.)

(b) Land underlying the hotel belonging to Five Star Hotels Limited, a subsidiary company, comprises costs attributable to the acquisition, on temporary emphyteusis 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 (Note 17(b)). 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 (Note 25(e)). 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 (Note 17(b)). 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 further periods of 49 years.

The Corinthia Grand Hotel Royal and the Corinthia Alfa Hotel, both hotel properties owned and operated by the Group, have been hypothecated as collateral in favour of credit institutions for funds borrowed (Note 17(b)).

(c) On 31 December 2004, the directors accounted for the revalued amount of the Corinthia Nevskij Palace Hotel, owned by I.H.I. Benelux B.V., on the basis of an open market valuation of EUR57,300,000. The resulting revaluation surplus on the net book values has been credited to the revaluation reserve (Note 23(a)). This valuation was carried out by HVS International, specialists in hotel consulting and valuation. The valuers relied upon information provided by Corinthia Hotels International Limited (the hotel's operator) and knowledge of the St Petersburg hotel market, current at that time.

(d) The carrying amount 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 amounts to EUR180,779,618 (2003: EUR175,052,911).

(e) *Impairment Losses*

In line with the requirements of IAS 36 (Revised 2004), *Impairment of Assets*, the directors have assessed whether there are any indications that the value of the Group's hotel properties may be impaired. In assessing such indications, the directors considered, *inter alia*, evidence available from internal reporting, indicating whether the economic performances of the hotels did not match with expectations.

On the basis that indications of impairment existed for the following hotel properties, the directors estimated the recoverable amount for each property:

Hotel Property	Recognised at 01/01/04	Increase/ (Reversal)	Recognised at 31/12/04
	EUR	EUR	EUR
Corinthia San Gorg Hotel	4,054,225	-	4,054,225
Corinthia Grand Hotel Royal	6,450,000	(4,329,400)	2,120,600
Corinthia Alfa Hotel	-	6,500,000	6,500,000
	10,504,225	2,170,600	12,674,825

On the basis of an open market valuation, the carrying amount of the Corinthia San Gorg Hotel as at 31 December 2004 did not exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

10 Property, Plant and Equipment (Cont.)

(e) *Impairment Losses* (Cont.)

In assessing the recoverable amount of the Corinthia Grand Hotel Royal and the Corinthia Alfa Hotel by reference to their value in use (relying on professional independent opinions) the future cash inflows and outflows to be derived from the continuing use of the hotels and from their ultimate disposal were estimated in the currency in which they will be generated, and discounted by applying appropriate discount rates to those future cash flows - 5.6% for the Corinthia Grand Hotel Royal and 7.34% for the Corinthia Alfa Hotel.

The previous estimate of the value in use of the Corinthia Grand Hotel Royal amounted to EUR110,950,000. The partial reversal of the impairment in relation to this hotel property recognised in the previous year resulted from a revision in long-term projections of the hotel and a re-assessment of the discount rate.

11 Investment Property

Investment property owned by a subsidiary company, IHI Benelux B.V., comprises land and buildings adjacent to and surrounding the Corinthia Nevskij Palace Hotel situated in St Petersburg, also owned by this company (Note 10(c)). These properties are held on a long-term lease basis. The initial lease is for 49 years, with the option to renew for further periods of 49 years. These properties are held for a currently undetermined future use.

The Group obtained the free and unencumbered title of these properties during 2003 and accounted for the resulting increase amounting to EUR22,842,102 in its fair value to 31 December 2003, 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.

On 31 December 2004, the fair value attributed to these properties amounted to USD44,800,000 (2003: USD41,900,000), which when converted into Euros using the rates of exchange at the respective balance sheet dates amounted to EUR33,400,000. The valuation, again conducted by Colliers International, 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. Colliers International has not independently corroborated this information and representations.

12 Investments in Subsidiary Companies

(a)

	Total	Capital Subscribed	Loans Receivable	Fair Value Changes
	EUR	EUR	EUR	EUR
At 1 January 2004	156,608,617	71,374,387	78,374,252	6,859,978
Loans Advanced during Year	13,907,069	-	13,907,069	-
Net Decrease in Fair Value	(812,296)	-	-	(812,296)
At 31 December 2004	**169,703,390**	**71,374,387**	**92,281,321**	**6,047,682**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

12 Investments in Subsidiary Companies (Cont.)

(b) **Unquoted Investments**

Subsidiary Companies – 100% Holdings	**Registered Office**	**Nature of Business**
Five Star Hotels Limited	22 Europa Centre Floriana Malta	Owns and Operates the Corinthia San Gorg Malta
Alfa Investimentos Turisticos Lda	Avenida Columbana Bardolo Pinheiro Lisboa 1099 – 031 Portugal	Owns and Operates the Corinthia Alfa Hotel and Congress Centre Lisbon
IHI Lisbon Limited	22 Europa Centre Floriana Malta	Investment Company Holding an Equity Stake in Alfa Investimentos Turisticos Lda
IHI St Petersburg LLC (Note 12(c))	57 Nevskij Prospect St Petersburg 191025 Russian Federation	Investment Company
IHI Benelux B.V. (Note 12(d))	Frederick Roeskestraat 123 1076 EE Amsterdam PO Box 72888 1070 AC Amsterdam The Netherlands	Owns and operates the Corinthia Nevskij Palace Hotel St Petersburg
IHI Hungary Rt (Note 12(e))	Erzsebet Krt 43-49 H-1073, Budapest Hungary	Owns and Operates the Corinthia Grand Hotel Royal Budapest
IHI Zagreb d.d.	Centar Kaptol Nova Ves 11 10000 Zagreb Croatia	Investment Company
Mediterranean Hotel Resorts Limited	Sailsbury House 1-9 Union Street St Helier Jersey JE 4 8 RH Channel Islands	Investment Company

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2004

12 Investments in Subsidiary Companies (Cont.)

(c) 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 impact of this environment on the operations and financial position of this company is not at present affected by these risks.

(d) The entire issued and paid-up share capital of IHI Benelux B.V. is pledged in favour of Creditanstalt A.G., of Schottengasse 6, 1010 Vienna, Austria as collateral for a bank loan, originally for EUR18,600,000 and which at balance sheet date amounted to EUR15,970,014 (Note 17(b)), by means of a notarial deed. The shareholders of this company will continue to exercise the voting rights attached to these shares.

(e) IHI together with its subsidiary company IHI Hungary Rt, ("the Borrower") had entered into an agreement with Kereskedemi És Hitelbank Rt ("K&H Bank") and Orszvágos Takarékpénztár És Kereskedemi Rt ("OTP Bank") for a facility, for EUR49,000,000 and which at balance sheet date amounted to EUR42,410,956 (Note 17(b)). 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.

13 Investments in Associated Companies

(a)

	The Group	**The Company**
	EUR	EUR
At 1 January 2004	1,982,455	913,496
Group's Share of Results of Associated Companies	458,863	-
Dividend Received from Associated Company	(460,300)	-
At 31 December 2004	**1,981,018**	**913,496**

(b)

Unquoted Investments	**Registered Office**	**Nature of Business**
Associated Companies - 20% Holdings		
C.H.I. Limited	22 Europa Centre Floriana Malta	Hotel Management Company Operating the Hotel Properties owned by IHI and its Parent Company
Quality Project Management Limited	22 Europa Centre Floriana Malta	Project Management Company

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

14 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%

15 Loans Receivable

(a)

	The Group		The Company	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
Amounts Owed to:				
Group Company	**-**	-	**14,039,835**	14,039,835
Other Related Company	**1,470,000**	1,470,000	**1,470,000**	1,470,000
	1,470,000	1,470,000	**15,509,835**	15,509,835

(b)

		Terms		
	EUR	**Interest**	**Repayable By**	**Security**
Group Company				
IHI Benelux B.V.	14,039,835	6 Month EURIBOR + 3%	31 December 2010	None
Related Company				
Corinthia Investments Limited	1,470,000	EURIBOR + 1%	31 December 2015	None
	15,509,835			

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

16 Other Debtors

(a)

	The Group		The Company	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
Amounts Owed by:				
Parent Company	**68,984**	58,218	**-**	-
Group Companies	**-**	-	**4,699,665**	4,710,547
Associated Companies	**94,422**	396,786	**9,531**	15,192
Related Companies	**354,185**	201,251	**98,379**	-
Other Related Parties	**212**	49,072	**-**	-
Loan Owed by Related Company	**122,195**	-	**-**	-
Recoverable VAT on Capital Expenditure	**363,449**	4,050,562	**-**	42,942
Other Debtors	**815,577**	919,585	**103,231**	29,800
Prepayments and Accrued Income	**827,838**	442,100	**393,981**	76,806
	2,646,862	6,117,574	**5,304,787**	4,875,287

(b) The amounts owed by related parties are all unsecured and interest free.

(c) The loan owed by the related company is unsecured, bears interest at the rate of 6 month EURIBOR + 1% and is repayable on demand.

(d) Recoverable VAT includes EUR287,243 (2003: EUR144,006) expected to be refunded after more than one year from balance sheet date.

17 Bank Borrowings

(a)

	The Group		The Company	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
Bank Loans	**120,131,666**	114,345,388	**23,000,000**	15,000,040
Bank Overdraft	**2,620,211**	1,845,326	**-**	-
	122,751,877	116,190,714	**23,000,000**	15,000,040
Current				
Bank Loans	**21,663,457**	9,537,348	**12,000,000**	2,000,000
Bank Overdraft	**2,620,211**	1,845,326	**-**	-
	24,283,668	11,382,674	**12,000,000**	2,000,000
Non-Current				
Bank Loans	**98,468,209**	104,808,040	**11,000,000**	13,000,040

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

17 Bank Borrowings (Cont.)

(b)

Group Company		Terms					
			Repayment				
		Interest	By	Within 1 Year	Between 2 - 5 Years	After 5 Years	Security
	EUR			EUR	EUR	EUR	
International Hotel Investments p.l.c.:							
Bank Loan	8,000,000	6 Month EURIBOR + 2.25%	8 October 2008	2,000,000	6,000,000	-	Second General Hypothec for EUR20 million over all Company's assets present and future.
Bank Loan	5,000,000	6 Month EURIBOR + 3%	31 March 2005	5,000,000	-	-	Guarantee by Five Star Hotels Limited for EUR20 million. General Hypothecary Guarantee over all present and future assets and Special Hypothecary Guarantee for EUR20 million by Five Star Hotels Limited over the Corinthia San Gorg Hotel. General Hypthecary Guarantee over all present and future assets and liabilities and Special Hypothecary Guarantee for EUR10 million by Marina San Gorg Limited over the Corinthia Marina Hotel. Second General and Special Hypothecary Guarantee given by Alfa Investimentos Turisticos Lda over the Corinthia Alfa Hotel for EUR 10 million. General and Special Hypothecary Guarantee for EUR10 million over property owned by a related company.
Bank Loan	10,000,000	6 Month EURIBOR + 2%	30 October 2011	5,000,000	3,333,000	1,667,000	First General Hypothec for EUR10 million over all assets present and future. Second Ranking Mortgage guarantee by Thermal Hotel Aquincum Rt over the Corinthia Aquincum Hotel.
	23,000,000			12,000,000	9,333,000	1,667,000	

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

17 Bank Borrowings (Cont.)

(b)

		Terms					
			Repayment				
Group Company		**Interest**	**By**	**Within 1 Year**	**Between 2 - 5 Years**	**After 5 Years**	**Security**
	EUR			EUR	EUR	EUR	
Five Star Hotels Limited:							
Bank Overdraft	1,620,211	4.75%	On Demand	1,620,211	-	-	General hypothec over assets belonging to Five Star Hotels Limited supported by a special hypothec and privilege over the Corinthia San Gorg Hotel.
Bank Loan	3,250,696	4.75%	27 January 2007	1,558,585	1,692,111	-	
Alfa Investimentos Turisticos Lda:							
Bank Overdraft	1,000,000	3 Month EURIBOR + 2.5%	15 January 2005	1,000,000	-	-	Bills of Exchange.
Bank Loan	30,500,000	1 - 5 Years 4.7025%, thereafter at 3 Month EURIBOR + 1.25%	24 March 2022	-	3,355,000	27,145,000	Secured by mortgages over the Corinthia Alfa Hotel including land.
Bank Loan	5,000,000	3 Month EURIBOR + 2.5%	15 January 2005	5,000,000	-	-	Bill of Exchange.
IHI Benelux B.V.:							
Bank Loan	15,970,014	6 Month EURIBOR + 3%	31 December 2011	1,900,000	8,920,000	5,150,014	Secured over the Corinthia Nevskij Palace Hotel and a pledge over the shares of IHI Benelux B.V. (Note 12(d)).
IHI Hungary Rt.:							
Bank Loan	42,410,956	3 Month EURIBOR + 2.2%	10 September 2019	1,204,872	5,660,101	35,545,983	Secured by mortgages over the Corinthia Grand Hotel Royal and by a security deposit over the shares of IHI Hungary Rt. (Note 12(e)) and by a cash collateral amounting to EUR736,439 (Note 24(b)). In addition, IHI plc, 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.
	99,751,877			12,283,668	19,627,212	67,840,997	
	122,751,877			**24,283,668**	**28,960,212**	**69,507,997**	

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

18 Debt Securities in Issue

(a)

	2004	2003
	EUR	EUR
Convertible Bonds (Note 18(b))	**10,456,020**	10,375,887
Lm Bond (Note 18(c))	**13,553,330**	13,617,916
Euro Bond (Note 18(c))	**7,920,479**	7,893,950
	31,929,829	31,887,753

(b) <u>Convertible Bonds</u>

	EUR
Proceeds from Issue	12,283,000
Transaction Costs	(365,681)
Net Proceeds	11,917,319
Amount Classified as Equity (Note 23(d))	(1,324,506)
Imputed Interest and Amortisation of Transaction Costs to 31 December 2003	482,274
Reporting Currency Conversion Difference	(335,500)
Provision for Exchange Fluctuations	(363,700)
At 31 December 2003	10,375,887
Imputed Interest and Amortisation of Transaction Costs for 2004	156,133
Provision for Exchange Fluctuations	(76,000)
At 31 December 2004	**10,456,020**

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

18 Debt Securities in Issue (Cont.)

(b) (Cont.)

Conversion Terms, Dates and Prices (Cont.)

A bondholder may exercise the conversion option during the conversion period, which commences 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

Interest

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

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.

(c) *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 6.20% - 6.8% Bonds.

	Lm Bond	**Euro Bond**
	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 2003	22,229	21,934
Provision for Exchange Fluctuations to 31 December 2003	(368,184)	-
At 31 December 2003	13,617,916	7,893,950
Amortisation of Transaction Costs	26,880	26,529
Provision for Exchange Fluctuations	(91,466)	-
At 31 December 2004	**13,553,330**	**7,920,479**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

18 Debt Securities in Issue (Cont.)

(c) Lm and Euro Bonds (Cont.)

Terms of Repayment

Unless previously purchased and cancelled, the bonds will be redeemed at their nominal value (together with interest accrued to the date fixed for redemption) on 15 February 2013. The Company may at any time purchase Bonds in the open market or otherwise at any price. Any purchase by tender shall be made available to all bondholders alike. All bonds so redeemed or purchased will be cancelled forwith and may not be re-issued or re-sold.

Interest

The Lm Bond carries an interest rate of 6.3% per annum whereas the Euro 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.

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.

19 Other Interest-Bearing Liabilities

(a)

	The Group		The Company	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
Amounts Owed to:				
Parent Company	**553,969**	656,999	**116,684**	216,825
Associated Companies	**4,549,642**	454,670	**-**	454,670
Other Related Companies	**2,101,206**	1,876,000	**-**	-
	7,204,817	2,987,669	**116,684**	671,495
Current				
Amounts Owed to:				
Parent Company	**553,969**	440,174	**116,684**	-
Associated Companies	**2,896,280**	454,670	**-**	454,670
Other Related Companies	**429,731**	204,525	**-**	-
	3,879,980	1,099,369	**116,684**	454,670
Non-Current				
Amounts Owed to:				
Parent Company	**-**	216,825	**-**	216,825
Associated Companies	**1,653,362**	-	**-**	-
Other Related Company	**1,671,475**	1,671,475	**-**	-
	3,324,837	1,888,300	**-**	216,825

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

19 Other Interest-Bearing Liabilities (Cont.)

(b) The terms of the amounts owed to the related parties are as follows:

		Terms		
	EUR	**Interest**	**Repayable By**	**Security**
Parent Company	116,684	5.0%	On Demand	None
Parent Company	437,285	5.5%	On Demand	None
Associated Companies	2,883,010	4.0%	On Demand	None
Associated Companies	1,653,362	4.5%	31/12/2006	None
Associated Companies	13,270	5.0%	On Demand	None
Related Company	70,509	5.5%	On Demand	None
Related Company	359,222	7.0%	On Demand	None
Thermal Hotel Aquincum Rt	1,671,475	EURIBOR + 1%	Subordinated (Note 17(b))	None
	7,204,817			

20 Other Creditors

(a)

	The Group		The Company	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
Advance Deposits	**1,331,507**	3,262,476	**-**	-
Amounts Owed to:				
Parent Company	**714,892**	833,074	**700,275**	486,348
Group Companies	**-**	-	**70,707**	76,558
Associated Companies	**671,349**	2,930,182	**18,558**	-
Other Related Companies	**414,809**	3,577,675	**50,752**	42,036
Capital Creditors	**13,654,898**	12,034,395	**171,277**	1,646,922
Other Creditors	**1,503,738**	1,214,306	**19,188**	-
Accruals	**7,360,974**	4,489,905	**2,208,504**	1,649,453
	25,652,167	28,342,013	**3,239,261**	3,901,317

(b) The amounts owed to related parties are all unsecured and interest free.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

21 Deferred Taxation

(a) This amount represents the deferred tax liability in respect of the following net taxable temporary differences:

	The Group			The Company		
	2004	2003	Movement	**2004**	2003	Movement
	EUR	EUR	EUR	**EUR**	EUR	EUR
Property, Plant and Equipment: Excess of Capital Allowances over Depreciation	**3,812,814**	3,246,614	(566,200)	**-**	-	-
Revaluation of Land and Buildings	**18,781,964**	20,417,164	1,635,200	**-**	-	-
Revaluation of Investment Property (Note 21(b))	**5,482,104**	8,170,736	2,688,632	**-**	-	-
Available-for-Sale Investments	**-**	-	-	**2,116,684**	2,400,992	284,308
Derivative Financial Instruments	**123,021**	62,329	(60,692)	**123,021**	62,329	(60,692)
Provision for Doubtful Debts	**(416,300)**	(126,223)	290,077	**-**	-	-
Accrued Charges	**(280,461)**	(278,755)	1,706	**-**	-	-
Provision for Exchange Differences	**66,903**	49,659	(17,244)	**315,208**	275,683	(39,525)
Equity Component of Convertible Bonds	**281,621**	321,587	39,966	**281,621**	321,587	39,966
Unrelieved Tax Losses and Unabsorbed Capital Allowances	**(4,795,716)**	(4,923,017)	(127,301)	**(780,314)**	(643,802)	136,512
	23,055,950	26,940,094	(3,884,144)	**2,056,220**	2,416,789	360,569
Recognised Directly in Equity						
Adjustment to Deferred Taxation on Prior Year Revaluation of Hotel Property (Note 21(b))			1,459,504			-
Deferred Taxation on Revaluation of Hotel Property carried out at Year End (Note 23(a))			(1,195,603)			-
Exchange Translation Reserve: Deferred Tax Liabilities for Foreign Entities Translated at Foreign Exchange Rates at Year End			10,359			-
Recognised in the Profit and Loss Account (Note 8(a))			(3,609,884)			360,569

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

21 Deferred Taxation (Cont.)

(b) On the strength of professional tax advice received during the current year, the charge for deferred taxation on the revaluation of immovable properties located in the Russian Federation taken in the previous year has been revised downwards by applying the tax rate applicable in the jurisdiction where these properties are situated instead of the higher tax rate applicable in the jurisdiction where the owning company is located. The effect of such a reduction insofar as it relates to investment property has been recognised in the profit and loss account (EUR2,688,631 - Note 8(a)), whereas that relating to the hotel property has been recognised in equity (EUR1,459,504 - Note 23(a)).

(c) 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.

22 Share Capital

(a)

	2004	2003
	EUR	EUR
Authorised Share Capital		
Ordinary Shares of EUR1 each	**750,000,000**	750,000,000
Issued and Fully Paid Up		
Ordinary Shares of EUR1 each	**129,053,489**	119,053,489

(b) During the year, the Company issued and allotted 20,000,000 shares of EUR1 nominal value at par. The shares were allotted to the parent company, Corinthia Palace Hotel Company Limited. An amount of 10,000,000 shares was subscribed to in 2004, while the remaining 10,000,000 shares have been subscribed to in April 2005.

(c) 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.

23 Reserves

(a) The Revaluation Reserve is arrived at as follows:

	Revaluation Surplus	**Deferred Taxation**	**Net**
	EUR	EUR	EUR
At 31 December 2003	13,268,220	(4,643,877)	8,624,343
Adjustment to Deferred Taxation on the Prior Year Revaluation of Hotel Property (Note 21(b))	-	1,459,504	1,459,504
Revaluation of Hotel Property carried out at Year End (Note 10(c))	4,981,679	(1,195,603)	3,786,076
At 31 December 2004	**18,249,899**	**(4,379,976)**	**13,869,923**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

23 Reserves (Cont.)

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

(c) 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.

(d) The Convertible Bonds Reserve comprises the value of the option granted to bondholders to convert their convertible bonds into ordinary shares of the Company, and is arrived at as follows:

	EUR
Amount of Convertible Bonds classified as Equity (Note 18(b))	1,324,506
Transaction Costs	(44,198)
	1,280,308
Deferred Taxation	(448,108)
	832,200

(e) The Other Reserve represents the following unrealised gains:

	Gain	Deferred Taxation	Net
	EUR	EUR	EUR
The Group			
Fair Value Gain on Interest Rate Swap	351,489	(123,021)	228,468
Exchange Gains	899,261	(314,741)	584,520
	1,250,750	(437,762)	812,988
The Company			
Fair Value Gains:			
Available-for-Sale Investments	6,047,682	(2,116,688)	3,930,994
Interest Rate Swap	351,489	(123,021)	228,468
Exchange Gains	899,261	(314,741)	584,520
	7,298,432	(2,554,450)	4,743,982

(f) 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 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

24 Cash and Cash Equivalents

(a)

	The Group		The Company	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
Cash at Bank and in Hand	**2,854,831**	5,228,975	**20,655**	26,284
Bank Overdrafts (Note 17(a))	**(2,620,211)**	(1,845,326)	**-**	-
	234,620	3,383,649	**20,655**	26,284

(b) Cash at bank includes an amount of EUR736,439 (2003: EUR1,851,915) pledged by way of collateral for amounts borrowed (Note 17(b)).

25 Related Party Disclosures

(a) The Company has a related party relationship with its Parent Company (Note 31) of which IHI is a subsidiary and other entities forming part of the Corinthia Group of Companies. All transactions entered into with Group companies forming part of the IHI Group have been eliminated in the preparation of the consolidated financial statements of IHI.

(b) In the course of its operations, the Group has a number of concessions in place with its shareholders, officers, executives and other related parties, whereby special offers are made available for hospitality services rendered to them in line with industry practice. All transactions with other related parties are carried out on an arm's length basis.

(c) Information regarding balances with related parties is set out in notes 15, 16, 19 and 20 to the financial statements. The net balance due at 31 December 2004 by IHI Group to its Parent Company and its other subsidiaries amounted to EUR6,895,869 (2003: EUR8,202,345).

(d) 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	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
Revenue				
Services Rendered to the Parent Company and its Subsidiaries by:				
Five Star Hotels Limited	**183,555**	193,116	**-**	-
IHI Hungary Rt	**20,715**	-	**-**	-
Alfa Investimentos Turisticos Lda	**42,208**	-	**-**	-
IHI Benelux B.V.	**400**	-	**-**	-
Services Rendered to Associated Companies by:				
Five Star Hotels Limited	**54,229**	87,628	**-**	-
IHI Hungary Rt	**32,489**	-	**-**	-
IHI Benelux B.V.	**58,218**	-	**-**	-
Services Rendered to Other Related Parties by:				
Five Star Hotels Limited	**-**	43,510	**-**	-
	391,814	324,254	**-**	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

25 Related Party Disclosures (Cont.)

(d) (Cont.)

	The Group		The Company	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
Direct Costs				
Charged by the Parent Company and its Subsidiaries to:				
Five Star Hotels Limited	**417,279**	362,581	**-**	-
IHI Hungary Rt	**184,408**	152,944	**-**	-
Alfa Investimentos Turisticos Lda	**2,088**	-	**-**	-
IHI Benelux B.V.	**574**	-	**-**	-
	604,349	515,525	**-**	-
Marketing Costs				
Charged by C.H.I. Limited to:				
Five Star Hotels Limited	**134,107**	146,690	**-**	-
IHI Hungary Rt	**103,150**	-	**-**	-
Alfa Investimentos Turisticos Lda	**143,183**	5,000	**-**	-
IHI Benelux B.V.	**158,999**	33,000	**-**	-
IHI St Petersburg LLC	**-**	141,284	**-**	-
	539,439	325,974	**-**	-
Administrative Expenses				
Management Fee Charged by Parent Company to:				
IHI p.l.c.	**520,031**	459,583	**520,031**	459,583
Management Fee Charged by C.H.I. Limited to:				
Five Star Hotels Limited	**178,810**	195,585	**-**	-
IHI Hungary Rt	**240,025**	-	**-**	-
Alfa Investimentos Turisticos Lda	**183,072**	10,000	**-**	-
IHI Benelux B.V.	**313,277**	-	**-**	-
Incentive Fee Charged by C.H.I. Limited to:				
IHI Hungary Rt	**281,543**	-	**-**	-
Consultancy and Sub-Licence Fees Charged by C.H.I. Limited to:				
IHI Benelux B.V.	**853,009**	218,000	**-**	-
IHI St Petersburg LLC	**-**	1,054,890	**-**	-
	2,569,767	1,938,058	**520,031**	459,583
carried forward	**3,713,555**	2,779,557	**520,031**	459,583

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

25 Related Party Disclosures (Cont.)

(d) (Cont.)	The Group		The Company	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
brought forward	**3,713,555**	2,779,557	**520,031**	459,583
Sundry Expenses				
Charged by the Parent Company and its Subsidiary Companies to:				
IHI p.l.c.	**29,464**	29,650	**29,464**	29,650
Five Star Hotels Limited	**-**	128,900	**-**	-
IHI Benelux B.V.	**7,535**	-	**-**	-
Charged/(Recharged) by/(to) C.H.I. Limited to:				
IHI p.l.c.	**-**	9,783	**-**	9,783
Five Star Hotels Limited	**42,705**	50,416	**-**	-
IHI Hungary Rt	**-**	285,898	**-**	-
Alfa Investimentos Turisticos Lda	**359,030**	-	**-**	-
IHI Benelux B.V.	**105,955**	-	**-**	-
IHI St Petersburg LLC	**(132,942)**	39,545	**-**	-
Charged by QPM Limited to:				
IHI p.l.c.	**-**	9,228	**-**	9,228
Five Star Hotels Limited	**-**	5,426	**-**	-
Recharged to the Parent Company and its Subsidiary Companies by:				
Five Star Hotels Limited	**-**	(14,791)	**-**	-
IHI St Petersburg LLC	**-**	(19,455)	**-**	-
IHI Hungary Rt	**-**	(103,213)	**-**	-
Recharged to Associated Companies by:				
Five Star Hotels Limited	**-**	(80,148)	**-**	-
	411,747	341,239	**29,464**	48,661
carried forward	**4,125,302**	3,120,796	**549,495**	508,244

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

25 Related Party Disclosures (Cont.)

(d) (Cont.)	The Group		The Company	
	2004	2003	**2004**	2003
	EUR	EUR	**EUR**	EUR
brought forward	**4,125,302**	3,120,796	**549,495**	508,244
Pre-Operating Expenses				
Charged/(Recharged) by/(to) the Parent Company and its Subsidiary Companies:				
Alfa Investimentos Turisticos Lda:				
Recharged	**-**	(14,000)	**-**	-
Charged/(Recharged) by/(to) CHI Limited and QPM Limited:				
Alfa Investimentos Turisticos Lda:				
Charged	**-**	162,000	**-**	-
Recharged	**-**	(19,000)	**-**	-
	-	129,000	**-**	-
Financing				
Interest Receivable (Note 6)	**(67,826)**	(51,077)	**(47,302)**	(51,077)
Interest Payable (Note 7)	**490,533**	307,993	**168,288**	256,681
	422,707	256,916	**120,986**	205,604
Expensed	**4,548,009**	3,506,712	**670,481**	713,848
Tangible Fixed Assets				
Construction and Related Services Provided by QPM Limited and Corinthia Construction Overseas Limited to:				
IHI Hungary Rt	**180,634**	10,120	**-**	-
Alfa Investimentos Turisticos Lda	**974,440**	1,065,000	**-**	-
Capitalised	**1,155,074**	1,075,120	**-**	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

25 Related Party Disclosures (Cont.)

(e) 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 EUR6,362,838, 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 (Note 10(b)).

26 Capital Expenditure Commitments

	The Group	
	2004	2003
	EUR	EUR
Tangible Fixed Assets:		
Contracted for:		
IHI Hungary Rt. (Corinthia Grand Hotel Royal)	**2,927,000**	-
Alfa Investimentos Turisticos Lda (Corinthia Alfa Hotel and Congress Centre)	**-**	20,000,000
IHI Benelux B.V. (Corinthia Nevskij Palace Hotel)	**5,877,000**	1,298,000
	8,804,000	21,298,000
Authorised but not yet Contracted for:		
Five Star Hotels Limited (Corinthia San Gorg)	**4,603,000**	1,683,000
IHI Hungary Rt. (Corinthia Grand Hotel Royal)	**1,174,000**	4,150,000
IHI Benelux B.V. (Corinthia Nevskij Palace Hotel)	**643,000**	2,517,000
	6,420,000	8,350,000
	15,224,000	29,648,000

27 Financial Instruments

Exposure to credit, interest rate and foreign currency risks arises in the normal course of the Group's business.

(a) 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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2004

27 Financial Instruments (Cont.)

(b) 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 reprice.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2004

27 Financial Instruments (Cont.)

(b) Interest Rate Risk (Cont.)

		2004							2003						
	Note	**Effective Interest Rate %**	**Total EUR**	**6 Months or less EUR**	**6 - 12 Months EUR**	**1 - 2 Years EUR**	**2 - 5 Years EUR**	**More than 5 Years EUR**	Effective Interest Rate %	Total EUR	6 Months or less EUR	6 - 12 Months EUR	1 - 2 Years EUR	2 - 5 Years EUR	More than 5 Years EUR
Effect of Interest Rate Swap	14(b)	**1.00**	**-**	**8,000,000**	**-**	**-**	**(8,000,000)**	**-**	1.08	-	8,000,000	-	-	-	(8,000,000)
Loan to Related Company:															
Euro Floating Rate Loan	15(b)	**3.40**	**1,592,195**	**122,195**	**-**	**1,470,000**	**-**	**-**	5.17	1,470,000	-	-	1,470,000	-	-
Cash at Bank and in Hand	24(a)	**0.50**	**2,854,831**	**2,854,831**	**-**	**-**	**-**	**-**	0.53	5,228,975	5,228,975	-	-	-	-
Bank Loans:															
Lm Floating Rate Loan	17(b)	**4.13**	**(3,250,696)**	**-**	**(3,250,696)**	**-**	**-**	**-**	4.75	(4,751,348)	-	(4,751,348)	-	-	-
Euro Fixed Rate Loan	17(b)	**4.71**	**(30,500,000)**	**-**	**-**	**-**	**(30,500,000)**	**-**	4.70	(30,500,000)	-	-	-	(30,500,000)	-
Euro Floating Rate Loans	17(b)	**4.90**	**(86,380,970)**	**(86,380,970)**	**-**	**-**	**-**	**-**	4.40	(79,094,040)	(79,094,040)	-	-	-	-
Bank Overdrafts:															
Lm Floating Rate	17(b)	**4.11**	**(1,620,211)**	**-**	**(1,620,211)**	**-**	**-**	**-**	4.75	(1,845,326)	-	(1,845,326)	-	-	-
Euro Floating Rate	17(b)	**4.90**	**(1,000,000)**	**(1,000,000)**	**-**	**-**	**-**	**-**	-	-	-	-	-	-	-
Debt Securities in Issue:															
Lm Fixed Rate Convertible Bond	18(b)	**5.60**	**(10,456,020)**	**-**	**-**	**-**	**-**	**(10,456,020)**	5.00	(10,375,887)	-	-	-	-	(10,375,887)
Lm Fixed Rate Bond	18(c)	**6.49**	**(13,553,330)**	**-**	**-**	**-**	**-**	**(13,553,330)**	6.30	(13,617,916)	-	-	-	-	(13,617,916)
Euro Fixed Rate Bond	18(c)	**6.31**	**(7,920,479)**	**-**	**-**	**-**	**-**	**(7,920,479)**	6.50	(7,893,950)	-	-	-	-	(7,893,950)
Other Interest-Bearing Liabilities:															
Lm Fixed Rate Loan	19	**3.44**	**(546,877)**	**-**	**(546,877)**	**-**	**-**	**-**	6.00	(440,172)	-	(440,172)	-	-	-
Lm Fixed Rate Loan	19	**7.81**	**(507,793)**	**-**	**(507,793)**	**-**	**-**	**-**	7.00	(37,019)	-	(37,019)	-	-	-
Lm Fixed Rate Loan	19	**3.41**	**(359,223)**	**-**	**(359,223)**	**-**	**-**	**-**	8.00	(167,507)	-	(167,507)	-	-	-
Euro Fixed Rate Loan	19	**5.00**	**(129,955)**	**-**	**(129,955)**	**-**	**-**	**-**	5.00	(216,826)	-	(216,826)	-	-	-
Euro Fixed Rate Loan	19	**1.25**	**(2,336,132)**	**-**	**(2,336,132)**	**-**	**-**	**-**	5.00	(454,670)	-	(454,670)	-	-	-
Euro Fixed Rate Loans	19	**2.63**	**(1,653,362)**	**-**	**(1,653,362)**	**-**	**-**	**-**	-	-	-	-	-	-	-
Euro Floating Rate Loans	19	**4.47**	**(1,671,475)**	**-**	**-**	**(1,671,475)**	**-**	**-**	5.17	(1,671,475)	-	-	(1,671,475)	-	-
			(157,439,497)	**(76,403,944)**	**(10,404,249)**	**(201,475)**	**(38,500,000)**	**(31,929,829)**		(144,367,161)	(65,865,065)	(7,912,868)	(201,475)	(30,500,000)	(39,887,753)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

27 Financial Instruments (Cont.)

(c) 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 Maltese Lira, Hungarian Forint, US Dollar, Russian Rouble, Pound Sterling and Croatian Kuna. 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. 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.

During the year ended 31 December 2004, the Group accounted for net exchange gains amounting to EUR196,220 (2003: net exchange gains EUR1,456,316), arising from transactions, and movements in monetary assets and liabilities denominated in foreign currencies. In addition, the net movement on the Translation Reserve, representing net foreign exchange losses arising on the translation of the net assets of foreign subsidiaries, amounted to EUR95,476 (2003: EUR497,577).

28 Contingent Liabilities

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

(a) Guarantees amounting to EUR333,000 issued by the bankers of one of the subsidiary companies in favour of third parties.

(b) Certain subsidiary companies within the Group are involved in litigation with:

	EUR
Former Employees relating to Termination of Employment	61,000
Third Party regarding the Termination of a Rental Agreement	146,000

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.

(c) 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 additional 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 less likely than not.

29 Accounting Estimates and Jugements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Note 10 to the financial statements contains information about the assumptions and risk factors relating to the valuation of property, plant and equipment and impairment, whereas Note 11 includes details regarding the determination of fair value of the Group's investment property.

In Note 27(c) detailed analysis is given of the foreign exchange exposure of the Group and risks in relation to foreign exchange movements.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

30 Comparative Amounts

(a) The Group's results and cash flows for the comparative year include the results and cash flows for the two month operation of the Corinthia Alfa Hotel and Congress Centre in Lisbon, whereas the current year's figures include the results and cash flows for this hotel for the eight month period starting 1 May 2004.

(b) Certain comparative amounts have been reclassified to conform with the current year's presentation. In addition, the following amounts relating to the comparative year were restated in view of the prior year adjustments effected during the current year:

	The Group			The Company		
	As Re-stated	**As Previously Reported**	**Change**	**As Re-stated**	**As Previously Reported**	**Change**
	EUR	EUR	EUR	EUR	EUR	EUR
Profit and Loss Account						
Revaluation to Fair Value of Available-for-Sale Investments - Effect of Adjustments to Carrying Amounts of Investments	-	-	-	6,859,978	10,084,494	(3,224,516)
Revaluation to Fair Value of Investment Property - Effect of Foreign Exchange Rate Movement to 31 December 2003	22,842,102	24,442,102	(1,600,000)	-	-	-
Income from Associates - Share of Tax netted off	263,494	360,877	(97,383)	-	-	-
Taxation:						
Deferred Tax effect of Adjustment to Fair Value of Available-for-Sale Investments			-			1,128,581
Deferred Tax effect of Foreign Exchange Rate Movement on Fair Value of Investment Property			384,000			-
Share of Tax on Income from Associates			97,383			-
Deferred Tax effect of Taxable Temporary Differences not previously recognised			(2,008,516)			-
	(5,161,781)	(3,634,648)	(1,527,133)	(2,249,957)	(3,378,538)	1,128,581
			(3,224,516)			(2,095,935)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

30 Comparative Amounts (Cont.)

	The Group			The Company		
	As Re-stated	**As Previously Reported**	**Change**	**As Re-stated**	**As Previously Reported**	**Change**
	EUR	EUR	EUR	EUR	EUR	EUR
Balance Sheet						
Investment Property	33,400,000	35,000,000	(1,600,000)	-	-	-
Investment in Subsidiary Companies	-	-	-	156,608,617	159,833,133	(3,224,516)
Deferred Taxation	26,940,094	25,315,578	(1,624,516)	2,416,789	3,545,370	1,128,581
			(3,224,516)			(2,095,935)
Equity:						
Other Reserve	-	-	-	5,086,722	7,182,657	(2,095,935)
(Accumulated Losses)/Retained Earnings	(1,185,724)	2,038,792	(3,224,516)	-	-	-
			(3,224,516)			(2,095,935)

31 Parent Company

The Company is a subsidiary of Corinthia Palace Hotel Company Limited, the registered office of which is situated at 22 Europa Centre, Floriana, Malta.

The Parent Company 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.