INTERNATIONAL HOTEL INVESTMENTS p.l.c.

2005

ANNUAL REPORT & FINANCIAL STATEMENTS

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INTERNATIONAL HOTEL INVESTMENTS p.l.c.

International Hotel Investments p.l.c. was incorporated in March 2000 to pursue hotel acquisitions and developments in Europe and the Mediterranean region. The company was floated on the Malta Stock Exchange in April 2000, with shares offered to private and institutional investors. 78% of IHI's issued capital is held by the Corinthia Group, a hotel investor, developer and operator with a 40-year track record in the industry.

To date, IHI has concluded four major acquisitions and developments:

(1) The 250-room Corinthia San Gorg Hotel in St George's Bay, Malta, was acquired on inception, as a fully operational hotel.

(2) The 517-room five-star Corinthia Alfa Hotel & Congress Centre in Lisbon, Portugal, was acquired in August 2001, and subsequently closed to make way for a total refurbishment and extension of the property. The Hotel was re-opened in May 2004.

(3) The 285-room Corinthia Nevskij Palace Hotel in St Petersburg, Russia, was acquired in January 2002. The acquisition also included four vacant properties adjoining the hotel on the city's main boulevard. Construction is ongoing to extend the hotel into the adjoining sites, featuring an additional 105 executive bedrooms, a convention centre, as also 15,000m^2 of commercial areas for lease as retail and office commercial space.

(4) The 414-room five-star deluxe Corinthia Grand Hotel Royal was acquired as a historic, albeit vacant site on inception, and subsequently demolished (other than the historic façade and ballroom) to make way for a state-of-the-art luxury hotel featuring more facilities under one roof than any other hotel in Hungary. The property was inaugurated in April 2003.

On inception, and in support of plans for hotel acquisitions and developments, IHI also acquired 20% shareholding interests in hotel service companies, namely: CHI Ltd., a hotel management company, operating four- and five-star hotels in Europe, Africa and the Mediterranean region; and Quality Project Management Ltd., a construction project management company with a track record of hotel refurbishment and construction projects in several countries.

The Board Of Directors

Alfred Pisani is the Chairman and CEO of IHI.
Mr Pisani's track record in the hotel industry is unrivalled in Malta, having founded and headed the Corinthia Group, IHI's principal shareholder. The Corinthia Group is a leading international hotel developer, investor and operator, with interests in various countries.

Joseph Fenech, Managing Director, enjoys an acknowledged reputation in the hotel business, having been intimately involved in the Corinthia Group's expansion and financial development over past years.

Abdurazagh Zmirli joined the Board of IHI in 2005. He is also a Member of the Board of Directors of Corinthia Palace Hotel Company Ltd., representing LFICO. Mr Zmirli has had a long and distinguished career in the international aviation industry.

Joseph J. Vella is a Partner in a leading law practice, and a director on the boards of several major companies.

Lawrence Zammit is Chairman of Air Malta and a leading personality in Malta's public and private sectors, holding several prominent posts in other major companies and national institutions.

Frank Xerri de Caro joined the Board of IHI in 2004, having previously been the Chief Executive Officer of Bank of Valletta plc, besides serving on the Boards of Directors of several major financial, banking and insurance institutions.

Simon Naudi joined the Board of IHI in 2005, having joined the Corinthia Group in a senior executive role in 1997. He has since been responsible for business development, particularly hotel and real estate acquisitions and project developments.

Alfred Fabri has been Company Secretary since IHI's inception. He joined the Corinthia Group in 1989 and has occupied various senior positions in the private and public sectors.

Chairman's Statement

Financial Year 2005
Floriana, Malta - May 2006

Dear Shareholders,

Another year has passed by, and as is customary, I am writing to you, our Shareholders, to review our past year's performance and highlight our plans for future development. The year under review, that is 2005, has given us particular satisfaction. Our four hotels have achieved higher room rates and higher occupancies. As a result, we have increased our turnover by 17% over the previous year, up to Euro 55 million; we have doubled our cashflow from operations to Euro 12 million; and all this has resulted in a marked improvement from what was a loss-making period during the preceding construction and acquisition phase, into a break-even situation, which should continue to improve over the coming years as the four hotels we have acquired further mature in their operating performance. In fact, we are already witnessing continued improvements in 2006, and this augurs well for the overall direction of the Company to remain principally focussed on increasing our profitability, with the aim to recommend to you, as the Company's Shareholders, the payment of dividends.

It is likewise important to acknowledge that whilst the hotels' profitability is set on a positive direction, we are also in the meantime achieving capital growth in the real estate value of our four properties, giving us comfort that our hotels, if ever sold on an open market, will fetch prices that are higher than what we have invested. Therefore, whilst the valuation reflected in our balance sheet is an enterprise valuation based on the hotels' profitability, there is likewise a hidden, real estate value which no doubt represents a credit to our Shareholders. These two elements, that is our hotels' ongoing and improving profitability, as also the properties' underlying valuation, are the foundations which give me confidence that your investment in IHI is being rewarded. In fact, I feel proud that your Board, as also our Executives both at our corporate office and in our hotels, have successfully guided our Company through some very challenging times during the early years of the Company, and now that the acquisition and construction

of our properties is complete, our total focus is on managing the four hotels with a particular emphasis on further improving our operating results.

During the particular year under review, we have also continued to complete a series of capital investments in our hotels. At the Grand Hotel Royal, we have finalised a number of important, ancillary facilities. These include primarily the completion of 26 luxury penthouse apartments, which were put into use in the 3rd week of December 2005. The apartments are located in a building linked to the hotel itself, and in fact, they are already proving popular with expatriates residing in Budapest who wish to have the privacy and quality of a deluxe apartment, supported by the entire range of facilities and services of the five-star Grand Hotel Royal. Also in 2005, we have pushed hard for the completion of our 1,000m^2 luxury spa, which project included the full restoration and redecoration of a historic spa originally opened in 1856 on a site adjoining our Hotel, and where we are now also installing some of the world's latest spa facilities. The spa will be inaugurated in May 2006, and our French operators, Algotherm, who have widespread experience in the industry, are confident that this facility will be among the top 10 spas in Europe, complementing the Grand Hotel Royal, which itself is one of Europe's finest hotels.

Later this year, in July, IHI is hosting a series of activities marking the Hotel's 110th anniversary. It has been our particular satisfaction that since re-opening in April 2003, the Grand Hotel Royal has firmly re-established itself as "the" landmark Hungarian hotel, giving pride to the residents of this beautiful city. The anniversary celebrations will further underpin the positioning of the Hotel within the Hungarian community.

Also in 2005, we have commenced the refurbishment of the Corinthia San Gorg Hotel in Malta. Here, we have already completed the full refurbishment of the hotel foyer and public areas. Likewise, we are refurbishing the Hotel's 250 bedrooms and corridors. Over half of these have been completed, with the remaining rooms to be refurbished over the coming 8 months. Furthermore, we are investing substantial funds in the upgrading of the hotel's technology and business facilities, specifically targeting corporate visitors. Truly, I believe the Hotel is now back among the very best on our Island giving us the opportunity to increase our room rates and profitability.

Similarly, tremendous effort has gone into detailed preparatory work in anticipation of the extension and refurbishment of the Nevskij Palace Hotel in St Petersburg. We are in fact in the final throes of negotiating a turnkey contract with a main contractor for the project, which includes the full refurbishment of the Hotel's lobby and public areas, and more importantly, the extension of the property onto two sites on either side of the Hotel.

In close collaboration with the City Authorities, both adjoining sites have since been fully demolished and IHI has committed to rebuilding the original buildings' historic facades in return for a special concession to increase the overall height of the new buildings from four to eight floors on either side of the Hotel.

This considerable development will therefore establish the Hotel as the largest, most elegant, and best equipped five-star Hotel in St Petersburg, featuring the City's only five-star hotel with conference facilities, and adding another 105 executive bedrooms and suites, bringing our inventory up to almost 400 bedrooms.

On one of the Hotel's adjoining sites, we are also developing a separate commercial centre, with two floors allocated to a deluxe shopping mall, and another six floors allocated to offices. In total, we will have 15,000m^2 of space available for rent to retailers and companies, in what is the best location on the City's main boulevard. Also uniquely, we are allocating space on our land adjoining the Hotel to develop a multi-storey carpark. The new and added facilities should substantially increase the Hotel's revenue-generation capability, over and above what is already a very healthy operation. It is in fact on this basis that we have been able to fully-fund the Euro 75 million project by way of a combination of a Euro 12.5 million corporate bond issued in Malta, supported further by a loan raised through a syndication of international banks, which have each thoroughly analysed and endorsed our business plan for the Hotel.

Finally, we have also taken steps to develop a spa at the Alfa Hotel in Lisbon, where we are beginning to see improving performances generally in the City hotel industry notwithstanding what were overall, soft results in 2005. In fact, we are confident of achieving our budgets in 2006, and we believe that the addition of a spa to the Hotel will further support the attraction for corporate and leisure visitors.

Dear Shareholders, in completing these capital projects, I feel reassured that the performance of our Hotels is showing strong signs of increased activity and profitability, besides adding to the capital value of our properties. Having reached this stage in our development, I therefore wish to reassure our Shareholders that our primary objective is to focus on the Hotels' operating performance, with the ultimate aim to issue Dividends, and this, over and above the hidden appreciation that has been achieved in the value of our Hotels that is likewise to your benefit. Of course, it is always an option for us to realise this hidden value and to sell one or the other of our properties. However, I believe the more correct strategy at this stage is to hold onto the Hotels to maximize their operating performance, and to use this platform as a base for growth.

As you are aware through a recent company statement, we have in the past days announced a strategic partnership with a Kuwaiti firm, National Projects Holding Company (NPHC), a subsidiary of National Real Estate Company, a listed company having investments across the world. NPHC has committed to a staged investment in new equity to be issued by IHI, subject of course to the necessary waivers of pre-emption rights by our Shareholders. The total amount of equity being considered amounts to Euro 110,000,000, principally allocated to acquiring new properties. Another major milestone in the agreement is the secondary listing of IHI, with the objective of offering Shareholders a larger and more liquid market for their shares.

In itself, the very fact that such a reputable and successful Kuwaiti firm has chosen IHI as a partner in the hotel sector is a strong indicator of confidence in our business plan, further validating the support and trust that the current Shareholders have shown in the Company over the past years. In entering IHI, NPHC has carried out rigorous due diligence, assessing our past performance, as also our current situation and prospects for future growth, and have now agreed to join IHI through a series of future capital increases that will occur as and when necessary to fund new acquisitions. This is a major breakthrough for IHI, which gives us huge opportunities for further growth, whilst continuing to remain focussed on the Company's profitability. Indeed, our aim is to acquire hotels that are in full operation and driving immediate returns, rather than commence new construction projects, a strategy that will strengthen the Company's immediate profitability. No doubt, the road ahead will include many challenges, but on the basis of the trust that has been shown to IHI by its Shareholders, we believe that we are on the way towards taking our Company onto the next, higher level, one that will be undoubtedly larger, and more profitable.

Of matching importance to our future, over the coming weeks, IHI is completing an acquisition of a majority shareholding in Corinthia Hotels International (CHI), which is the management company.

Today, IHI owns 20% of CHI, and the rest of the shares are owned directly by the Corinthia parent company. Through this transaction, IHI will be increasing its shareholding in CHI up to 70%.

The timing of this acquisition by IHI is coinciding with the acquisition of the remaining 30% in CHI by a major, US hotel company, indeed one of the largest hotel companies in the world. Agreements in principle have been signed confirming these transactions, and all parties are working towards closing the deal in the coming weeks. Through this transaction, CHI is set to become the exclusive hotel operator for the US hotel company in Europe, Africa and the Middle East, benefiting from the use of the Corinthia Brand Name in the five-star deluxe category, as also a number of other renowned Brand Names owned by the US hotel company in the four and five star categories. Furthermore, all hotels managed by CHI, including the current IHI Hotels, shall benefit from the US hotel company's full back-up marketing and distribution services, which are among the largest in the world. Truly, this is another major breakthrough for IHI, and one through which we will benefit initially through stronger performances in our own Hotels, and subsequently also through the growth of CHI itself, as and when it takes on new management agreements for hotels owned by other investors across the world.

In conclusion, dear Shareholders, I believe that we should all be proud of the accomplishments of IHI over the past years. Together, we have made sound investments in four truly landmark and outstanding hotels. All properties are now fully refurbished and operational, and all are supporting the Company's overall direction to profitability. This is indeed reassuring, and confirms the soundness of policies and strategies that we have adopted over the past years. Of equal comfort to us, is that outsiders are continuing to show confidence in IHI. In St Petersburg, where we are extending and upgrading our existing hotel, our project is entirely funded by a syndication of international banks, which in itself is a further sign of confidence in our strategy. Furthermore, we have reached an agreement with a major international investor on the raising of substantial amounts of fresh capital, which we will use to acquire and develop new properties, and this in parallel to our focus on continued profitability in our current business. Here again, this is a further sign of confidence and support to our strategy. We are also in the throes of acquiring a majority shareholding in CHI, a hotel management company, which is set to become a truly global player through its association with a world class leader in this field.

By any measure, therefore, I believe this to be an outstanding performance for such a young hotel company, and for which I would especially like to thank you, our Shareholders, for the support and confidence that you have given your Board of Directors and team of Executives.

On our part, we are committed to remain focused on rewarding this confidence with continued improved operating results and wise investments.

Thank you.

Alfred Pisani
Chairman & CEO

Managing Director's Report on the Activities of the Group, its Subsidiary & Associated Companies

Financial Year 2005
Floriana, Malta - May 2006

I am pleased to present the financial review for the year ended 31 December 2005. During the year under review, the IHI Group generated revenues of Euro 54.5 million, which are 17% higher than the revenues of Euro 46.6 million generated in 2004. Likewise, at Group level, the Gross Operating Profit for 2005 increased to Euro 13.9 million from Euro 12.9 million registered in 2004, thus representing an improvement of 8% over the previous year's figures. This improvement was achieved notwithstanding the fact that in 2004 the Group benefited from the exceptional lucrative business resulting from the staging of the UEFA European football championships in Lisbon.

When making these comparisons with the previous year, one has also to bear in mind that 2004 was the first year during which all the Group's four hotel properties were fully operational, with the Corinthia Alfa Hotel coming on stream in May 2004, thereby not reflecting the negative impact of the typically weak results of the winter months. The costs incurred in these months preceding the hotel's opening had been reported under pre-operating expenses. Following recent years which were marked by exceptional events such as the 11 September 2001 incidents, the Iraqi War, the SARS scare and a resultant general downturn in business, 2005 was the second consecutive year where we have seen stabilisation returning to the market with a steady recovery of the leisure industry. The lifting of the US Sanctions on Libya in 2004 also enabled the Group to start penetrating the US market. In the meantime the Group's hotel operators, Corinthia Hotels International, have also opened a representative sales office in the United States and positive results are already being generated by this market.

	2005	2004
	Euro '000	Euro '000
Gross Operating Profit	13,849	12,865
Parent Company Costs	(1,276)	(1,092)
Incentive Fees	(1,286)	(1,135)
Depreciation	(9,984)	(9,917)
Impairment of Property	–	(6,500)
Reversal of Impairment of Property	5,472	4,329
Revaluation of Investment Property	2,400	–
Net Financing Costs	(8,889)	(8,281)
Realised and Unrealised Exchange Differences	(108)	196
Income from Associates	579	459
Profit/(Loss) before One Time Write-Offs	757	(9,076)
Pre-Operating Expenses	–	(2,269)
Profit/(Loss) before Taxation	757	(11,345)

The net of Parent Company costs, Depreciation charge, Incentive Fees, Financing Costs, Exchange Differences, and Income from Associates increased marginally from Euro 19.8 million in 2004 to Euro 21.0 million in 2005. Nearly 50% of this increase was attributable to financing costs.

In line with the requirements of International Accounting Standard 36 – Impairment of Assets, the Group has adopted a policy of testing the carrying amounts of its properties for impairment. The continued maturity of the Corinthia Grand Hotel Royal in Budapest and the expected improved performance of the Corinthia San Gorg Hotel in Malta as a result of the ongoing Euro 5 million refurbishment programme, resulted in a net total impairment reversal of Euro 5.5 million as opposed to a net impairment loss of Euro 2.2 million taken in 2004. We are also confident that likewise, the Corinthia Alfa Hotel in Lisbon will soon achieve a higher level of maturity and that as a result, the impairment loss which was incurred in 2004 will similarly be reversed in the coming years.

Another positive effect on the 2005 results was the uplift of Euro 2.4 million in the fair value of the Group's land adjacent to the Corinthia Nevskij Palace Hotel in Saint Petersburg.

In 2005 the Group incurred a tax charge of Euro 1.5 million as opposed to a tax credit of Euro 3.2 in 2004. Whereas in 2005 the tax charge was accentuated by the reversal of impairment charges and the uplift in the fair value of the investment property, the tax credit in 2004 had been boosted by the reversal of a prior year tax charge of Euro 2.7 million resulting from a reduction of the tax rate applicable on the revaluation of the investment property and by tax reversals due to impairment charges.

As a result of the improvement in the aforementioned elements, in 2005 the Group registered a loss after tax of Euro 0.7 million compared with a loss after tax of Euro 8.1 million registered in 2004.

It is also worth mentioning that the net cash inflow from operating activities for the year under review amounted to Euro 12.1 million compared to Euro 6.5 million in 2004. This is a further re-affirmation that even from a cash flow perspective there has been a significant improvement in 2005 over 2004. As the net cash outflow for 2005 used in investing activities net of financing activities remained nearly on the same levels of 2004 at around Euro 10 million, there was an increase in cash flow of Euro 1.7 million in 2005 compared to a deficiency of Euro 3.1 million in 2004.

Moving forward, we are looking at 2006 and subsequent years with continued confidence as the Corinthia Grand Hotel Royal in Budapest and the Corinthia Alfa Hotel in Lisbon achieve a greater level of operational maturity resulting in improved profitability streams.

During the course of 2006 the Group will have the other two properties, that is, the Corinthia Nevskij Palace Hotel and the Corinthia San Gorg Hotel, going through periods of reduced activity as a result of refurbishment or construction works. Therefore these properties are expected to register lower operating profits than those achieved in previous years.

On the other hand, as explained in the preceding paragraph, both the Corinthia Grand Hotel Royal and the Corinthia Alfa Hotel are expected to register better results than those achieved in 2005. The combined effect of these two factors is expected to result in an overall improvement in the Group's operating performance.

The Company

The Company's main sources of income for the year under review were interest receivable on loans, management fee charges to Group companies, dividends received from an associated company and interest received on an interest swap on Bonds issued in 2003. Total revenues generated from the above sources remained on 2004's level at Euro 2.0 million.

Total costs for the year under review including administrative expenses, amounted to Euro 4.7 million (Euro 4.4 million in 2004), out of which Euro 3.1 million related to interest costs on Bonds and corporate borrowings. In this year's Income Statement, an income of Euro 12.5 million, as opposed to a charge of Euro 0.8 million taken in 2004, was taken as a result of revaluation to fair value of available-for-sale investments.

In consequence of the above adjustments, the Company registered a profit before tax of Euro 9.5 million for the year under review against a loss before tax of Euro 3.0 million in 2004.

Subsidiary Companies

IHI Hungary Rt – 100%

The company owns the 414-room five-star Corinthia Grand Hotel Royal in Budapest.

In this second year of operation the Corinthia Grand Hotel Royal generated revenues of Euro 16.2 million compared to Euro 12.1 million in 2004. This substantial increase in revenues confirms our previous predictions that this property would soon establish itself as one of the leading hotels in the Hungarian capital.

A Gross Operating Profit of Euro 4.1 million was registered during the year under review against a corresponding profit of Euro 2.4 million registered in 2004.

After charging depreciation of Euro 3.2 million and incentive fees of Euro 0.2 million, the company achieved an operating profit of Euro 0.8 million compared to an operating loss of Euro 1.1 million in 2004. Net interest payable and exchange differences amounted to Euro 2.0 million in 2005 and Euro 2.2 million in 2004 respectively.

The steady improvement in the operational results that this property is achieving resulted in a reversal of Euro 2.1 million in charges for impairment that were recognised in previous years. This means that the impairment charge of Euro 6.5 million, that had been charged against the Income Statement in 2003 and partly reversed in 2004, has now been totally reversed.

Indicators for 2006 show that higher revenues will be registered during this year with corresponding increases in the Gross Operating Profit as the hotel keeps moving closer to reaching its mature phase. This will also be boosted by the completion in December 2005 of the apartments adjoining the hotel and of the spa in May 2006. These additional two amenities will complement the already outstanding facilities offered by this property.

IHI Benelux B.V. - 100%

This company is the owning company of the Corinthia Nevskij Palace Hotel in St Petersburg, a 285-room five-star hotel that was acquired in January 2002.

The Corinthia Nevskij Palace Hotel generated revenues of Euro 17.2 million during the year under review compared to Euro 16.6 million generated last year.

A Gross Operating Profit of Euro 8.0 million was registered during the year under review against a corresponding figure of Euro 7.9 million registered in 2004.

At the end of 2005 the company recognised in its Income Statement an uplift of Euro 2.4 million in the fair value of its land adjacent to the Corinthia Nevskij Palace Hotel in Saint Petersburg resulting from an independent assessment of its value conducted by an international firm of property valuers.

After charging depreciation of Euro 1.3 million, incentive fees of Euro 0.9 million, net interest payable and exchange losses of Euro 1.7 million, the company registered a profit before tax of Euro 6.5 million compared to a corresponding figure of Euro 4.2 million in 2004.

It is expected that during 2006, the construction phase of the Euro 75.0 million project will start in earnest. The necessary funding arrangements are already either in place or fully committed. This project, involving an extension to the current hotel building and the construction of retail and office areas, is expected to be completed during the course of 2007.

On the other hand, the construction works on the new development are expected to reduce the operational activity of the existing hotel operation.

Alfa Investimentos Turisticos Lda – 100%

This company owns the five-star Corinthia Alfa Hotel and Congress Centre in Lisbon, Portugal, a 517-room property that was acquired in August 2001 and following an extensive refurbishment lasting fifteen months was re-opened in May 2004. When comparing the performance of 2005 with that of 2004 one must consider the fact that in 2004 the hotel was only in operation for the eight-month period covering May to December. Moreover, in 2004, the hotel benefited from the staging of the UEFA European football championships in Lisbon over a four-week period during which above average rates were charged.

During 2005 the hotel generated revenues of Euro 11.4 million when compared to Euro 9.2 million in 2004. A Gross Operating Loss of Euro 0.3 million was registered during the year under review compared to a profit of Euro 1.1 million in 2004. It must be pointed out, however, that the 2004 results were not burdened with the low activity months of January to April during which, typically, the hotels register an operating loss.

After charging depreciation of Euro 3.8 million and interest payable of Euro 2.4 million the company registered a loss before tax of Euro 6.5 million as opposed to a loss of Euro 13.5 million in 2004. The 2004 results also included pre-operating expenses of Euro 2.6 million and an impairment charge of Euro 6.5 million.

Typically of a new start-up operation, the first years' performances for this hotel were below the average norm, the more so due to the fact that Lisbon was experiencing a soft market environment where supply exceeded demand. It is however encouraging to note that the 2006 performance of the hotel industry in Lisbon is improving generally and likewise the results being achieved by our property in the first four months of 2006 are substantially higher than those achieved in the corresponding period last year.

Five Star Hotels Limited – 100%

This company owns the 250-room five-star Corinthia San Gorg Hotel situated in St Julians, Malta.

The company registered revenues of Euro 9.7 million during the year under review compared with revenues of Euro 8.8 million generated during 2004. These improved revenues resulted in an improvement in the Gross Operating Profit which increased from Euro 1.3 million in 2004 to Euro 1.6 million in 2005.

In view of its improved performance over 2004 and the expectation that the hotel's performance will continue to improve as a result of the Euro 5 million refurbishment project, Euro 3.4 million from the Euro 4.0 million impairment charge originally recognised in 2003 was reversed in 2005. After charging depreciation of Euro 1.8 million, incentive fees of Euro 0.2 million, and financing costs of Euro 0.2 million, the company registered a profit before tax of Euro 2.9 million compared to a loss before tax of Euro 0.8 million registered in 2004.

In view of the reduced activity resulting from the refurbishment works, and the fact that the market's performance did not sustain its earlier promise, the hotel's performance for 2006 is expected to be below the level registered in 2005. It is however envisaged that, once the refurbishment project is completed early in 2007, the hotel should establish itself as one of the leading hotels in the Maltese five-star hotel sector.

Associated Companies

C.H.I. Limited – 20%

The company's principal activity is to manage and operate hotel properties by providing on-site support and services in all areas of the hospitality industry.

The company generated revenues of Euro 8.9 million during the year under review compared to Euro 8.1 million achieved in 2004. This increase was the result of sustained improvement in the performances of the Corinthia Bab Africa Hotel in Tripoli and the Corinthia Grand Hotel Royal in Budapest. The removal of the US Sanctions on Libya contributed positively towards the company's operations for the year and it is anticipated that this trend will continue in 2006.

The company registered a profit before tax of Euro 3.5 million compared to a profit before tax of Euro 3.0 million registered in 2004.

The Group equity accounted for its 20% share of the results of this company in its consolidated financial statements.

Quality Project Management Limited – 20%

The company's principal activities and that of its wholly owned subsidiary Corinthia Construction (Overseas) Limited are project management, quantity surveying, as well as the supervision and co-ordination of all types of general construction and building contracts in Malta and overseas.

During the year under review the company and its wholly-owned subsidiary were engaged in a number of projects, principally overseas. Total revenue generated during the year under review amounts to Euro 4.8 million compared to Euro 4.7 million in 2004. The company and its wholly owned subsidiary achieved a profit before tax of Euro 0.6 million compared to a profit before tax of Euro 0.5 million in 2004.

The Group equity accounted for its 20% share of the results of this company in its consolidated financial statements.

In concluding I wish to thank the Chairman, Board of Directors and the executives of the Group for their continued support and co-operation.

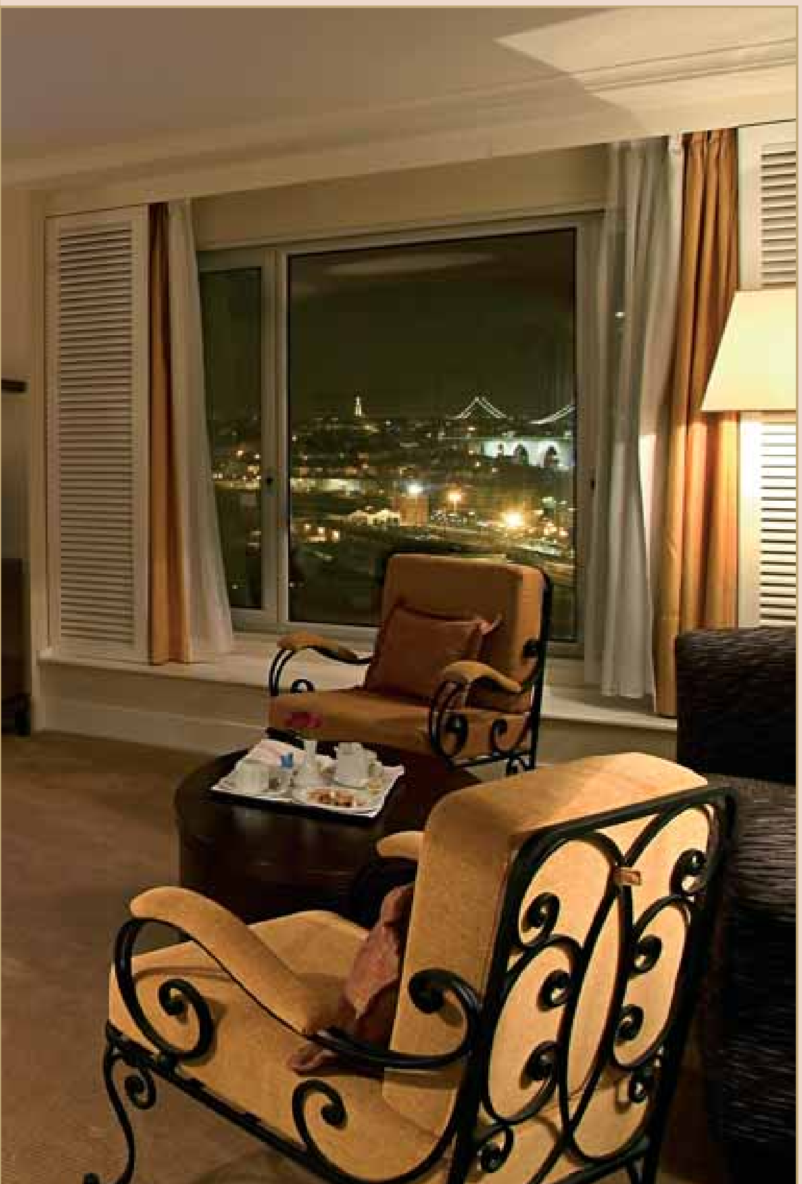
Joseph Fenech
Managing Director

The Hotels

Corinthia Alfa Hotel & Congress Centre

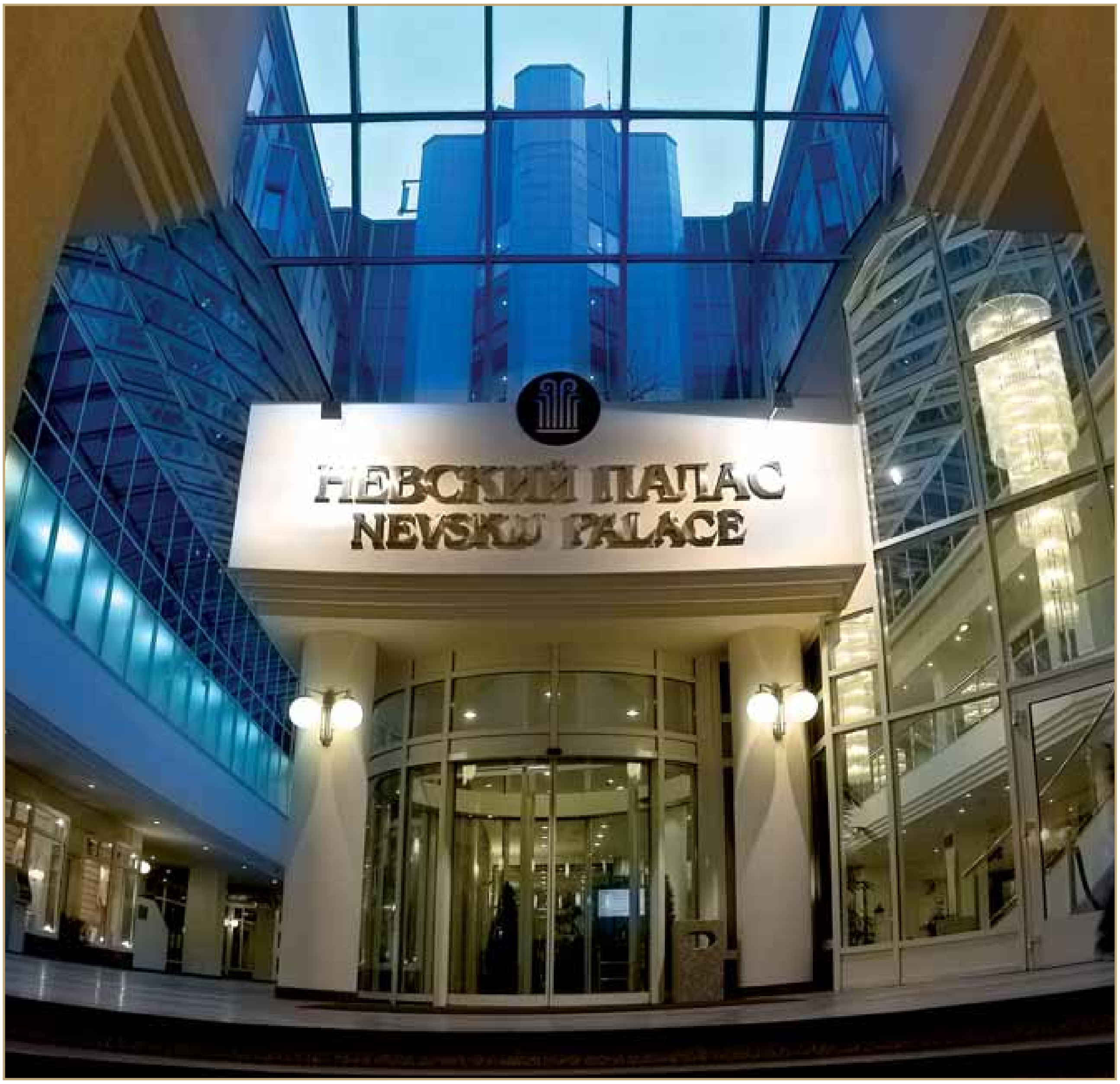
Lisbon – Portugal

The high-rise Corinthia Alfa Hotel & Congress Centre was acquired by IHI in August 2001 and subsequently shut down in February 2003 to make way for a thorough refurbishment and upgrade to five-star status. The renovated hotel was re-opened in May 2004, and now comprises 517 bedrooms, a 280-cover main restaurant, a 120-cover Portuguese restaurant and a lobby bar. Above all, the hotel is fully equipped for the meetings, conference and incentive markets. Its 3,000m^2 allocated to state-of-the-art meeting facilities make it the largest conference hotel in Lisbon, able to handle 1,400 delegates at any given time, supported by a 24th floor executive lounge affording spectacular views of Lisbon, complete with boardrooms, executive check-in, dining and business facilities. The hotel is also in the process of completing a 2,000m^2 gymnasium and spa facility, as also underground car parking for 55 vehicles.



Corinthia Nevskij Palace Hotel

St. Petersburg – Russia

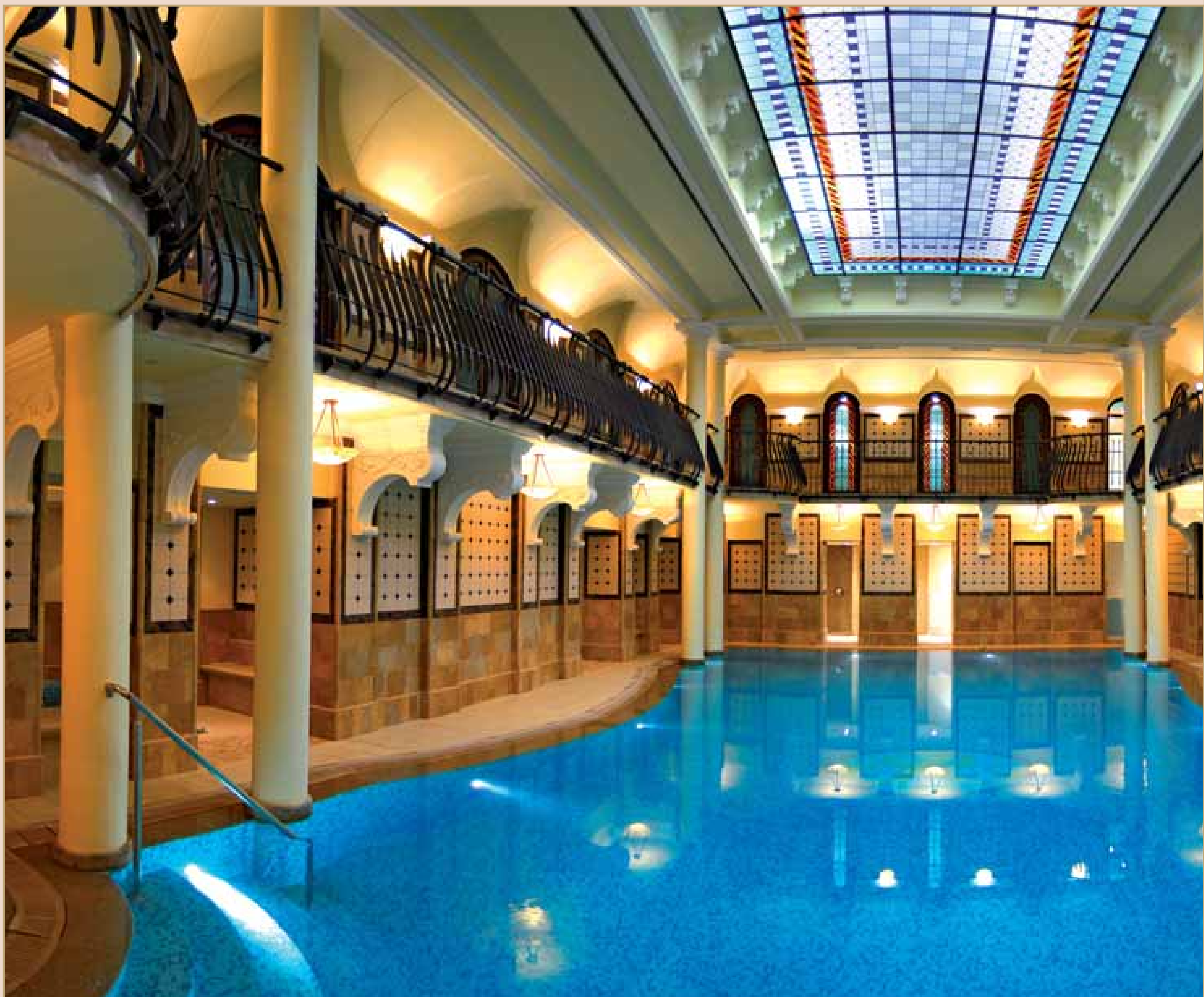


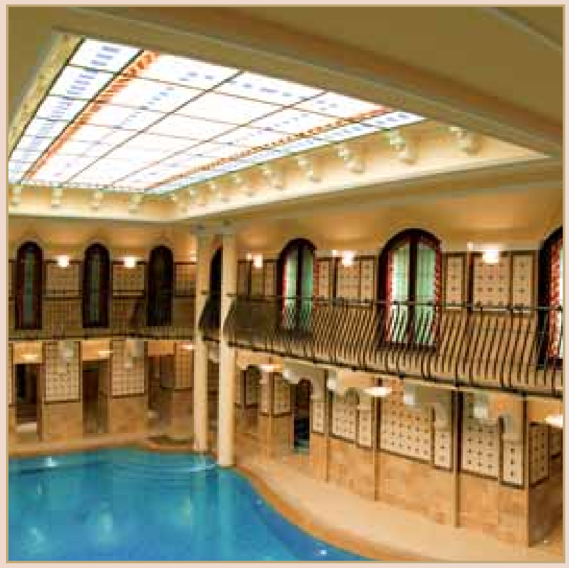
The 285-room five-star Corinthia Nevskij Palace Hotel in St. Petersburg, Russia, was acquired by IHI in January 2002. The hotel is located right in the centre of the city, on the main boulevard Nevskij Prospekt. It is fully operational and its existing rooms have been fully refurbished. The hotel also features a range of Russian and International restaurants and conference facilities. Furthermore, the hotel will be further expanded by developing two large, vacant properties on either side of the hotel, which had also been acquired by IHI at the time of the hotel acquisition. One building will include 105 additional executive bedrooms and a convention centre. The other building will be allocated to a 15,000m^2 mixed-use commercial centre featuring a retail mall and offices for rent to third parties.

Corinthia Grand Hotel Royal

Budapest – Hungary

The Corinthia Grand Hotel Royal in Budapest is a landmark, deluxe property, originating in the grand architectural epoch of the late 19th century. The hotel was acquired by IHI as a vacant building in April 2000, and subsequently demolished to make way for a 60,000m^2 reconstruction that retained the historic façade and the 19th century classical ballroom. The new hotel consists of 414 executive bedrooms, as well as extensive support facilities. These include two thirds of Budapest's total conference facilities in the five-star segment covering 3,600m^2 of meeting and exhibition areas; the fully restored 19th century ballroom; 26 luxury apartments; a multi-storey 260-vehicle carpark and coach park; a spectacular 19th century spa, a nightclub; and various restaurants and dining outlets. The hotel was officially opened in April 2003.





Corinthia San Gorg Hotel

St. George's Bay – Malta

The Corinthia San Gorg Hotel is a modern development sitting on 28,000m^2 of prime site land, right at the water's edge in St. George's Bay, Malta, by far Malta's premier location for hotel and commercial real estate. The hotel was the first IHI acquisition, having been taken over soon after the company's inception in April 2000. The 250-room hotel is particularly geared for the leisure and conference markets, with extensive meeting facilities and a private beach lido serviced by several restaurants and dining venues. The hotel's lobby, public areas and bedrooms are in the throes of a full refurbishment programme to be completed in the coming months.




International Hotel Investments p.l.c.

Directors' Report & Financial Statements 2005

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DIRECTORS' REPORT

For the Year Ended 31 December 2005

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 2005.

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)
Mr. Simon Naudi (Appointed 8 June 2005)
Dr Joseph J Vella
Mr Frank Xerri de Caro
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 11.2 and 12.2 to the financial statements), through which it furthers the business of the Group.

Review of business development and financial position

The results of the operations for the year are as set out in the income statements on pages 43 and 47 of the financial statements respectively.

The Managing Director's Report included in the Annual Report reviews the business of the Group for the year and the financial position at 31 December 2005.

Future developments

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

Reserves

The movements on reserves are as set out on pages 45 and 49 of the financial statements.

Approved by the Board of Directors on 26 April 2006 and signed on its behalf by:

Alfred Pisani
Chairman and Chief Executive Officer

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	**31/12/05**	**11/04/06**
1 to 1,000	387	383
1,001 to 5,000	2,150	2,071
5,001 and over	797	781
	3,334	3,235

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.

Shareholders holding 5% or more of the share capital

	Number of shares	Percentage holding (%)
Corinthia Palace Hotel Company Limited:		
At 31 December 2005 and 11 April 2006	109,288,375	78.59

Directors' interest in the shareholding of the Company

	Number of shares held	
	31/12/05	**11/04/06**
Mr Joseph Fenech	73,487	73,487
Dr Joseph J Vella	49,605	49,605
Mr Simon Naudi	1,241	1,241
Mr Louis E Galea	Deceased 13/04/05	-
Mr Frank Xerri de Caro	-	-
Mr Lawrence Zammit	-	-
Mr Abdurazagh I Zmirli	-	-

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

SHAREHOLDER AND OTHER INFORMATION

Contracts of significance

The following information is given in terms of Listing Rules 9.37.13 and 9.37.14.

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 (as described in the Directors' Statement of Compliance with Corporate Governance principles herewith enclosed) 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 (EUR291,172) and a variable amount equivalent to 0.5% of the total turnover of each of the Company's hotel subsidiaries with an overall cap of Lm250,000 (EUR582,343) per annum.

Management Agreements with 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

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

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

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

Compliance

The Board deems that, during the reporting period in question, the Company has been in compliance with the Code to the extent that was considered 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 three executive Directors and currently of four non-executive Directors following the demise of Mr Louis E Galea on 13 April 2005. The present mix of executive and non-executive Directors is considered to create a healthy balance and serves to unite all shareholders' interests, whilst providing direction to the Company's management to help maintain a sustainable organisation. The Board is made up as follows:

Executive Directors		*Date of first appointment*
Mr Alfred Pisani	Chairman and Chief Executive Officer	29 March 2000
Mr Joseph Fenech	Managing Director	29 March 2000
Mr Simon Naudi		08 June 2005

Non-Executive Directors	*Date of first appointment*
Dr Joseph J Vella	29 March 2000
Mr Lawrence Zammit	27 June 2001
Mr Frank Xerri de Caro	02 July 2004
Mr Abdurazagh I Zmirli	01 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, Mr Joseph Fenech, Dr J J Vella, Mr Frank Xerri de Caro, Mr Lawrence Zammit and Mr Abdurazgh I Zmirli, lapsed at the Annual General Meeting held on 8 June 2005, at which date they were re-appointed for a further term. At the same meeting Mr Simon Naudi was appointed to the Board.

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

The non-executive Directors constitute a majority on the Board and 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 twelve times during the period under review.

CORPORATE GOVERNANCE DISCLOSURES - DIRECTORS' STATEMENT OF COMPLIANCE

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 in the Articles of Association as 11% of the total issued share capital of the Company having voting rights.

A shareholder or a number of members who individually or between them hold the qualifying holding (11%) plus one share of the issued share capital of the Company are entitled to appoint one director for every such 11% 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 the majority of the directors of the Company.

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

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

Remuneration

There are no loans outstanding by the Company to any of its Directors, nor any guarantees issued for their benefit by the Company. For the financial year ending 31 December 2005, the Company paid an aggregate of EUR165,577 to its Directors. This exceeds the approved amount by EUR25,815 due to the increase in the number of committees and number of members on the Board. The Board has resolved to disclose directors' fees in an aggregate rather than as separate figures for each director as recommended 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 (EUR139,762). Within this limit, the directors have the power to fix their remuneration levels. The Company has adopted a practice whereby the executive directors vote at meetings deciding the remuneration packages of the non-executive directors, from which the latter abstain. The Company's Nomination and Remuneration Committee is responsible for proposing the remuneration packages of the senior executives of IHI, including general managers and financial controllers.

Information about the Directors' interest in the shareholding of the Company is included in the Shareholder and Other Information section on page 34.

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

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 twelve 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.

CORPORATE GOVERNANCE DISCLOSURES - DIRECTORS' STATEMENT OF COMPLIANCE

Mr Frank Xerri de Caro, a non-executive Director, acts as Chairman, whilst Mr Joseph Fenech (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.

The Audit Committee is also responsible for the overview of the Internal Audit Function.

The role of the internal auditor is to carry out systematic risk-based reviews and appraisals of the operations of the Company (as well as of the subsidiaries and associates of the Group) for the purpose of advising management and the Board, through the Audit Committee, on the efficiency and effectiveness of internal management policies, practices and controls. The function is expected to promote the application of best practices within the organisation. During 2005, the internal audit function continued to advise the Audit Committee on aspects of the regulatory framework which affect the day-to-day operations of the hotels.

Nominations and Remuneration Committee

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

Monitoring Committee

The Committee is responsible for ensuring that proper budgets are set 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 2005, 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 and the Audit Committee in ensuring that transactions entered into with related parties are carried out on an arm's length basis and are for the benefit of the Company, and that the Company and its subsidiaries accurately report all related party transactions in the notes to their financial statements.

The Committee, which met four times during the year, is currently made up of two members, namely, Dr J Vella as Chairman, Mr Joseph Fenech and Mr Frank Xerri de Caro as members, 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.

CORPORATE GOVERNANCE DISCLOSURES - DIRECTORS' STATEMENT OF COMPLIANCE

Management and employees

The Company is an investment Company which does not require an elaborate management structure. The Company's CEO and Managing Director are executive Directors of the Company. They are supported in their executive roles by Corinthia Palace Hotel Company Limited, with whom the Company has in place 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 Audit Committee. 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. In this respect, over and above the statutory and regulatory requirements relating to the Annual General Meeting, the publication of interim and annual financial statements and respective Company announcements, the Company seeks to address the diverse information needs of its broad spectrum of shareholders in various ways. It 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 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 its 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 1.2.1 to these financial statements.

Approved by the Board of Directors on 26 April 2006 and signed on its behalf by:

Frank Xerri de Caro
Director and Chairman of Audit Committee

Lawrence Zammit
Director

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Pietà MSD 08
Malta

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REPORT OF THE INDEPENDENT AUDITORS

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

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 36 to 39 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

26 April 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Save as provided by Article 4 of Regulation 1606/2002/EC ("IAS Regulation") which applies to companies that at balance sheet date had their securities trading on a regulated market of any EU Member State, the Companies Act, 1995 (the "Act") requires the Directors 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 accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

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

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

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

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

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

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

Signed on behalf of the Board of Directors on 26 April 2006 by:

Alfred Pisani	Joseph Fenech
Chairman and Chief Executive Officer	Managing Director

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Marina Street
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REPORT OF THE INDEPENDENT AUDITORS

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

We have audited the financial statements set out on pages 43 to 94. As described on page 41, 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. 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 2005 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 as adopted by the EU, and have been properly prepared in accordance with the provisions of the Companies Act, 1995 enacted in Malta.

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

KPMG
Certified Public Accountants

26 April 2006

INCOME STATEMENT - GROUP

For the Year Ended 31 December 2005

	Note	**2005 EUR**	2004 EUR
Revenue	2	**54,506,833**	46,623,923
Direct costs		**(36,554,060)**	(31,575,021)
Gross profit		**17,952,773**	15,048,902
Marketing costs		**(3,868,025)**	(3,179,934)
Administrative expenses		**(12,942,591)**	(13,214,131)
Operating profit/(loss) before:		**1,142,157**	(1,345,163)
Impairment losses on hotel properties		**-**	(6,500,000)
Reversal of impairment on hotel properties	9.3	**5,471,821**	4,329,400
Revaluation to fair value of investment property	10	**2,400,000**	-
Other net operating income/(charges)	3	**287,907**	(203,202)
Operating profit/(loss) before financing costs		**9,301,885**	(3,718,965)
Financial income	4	**178,371**	699,067
Financial expenses	5	**(9,301,572)**	(8,783,994)
Net financing costs		**(9,123,201)**	(8,084,927)
Share of profit of associates	12.1	**578,635**	458,863
Profit/(loss) before tax	6	**757,319**	(11,345,029)
Income tax (expense)/credit	7	**(1,494,109)**	3,230,298
Loss for the year		**(736,790)**	(8,114,731)
Loss per share	8	**(0.01)**	(0.07)

BALANCE SHEET - GROUP

At 31 December 2005

		2005	2004
	Note	**EUR**	EUR
Assets			
Property, plant and equipment	9	**318,372,019**	299,249,198
Investment property	10	**35,800,000**	33,400,000
Investments in associates	12	**2,093,778**	1,981,018
Derivative financial instrument	13	**22,061**	351,488
Loan receivable	14	**1,470,000**	1,470,000
Total non-current assets		**357,757,858**	336,451,704
Inventories		**2,236,998**	2,121,293
Trade receivables		**5,156,227**	5,036,545
Taxation recoverable		**281,826**	633,979
Other receivables	15	**4,199,191**	2,646,862
Cash at bank and in hand		**4,306,625**	2,854,831
Total current assets		**16,180,867**	13,293,510
Total assets		**373,938,725**	349,745,214
Equity			
Issued capital	16.1	**139,053,489**	129,053,489
Revaluation reserve	16.2	**24,780,402**	13,869,923
Translation reserve	16.3	**(1,068,009)**	(1,230,969)
Reporting currency conversion difference	16.4	**443,352**	443,352
Equity component of convertible bonds	16.5	**832,200**	832,200
Other reserve	16.6	**1,003,793**	812,988
Accumulated losses	16.7	**(10,432,435)**	(9,485,707)
Total equity		**154,612,792**	134,295,276
Liabilities			
Bank borrowings	17	**107,385,443**	98,468,209
Bonds	18	**32,460,880**	31,929,829
Parent company loan	19	**13,418,871**	-
Other borrowings	19	**1,671,475**	3,324,837
Provision for charges		**162,296**	194,650
Deferred taxation	20	**26,654,646**	23,055,950
Total non-current liabilities		**181,753,611**	156,973,475
Bank borrowings	17	**11,807,729**	24,283,668
Other borrowings	19	**4,411,025**	3,879,980
Current taxation		**157,331**	-
Trade payables		**5,034,146**	4,660,648
Other payables	21	**16,162,091**	25,652,167
Total current liabilities		**37,572,322**	58,476,463
Total liabilities		**219,325,933**	215,449,938
Total equity and liabilities		**373,938,725**	349,745,214

The consolidated financial statements on pages 43 to 46 and 51 to 94 were approved by the Board of Directors on 26 April 2006 and signed on its behalf by:

Alfred Pisani
Chairman and Chief Executive Officer

Joseph Fenech
Managing Director

STATEMENT OF CHANGES IN EQUITY - GROUP

For the Year Ended 31 December 2005

	Total	Share capital	Revaluation reserve*	Translation reserve	Reporting currency conversion difference*	Equity component of convertible bonds*	Other reserve*	Retained earnings/ (accumulated losses)
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance at 1 January 2004	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	1,459,504	-	1,459,504	-	-	-	-	-
Revaluation of hotel property, net of deferred taxation	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)
Balance 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)
Balance at 1 January 2005	**134,295,276**	**129,053,489**	**13,869,923**	**(1,230,969)**	**443,352**	**832,200**	**812,988**	**(9,485,707)**
Issue of shares	**10,000,000**	**10,000,000**	**-**	**-**	**-**	**-**	**-**	**-**
Revaluation of hotel property, net of deferred taxation	**10,910,479**	**-**	**10,910,479**	**-**	**-**	**-**	**-**	**-**
Liquidation of subsidiary company	**(5)**	**-**	**-**	**19,128**	**-**	**-**	**-**	**(19,133)**
Foreign exchange translation differences	**143,832**	**-**	**-**	**143,832**	**-**	**-**	**-**	**-**
Loss for the year	**(736,790)**	**-**	**-**	**-**	**-**	**-**	**-**	**(736,790)**
Transfer to other reserve	**-**	**-**	**-**	**-**	**-**	**-**	**190,805**	**(190,805)**
Balance at 31 December 2005	**154,612,792**	**139,053,489**	**24,780,402**	**(1,068,009)**	**443,352**	**832,200**	**1,003,793**	**(10,432,435)**

***** Not available for distribution by way of dividends.

CASH FLOW STATEMENT - GROUP

For the Year Ended 31 December 2005

	Note	2005 EUR	2004 EUR
Cash flows from operating activities			
Cash received from customers		**54,387,150**	45,250,746
Cash paid to suppliers and employees		**(41,561,526)**	(37,888,891)
Net cash generated from operations	22	**12,825,624**	7,361,855
Taxation paid		**(731,823)**	(915,452)
Net cash from operating activities		**12,093,801**	6,446,403
Cash flows from investing activities			
Payments to acquire property, plant and equipment		**(22,037,073)**	(17,869,561)
Proceeds from disposal of property, plant and equipment		**212,782**	257,019
Interest received		**178,371**	310,267
Net cash used in investing activities		**(21,645,920)**	(17,302,275)
Cash flows from financing activities			
Proceeds from the issue of shares		**10,000,000**	10,000,000
Bank finance		**18,438,160**	15,000,000
Repayment of bank borrowings		**(21,800,098)**	(9,182,548)
Loans advanced/(repaid) by/(to) parent company and its other subsidiary companies		**13,186,557**	(100,142)
Interest paid		**(8,555,964)**	(7,975,399)
Net cash from financing activities		**11,268,655**	7,741,911
Effect of exchange rate fluctuations:			
On the translation of cash flows of foreign operations		**(11,579)**	(46,823)
On cash and cash equivalents		**(17,027)**	11,755
		(28,606)	(35,068)
Net increase/(decrease) in cash and cash equivalents		**1,687,930**	(3,149,029)
Cash and cash equivalents at beginning of year		**234,620**	3,383,649
Cash and cash equivalents at end of year	23	**1,922,550**	234,620

INCOME STATEMENT - COMPANY

For the Year Ended 31 December 2005

	Note	2005 EUR	2004 EUR
Interest receivable and similar income	2	**2,118,572**	1,972,950
Interest payable and similar charges		**(4,023,417)**	(3,798,584)
Administrative expenses		**(716,607)**	(572,749)
Revaluation to fair value of investments in subsidiaries	11.1	**12,449,819**	(812,296)
Operating net exchange differences		**(337,897)**	171,376
Profit/(loss) before taxation	6	**9,490,470**	(3,039,303)
Income tax (credit)/expense	7	**(4,236,035)**	360,421
Profit/(loss) for the year		**5,254,435**	(2,678,882)
Earnings/(loss) per share	8	**0.04**	(0.02)

BALANCE SHEET - COMPANY

As at 31 December 2005

	Note	2005 EUR	2004 EUR
Assets			
Investments in subsidiaries	11	**189,376,701**	169,703,390
Investments in associates	12	**913,496**	913,496
Derivative financial instrument	13	**22,061**	351,488
Loans receivable	14	**15,509,835**	15,509,835
Total non-current assets		**205,822,093**	186,478,209
Taxation recoverable		**250,856**	-
Other receivables	15	**7,033,719**	5,304,787
Cash at bank and in hand		**54,927**	20,655
Total current assets		**7,339,502**	5,325,442
Total assets		**213,161,595**	191,803,651
Equity			
Issued capital	16.1	**139,053,489**	129,053,489
Reporting currency conversion difference	16.4	**443,352**	443,352
Equity component of convertible bonds	16.5	**832,200**	832,200
Other reserve	16.6	**13,027,169**	4,743,982
Accumulated losses	16.7	**(6,936,138)**	(3,907,386)
Total equity		**146,420,072**	131,165,637
Liabilities			
Bank borrowings	17	**8,166,600**	11,000,000
Bonds	18	**32,460,880**	31,929,829
Parent company loan	19	**13,418,871**	-
Deferred taxation	20	**6,292,255**	2,056,220
Total non-current liabilities		**60,338,606**	44,986,049
Bank borrowings	17	**3,040,665**	12,000,000
Other borrowings	19	**-**	116,684
Trade payables		**88,120**	296,020
Other payables	21	**3,274,134**	3,239,261
Total current liabilities		**6,402,919**	15,651,965
Total liabilities		**66,741,525**	60,638,014
Total equity and liabilities		**213,161,597**	191,803,651

The official rate of exchange between the Euro and Maltese Lira issued by the Central Bank of Malta for 31 December 2005 was 0.4293.
The financial statements on pages 47 to 94 were approved by the Board of Directors on 26 April 2006 and signed on its behalf by:

Alfred Pisani
Chairman and Chief Executive Officer

Joseph Fenech
Managing Director

STATEMENT OF CHANGES IN EQUITY - COMPANY

For the Year Ended 31 December 2005

	Total EUR	Share capital EUR	Reporting currency conversion difference* EUR	Equity component of convertible bonds* EUR	Other reserve* EUR	Retained earnings/ (accumulated losses) EUR
Balance at 1 January 2004	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
Balance at 31 December 2004	131,165,637	129,053,489	443,352	832,200	4,743,982	(3,907,386)
Balance at 1 January 2005	**131,165,637**	**129,053,489**	**443,352**	**832,200**	**4,743,982**	**(3,907,386)**
Issue of shares	**10,000,000**	**10,000,000**	**-**	**-**	**-**	**-**
Profit for the year	**5,254,435**	**-**	**-**	**-**	**-**	**5,254,435**
Transfer from other reserve	**-**	**-**	**-**	**-**	**8,283,187**	**(8,283,187)**
Balance at 31 December 2005	**146,420,072**	**139,053,489**	**443,352**	**832,200**	**13,027,169**	**(6,936,138)**

* Not available for distribution by way of dividends.

CASH FLOW STATEMENT - COMPANY

For the Year Ended 31 December 2005

	Note	2005 EUR	2004 EUR
Cash flows from operating activities			
Financial income received		**3,768,932**	1,375,474
Financial interest and related expenses paid		**(7,891,924)**	(3,627,032)
Net cash used in operating activities	22	**(4,122,992)**	(2,251,558)
Cash flows from investing activities			
Payments to acquire property, plant and equipment		**(119,978)**	(1,475,645)
Net loans advanced to subsidiary companies		**(7,330,724)**	(13,907,069)
Net cash used in investing activities		**(7,450,702)**	(15,382,714)
Cash flows from financing activities			
Proceeds from issue of shares		**10,000,000**	10,000,000
Bank finance		**-**	10,000,000
Repayment of bank borrowings		**(12,000,000)**	(2,000,040)
Loans advanced by parent company		**13,418,871**	194,823
Repayment of loans advanced by parent company		**-**	(549,863)
Net cash from financing activities		**11,418,871**	17,644,920
Effect of exchange rate fluctuations on cash and cash equivalents		**(18,170)**	(16,277)
Net decrease in cash and cash equivalents		**(172,993)**	(5,629)
Cash and cash equivalents at beginning of year		**20,655**	26,284
Cash and cash equivalents at end of year	23	**(152,338)**	20,655
Non-cash transaction			
Net loan advanced to subsidiary company capitalised as part of the net investment	11.1	**15,272,460**	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

1 Significant accounting policies

International Hotel Investments p.l.c. (referred to as "IHI") is a company domiciled and incorporated 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").

The financial statements were authorised for issue by the Directors on 26 April 2006.

1.1 Statement of compliance

The financial statements have been prepared and presented (see note 29) in accordance with the provisions of the Companies Act, 1995 enacted in Malta as limited below.

Article 4 of Regulation 1606/2002/EC ("IAS Regulation") requires that, for each financial year starting on or after 1 January 2005, companies governed by the law of an EU Member State shall prepare their consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the EU if, at their balance sheet date, their securities are admitted to trading on a regulated market of any EU Member State.

The IAS Regulation overrides the provisions of the Companies Act, 1995 enacted in Malta, relating to the form and content of the financial statements (and in particular the Third and Fourth Schedules of the Act) of companies as described above.

1.2 Basis of preparation

The financial statements are prepared on the going concern basis (see note 1.2.1) 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 28.

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2005

1.2 Basis of preparation - continued

1.2.1 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 and when they fall due.

During its development phase, the Group has been undertaking 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.

The Group's business is in the main dependent on the operation of city centre hotel properties. In previous years 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. Market evidence confirms that the hotel industry globally is recovering, which positive trend is also seen within the Group, supported by actual operating results in 2005.

The Directors envisage that this turnaround, together with new and refurbished amenities which will be financed by committed additional bank loans and bonds (see note 25), will continue to contribute positively and will serve to further enhance the Group's ability to generate future income streams. In this scenario, the Directors are confident that the Group will improve its 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 2005.

To address the Group's day-to-day working capital requirements, the Parent Company has committed itself, together with its other subsidiaries, to provide the Group with sufficient funds to enable it to pay its debts, fund its own operations and continue to operate as a going concern.

On the strength of their assessment and the funding arrangements in place, 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.

Based on the foregoing, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

1.2.2 Measurement and presentaion 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 exeption 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.

1.3 Basis of consolidation

1.3.1 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 any entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

1.3 Basis of consolidation - continued

1.3.2 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.

1.3.3 Transactions eliminated 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 gains arising from transactions with associates and jointly controlled entities 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.

1.4 Foreign currency

1.4.1 Foreign currency transactions

Transactions in foreign currencies are translated 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 income statement. 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 rates ruling at the dates the fair value was determined.

1.4.2 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, excluding foreign operations in hyperinflationary economies, are translated to Euro at rates approximating to the foreign exchange rates ruling at the dates of the transactions. The revenues and expenses of foreign operations in hyperinflationary economies are translated to Euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

1.4.3 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 income statement upon disposal.

1.4.4 Exchange differences arising on intra-group balances

Exchange differences arising on a monetary item that, in substance, froms part of the net investment of the Company or of one of its subsidiaries, in a foreign entitiy, is recognised in the income statement 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 income statement. Such monetary itmes are those for which settlement is neither plannned nor likely to occur in the foreseeable future and exlude trade receivables and trade payables.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

1.5 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 measured 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 counter-parties.

1.6 Property, plant and equipment

1.6.1 Owned assets

Items of property, plant and equipment are initially measured at cost. Subsequent to initial recognition, land and buildings are revalued periodically, such that their carrying amount does not differ materially from that which would be determined using fair value at balance sheet date. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

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

Items of property, plant and equipment, 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 (see accounting policy 1.13).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

1.6.2 Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Items of property, plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and any impairment losses (see accounting policy 1.13).

1.6.3 Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

1.6 Property, plant and equipment - continued

1.6.4 Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, other than freehold land, crockery and utensils and assets in the course of construction. Crockery and utensils, which are included in hotel plant and equipment, are dealt with on a replacement basis. The estimated useful lives are as follows:

- freehold buildings	50 years
- leasehold land and buildings	Over the term of Lease
- hotel plant and equipment	3 - 15 years
- furniture, fixtures and fittings	3 - 10 years
- motor vehicles	5 years

Depreciation methods, useful lives, as well as residual values, are reassessed annually.

1.7 Investments

1.7.1 Investments in subsidiaries

Investments in subsidiaries included in the balance sheet of the Company are designated at fair value through profit or loss at inception. They are accounted for in the consolidated financial statements as set out in accounting policy 1.3.1.

Gains or losses arising from a change in the fair value of these investments are included in the income statement for the period in which they arise.

1.7.2 Investments in associates

Investments in associates are shown in the balance sheet of the Company at cost less any impairment losses (see accounting policy 1.13). These investments are accounted for in the consolidated financial statements as set out in accounting policy 1.3.2.

1.7.3 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 1.19.2.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes of subsequent recording. When the Group begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

1.8 Loans receivable

Loans receivable with fixed or determinable payments are measured at amortised cost using the effective interest rate method.

Loans advanced by the Company or any of its subsidiaries, to other subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future, are treated as an extension to the Company's net investment in those subsidiaries and included as part of the carrying amount of investments in subsidiaries (see accounting policy 1.7.1).

Loans receivable are subject to review for impairment as set out in accounting policy 1.13.

1.9 Loans with no fixed maturity date

Loans receivable by the Group, which do not have a fixed maturity date, but which are repayable after more than twelve months from the balance sheet date, are initially measured at the fair value of the consideration given, subsequently measured at amortised cost, less any impairment losses (see accounting policy 1.13) and are included within non-current assets.

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

Loans receivable and payable by the Group with no fixed maturity date are included within current assets and current liabilities respectively.

1.10 Inventories

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

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

1.11 Trade and other receivables

Trade and other receivables, excluding loans receivable which do not have a fixed maturity date (see accounting policy 1.9), are measured at amortised cost less impairment losses (see accounting policy 1.13).

1.12 Cash and cash equivalents

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

1.13 Impairment

The carrying amounts of the Group's assets, other than investment property (see accounting policy 1.7.3), inventories (see accounting policy 1.10) and deferred tax assets (see accounting policy 1.21), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy 1.13.1).

For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

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 income statement 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

1.13 Impairment - continued

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been de-recognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

1.13.1 Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other 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 largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

1.13.2 Reversals of impairment

Impairment losses, other than in respect of goodwill, are re-assessed when there is an indication that the impairment loss may no longer exist and if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

1.14 Share capital

1.14.1 Dividends

Dividends on redeemable preference shares are recognised as a liability and expressed on an accrual basis. Other dividends are recognised as a liability in the period in which they are declared.

1.15 Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes 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 interest expense recognised in the income statement is calculated using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2005

1.16 Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value 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 income statement over the period of the borrowings on an effective interest basis.

1.17 Provisions

A provision is recognised in the balance sheet when the Group has a present 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.

1.18 Trade and other payables

Trade and other payables are measured at amortised cost.

1.19 Revenue

1.19.1 Services rendered

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

1.19.2 Rental income

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

1.20 Expenses

1.20.1 Employee benefits

The Group contributes towards the State pension in accordance with local legislation applicable in the various jurisdictions in which it operates. Related costs are recognised as an expense in the income statement as incurred.

1.20.2 Operating lease payments

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

1.20.3 Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy 1.5).

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is usually the ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2005

1.21 Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the 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: 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 substantively 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 asset can be utilised and/or sufficient taxable temporary differences are available. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.22 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.

1.23 Unrealised profits

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

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 2005

2 Segment disclosures - continued

	Malta											
	Hotel Property		Corporate Business		Other European Union Countries		Other European Countries		Consolidation Adjustments		The Group	
	2005 EUR	2004 EUR	**2005 EUR**	2004 EUR	**2005 EUR**	2004 EUR	**2005 EUR**	2004 EUR	**2005 EUR**	2004 EUR	**2005 EUR**	2004 EUR
Revenue												
External	**9,700,964**	8,771,904	**867,100**	301,714	**27,673,083**	21,313,487	**17,132,786**	16,538,532	**(867,100)**	(301,714)	**54,506,833**	46,623,923
Inter-segment	**-**	-	**1,251,472**	1,671,236	**-**	-	**-**	-	**(1,251,472)**	(1,671,236)	**-**	-
	9,700,964	8,771,904	**2,118,572**	1,972,950	**27,673,083**	21,313,487	**17,132,786**	16,538,532	**(2,118,572)**	(1,972,950)	**54,506,833**	46,623,923
Segment result - Operating profit/(loss) before financing costs	**3,090,144**	(525,597)	**9,501,146**	(3,039,303)	**(1,301,620)**	(8,499,003)	**8,285,094**	5,621,075	**(10,272,879)**	2,723,863	**9,301,885**	(3,718,965)
Financial income											**178,371**	699,067
Financial expenses											**(9,301,572)**	(8,783,994)
Income from associates	**-**	-	**578,635**	458,863	**-**	-	**-**	-	**-**	-	**578,635**	458,863
Tax (expense)/income											**(1,494,109)**	3,230,298
Loss for the year											**(736,790)**	(8,114,731)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

2 Segment disclosures - continued

	Malta											
	Hotel Property		**Corporate Business**		**Other European Union Countries**		**Other European Countries**		**Consolidation Adjustments**		**The Group**	
	2005 EUR	2004 EUR	**2005 EUR**	2004 EUR	**2005 EUR**	2004 EUR	**2005 EUR**	2004 EUR	**2005 EUR**	2004 EUR	**2005 EUR**	2004 EUR
Segment assets	**37,072,603**	34,422,724	**212,248,097**	190,890,155	**230,036,299**	227,934,109	**115,739,223**	107,965,914	**(224,492,979)**	(213,980,795)	**370,603,243**	347,232,107
Investments in associates	**-**	-	**913,496**	913,496	**-**	-	**-**	-	**1,180,282**	1,067,522	**2,093,778**	1,981,018
Unallocated assets											**1,241,704**	532,089
Total assets											**373,938,725**	349,745,214
Segment liabilities	**4,448,330**	3,564,310	**3,362,255**	3,535,281	**57,050,484**	60,458,292	**25,977,130**	21,299,440	**(69,484,631)**	(58,544,508)	**21,353,568**	30,312,815
Interest-bearing liabilities	**-**	-	**57,087,016**	55,046,513	**-**	-	-	-	**-**	-	**171,155,423**	161,886,523
Deferred taxation											**26,654,646**	23,055,950
Provisions for charges											**162,296**	194,650
Total liabilities											**219,325,933**	215,449,938
Depreciation	**1,761,850**	1,851,449	**-**	-	**6,938,562**	6,855,944	**1,283,443**	1,209,946	**-**	-	**9,983,855**	9,917,339
Capital Expenditure	**310,559**	67,009	**-**	-	**3,656,348**	19,521,426	**4,241,709**	2,461,572	**1,313,573**	-	**9,522,189**	22,050,007
Impairment (reversals)/charges	**(3,351,221)**	-	**-**	-	**(2,120,600)**	2,170,600	**-**	-	**-**	-	**(5,471,821)**	2,170,600

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2005

2 Segment disclosures - continued

The Company	Note	**2005**	2004
		EUR	EUR
Interest receivable on:			
Loans advanced to group companies		**738,359**	749,376
Loan advanced to related company		**47,196**	47,302
Bank deposits		**1,156**	1,073
		786,711	797,751
Dividend received from associated company		**716,730**	460,300
Fair value gain on interest rate swap		**-**	173,405
Interest rate differential of interest rate swap	13	**80,389**	79,934
Management fees charged to group companies		**534,742**	461,560
		2,118,572	1,972,950

3 Other net operating income/(charges)

	2005	2004
	EUR	EUR
Income		
Operating net exchange differences	**126,185**	-
Other income	**161,722**	-
	287,907	-
Charges		
Other charges	**-**	(203,202)
	-	(203,202)

4 Financial income

	Note	**2005**	2004
		EUR	EUR
Interest receivable on:			
Loan advanced to related company	24.3	**50,003**	67,826
Bank deposits		**47,979**	181,682
		97,982	249,508
Fair value gain on interest rate swap		**-**	173,405
Interest rate differential of interest rate swap	13	**80,389**	79,934
Exchange differences		**-**	196,220
		178,371	699,067

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

5 Financial expenses

	Note	2005 EUR	2004 EUR
Interest payable on:			
Bank borrowings		**5,569,312**	5,914,262
Bonds		**1,975,983**	1,964,574
Loans advanced by parent company and its subsidiaries	24.3	**489,833**	490,533
Capital creditors		**468,224**	205,083
		8,503,352	8,574,452
Imputed interest on convertible bonds and amortisation of bond issue costs	18	**223,955**	209,542
Fair value loss on interest rate swap		**329,427**	-
Loss on liquidation of subsidiary company	11	**10,675**	-
Exchange differences		**234,163**	-
		9,301,572	8,783,994

6 Profit/(loss) before tax

6.1 The profit/(loss) before tax is stated after charging auditors' remuneration for the Group and the Company amounting to EUR138,133 and EUR35,000 respectively.

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

	The Group		The Company	
	2005 EUR	2004 EUR	2005 EUR	2004 EUR
Directors' fees	**165,577**	110,215	**153,930**	105,541
Wages and salaries	**14,437,782**	12,339,767	**-**	-
Social security costs	**2,682,261**	2,339,852	**-**	-
	17,285,620	14,789,834	**153,930**	105,541

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

	2005 No.	2004 No.
Management and administration	**219**	238
Operating	**1,003**	909
	1,222	1,147

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

7 Income tax (expense)/credit

7.1 Recognised in the income statement

		The Group		The Company	
		2005	2004	**2005**	2004
	Note	**EUR**	EUR	**EUR**	EUR
Current tax expense					
Current year		**(990,478)**	(559,900)	**-**	(148)
Adjustment for prior years		**-**	180,314	**-**	-
		(990,478)	(379,586)	**-**	(148)
Deferred tax (expense)/income					
Origination and reversal of temporary differences		**774,126**	984,767	**(4,236,035)**	360,569
Revaluation to fair value of land and buildings		**(1,241,968)**	-	**-**	-
Revaluation to fair value of investment property		**(616,320)**	2,688,631	**-**	-
Benefit of tax losses		**580,531**	(63,514)	**-**	-
	20.1	**(503,631)**	3,609,884	**(4,236,035)**	360,569
Tax income tax (expense)/credit in income statement		**(1,494,109)**	3,230,298	**(4,236,035)**	360,421

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

7 Income tax (expense)/credit - continued

7.2 The tax income/(credit) 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	
	2005	2004	**2005**	2004
	EUR	EUR	**EUR**	EUR
Profit/(loss) before tax	**757,319**	(11,345,029)	**9,490,470**	(3,039,303)
Income tax at the domestic income rate of 35%	**(265,060)**	3,970,760	**(3,321,665)**	1,063,756
- Effect of different tax rates in foreign jurisdictions	**391,201**	(773,237)	**-**	-
- Tax effect of double taxation treaty relief	**(58,931)**	398,119	**-**	-
- Effect of adjustment relating to the prior year revaluation to fair value of investment property	**-**	2,688,631	**-**	-
- Tax (over)/under provided for in prior years	**(205,803)**	180,314	**-**	-
- Adjustment to opening deferred tax asset	**(123,970)**	(42,840)	**(123,970)**	(42,840)
- Effect of different tax rates on bank interest received	**-**	189	**-**	189
- Tax effect of tax free dividends received from associated company	**-**	-	**-**	161,105
- Tax effect of expenses not deductible for tax purposes	**(898,490)**	(1,121,788)	**(790,400)**	(821,789)
- Tax benefit of unrelieved losses not recognised	**(401,857)**	(2,206,058)	**-**	-
- Tax effect of other consolidation adjustments	**202,522**	163,073	**-**	-
- Tax effect of other non-temporary differences	**(133,721)**	(26,865)	**-**	-
Tax (expense)/credit for the year	**(1,494,109)**	3,230,298	**(4,236,035)**	360,421

7.3 Deferred tax recognised directly in equity

	Note	**2005**	2004
		EUR	EUR
Relating to revaluation of property, plant and equipment	20	**3,079,679**	263,901

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

8 (Loss)/earnings per share

8.1 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:

	2005	2004
	EUR	EUR
(Loss)/profit attributable to shareholders		
The Group	**(736,790)**	(8,114,731)
The Company	**5,254,435**	(2,678,882)

Weighted average number of shares

		2005		2004	
		Issued shares	**Weighted average**	Issued shares	Weighted average
	Note	**No.**	**No.**	No.	No.
At beginning of year		**129,053,489**	**129,053,489**	119,053,489	119,053,489
Effect of shares issued in:					
April 2005	16.1	**10,000,000**	**7,342,466**	-	-
December 2004				10,000,000	792,350
At end of year		**139,053,489**	**136,395,955**	129,053,489	119,845,839

8.2 Diluted earnings per share

The calculation of the profit/(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**	
	2005	2004	**2005**	2004
	EUR	EUR	**EUR**	EUR
(Loss)/profit attributable to shareholders	**(736,790)**	(8,114,731)	**5,254,435**	(2,678,882)
After-tax effect of interest on convertible bonds	**489,774**	482,268	**489,774**	482,268
(Loss)/profit attributable to the shareholders (diluted)	**(247,016)**	(7,632,463)	**5,744,209**	(2,196,614)

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 18.2 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 2005

9 Property, plant and equipment

9.1

		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						
Balance 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	1,864,585	1,864,585	-	-	-	-
Balance at 31 December 2004	338,311,350	281,242,834	29,382,907	23,033,384	318,106	4,334,119
Balance at 1 January 2005	**338,311,350**	**281,242,834**	**29,382,907**	**23,033,384**	**318,106**	**4,334,119**
Effect of movement in foreign exchange rates	**599,138**	**382,717**	**104,275**	**110,237**	**1,463**	**446**
Additions	**9,522,189**	**241,073**	**253,585**	**176,368**	**252**	**8,850,911**
Reallocations	**-**	**2,149,063**	**106,243**	**116,906**	**586**	**(2,372,798)**
Disposals	**(272,465)**	**-**	**(398)**	**(18,945)**	**(531)**	**(252,591)**
Revaluation surplus (Note16.2)	**12,892,396**	**12,892,396**	**-**	**-**	**-**	**-**
Balance at 31 December 2005	**361,052,608**	**296,908,083**	**29,846,612**	**23,417,950**	**319,876**	**10,560,087**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

9 Property, plant and equipment - continued

9.1 continued

		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
Depreciation and impairment losses						
Balance 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	2,170,600	2,170,600	-	-	-	-
Reallocations	-	(4,158)	(735,956)	740,114	-	-
Disposals	(50,237)	-	(35,795)	(14,442)	-	-
Revaluation surplus	(3,117,094)	(3,117,094)	-	-	-	-
Balance at 31 December 2004	39,062,152	18,941,952	9,046,618	10,869,838	203,744	-
Balance at 1 January 2005	**39,062,152**	**18,941,952**	**9,046,618**	**10,869,838**	**203,744**	**-**
Effect of movement in foreign exchange rates	**233,390**	**68,484**	**64,630**	**98,349**	**1,927**	**-**
Depreciation charge for the year	**9,983,855**	**4,206,471**	**3,086,957**	**2,649,998**	**40,429**	**-**
Net impairment losses reversed (Note 9.3)	**(5,471,821)**	**(5,471,821)**	**-**	**-**	**-**	**-**
Disposals	**(29,225)**	**(23,656)**	**(388)**	**(5,181)**	**-**	**-**
Revaluation surplus (Note 16.2)	**(1,097,762)**	**(1,097,762)**	**-**	**-**	**-**	**-**
Balance at 31 December 2005	**42,680,589**	**16,623,668**	**12,197,817**	**13,613,004**	**246,100**	**-**
Carrying amount						
At 1 January 2004	285,109,941	177,816,906	14,449,985	2,223,664	115,862	90,503,524
At 31 December 2004	299,249,198	262,300,882	20,336,289	12,163,546	114,362	4,334,119
At 1 January 2005	**299,249,198**	**262,300,882**	**20,336,289**	**12,163,546**	**114,362**	**4,334,119**
At 31 December 2005	**318,372,019**	**280,284,415**	**17,648,795**	**9,804,946**	**73,776**	**10,560,087**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

9 Property, plant and equipment - continued

9.2 Security

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 (see note 17.2). In addition, this property has been hypothecated in favour of the Parent Company's bankers in connection with borrowing facilities availed of by this company (see note 24.4). These hypothecs rank after a special hypothec in favour of the Commissioner of Lands.

Another subsidiary company, IHI Benelux B.V., owns a hotel complex (hotel and shops/offices) and adjacent sites, located in St Petersburg. The hotel complex is mortgaged in favour of a bank as collateral for funds borrowed (see note 17.2). The land underlying the hotel complex is held on a long-term lease basis. The initial lease is for 49 years with the option to renew for 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 (see note 17.2).

9.3 Impairment losses and reversals

At 31 December 2005, the Directors, relying on an independent valuer, assessed the Group's hotel properties for impairment.

The recoverable amount of the Corinthia San Gorg Hotel and of the Corinthia Grand Hotel Royal exceeded their respective carrying amounts. In this regard, impairment losses previously recognised were reversed, to the extent that, the increased carrying amount of the respective hotel properties did not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for such properties in prior years, as follows:

Hotel property	Recognised at 1 January 04	Increase/ (reversal)	Recognised at 31 December 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

Hotel property	Recognised at 1 January 05	Increase/ (reversal)	Recognised at 31 December 05
	EUR	**EUR**	**EUR**
Corinthia San Gorg Hotel	**4,054,225**	**(3,351,221)**	**703,004**
Corinthia Grand Hotel Royal	**2,120,600**	**(2,120,600)**	**-**
Corinthia Alfa Hotel	**6,500,000**	**-**	**6,500,000**
	12,674,825	**(5,471,821)**	**7,203,004**

The value attributed to the Corinthia Grand Hotel Royal resulted in a surplus in excess of the impairment loss reversed. This excess was credited to the revaluation reserve, net of related deferred taxation (see note 16.2). The carrying amount of the Corinthia Alfa Hotel did not exceed its recoverable amount. No factors arose which would necessitate an impairment review of the Corinthia Nevskij Palace Hotel (see note 9.4).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

9.3 Impairment losses and reversals - continued

The reversal/partial reversal of the impairment losses recognised in previous periods resulted from the revision of the previously projected future cash inflows and outflows from the hotel operations.

In assessing the recoverable amount of the hotel properties by reference to their value in use, the future cash flows to be derived from their continuing use and ultimate disposal, were estimated in the currency in which they will be generated, and discounted by applying the following pre-tax discount rates:

	%
Corinthia San Gorg Hotel	8.6
Corinthia Grand Hotel Royal	8.0
Corinthia Alfa Hotel	7.6

These discount rates reflect the current market assessment of the time value of money and the risks specific to the Group's properties for which the future cash flow estimates used in arriving at their carrying amounts have not been adjusted.

9.4 Revalutaion to fair value of hotel properties

The value in use calculations resulting from the impairment reviews of the Group's hotel properties (see note 9.3) were also considered appropriate for the purpose of determining their fair value. This same basis was also used in arriving at the fair value of the Corinthia Nevskij Palace Hotel, which value exceeded its carrying amount. The resulting excess was accounted for as a revaluation surplus, net of related deferred taxation (see note 16.2).

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

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

9.5 Historic cost of hotel properties

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 EUR181,273,770 (2004: EUR180,779,618).

9.6 Property, plant and equipment under construction

This amount includes EUR3,917,097 representing costs incurred to date in the development of one of the vacant sites surrounding one of the hotel properties, which as explained in note 10.2 will in future be used as an investment property.

9.7 Depreciation

In reviewing the estimated useful lives of the hotel properties, the Directors, relying on the expert opinion of CPU Consultores, a firm of real estate structural engineers, revised the estimated useful life of the Corinthia Alfa Hotel in Lisbon, Portugal from 25 years to 50 years. Such a change in estimate reduced the depreciation charge for the current and subsequent periods by EUR1,743,062.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

10 Investment property

10.1

	Note	2005 Lm	2004 Lm
Balance at 1 January		**33,400,000**	33,400,000
Fair value change	10.2	**2,400,000**	-
Balance at 31 December		**35,800,000**	33,400,000

10.2 Investment property owned by a subsidiary company, IHI Benelux B.V., comprises two vacant sites adjacent to and surrounding the Corinthia Nevskij Palace Hotel situated in St Petersburg, also owned by this company (see note 11.2). These properties are held on lease. The initial lease is for 49 years, with the option to renew for further periods of 49 years. The Group obtained the free and unencumbered title of these properties during 2003. Works are already in hand to develop these properties. The project consists of the extension on the Corinthia Nevskij Palace Hotel on one site and the development of another site adjoining the hotel as a retail and office centre. Transfers from investment property to hotel property shall be made on commencement of owner-occupation.

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

11 Investments in subsidiaries

11.1

	Note	Total EUR	Capital subscribed EUR	Loans receivable EUR	Fair value changes 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 increase in fair value		(812,296)	-	-	(812,296)
At 31 December 2004		169,703,390	71,374,387	92,281,321	6,047,682
At 1 January 2005		**169,703,390**	**71,374,387**	**92,281,321**	**6,047,682**
Liquidated during the year	11.6	**(107,232)**	**(164,496)**	**-**	**57,264**
Loans capitalised		**-**	**15,272,460**	**(15,272,460)**	**-**
Loans advanced during year		**26,431,818**	**-**	**26,431,818**	**-**
Loans repaid during year		**(19,101,094)**	**-**	**(19,101,094)**	**-**
Net increase in fair value		**12,449,819**	**-**	**-**	**12,449,819**
At 31 December 2005		**189,376,701**	**86,482,351**	**84,339,585**	**18,554,765**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

11 Investments in subsidiaries - continued

11.2 Subsidiary companies - fully owned

Unquoted investments	Note	Registered Office	Nature of Business
Five Star Hotels Limited		22 Europa Centre Floriana Malta	Owns and operates the Corinthia San Gorg Hotel 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 Turisticos Lda	Investment Company Holding an Equity Stake in Alfa Investimentos
IHI St Petersburg LLC	11.3	57 Nevskij Prospect St Petersburg 191025 Russian Federation	Investment Company
IHI Benelux B.V.	11.4	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	11.5	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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

11 Investments in subsidiaries - continued

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

11.4 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 EUR14,070,014 (see note 17.2), by means of a notarial deed. The shareholders of this company will continue to exercise the voting rights attached to these shares.

11.5 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 EUR44,194,243 (see note 17.2). In accordance with the terms of the facility, IHI, as owner of the Borrower, has deposited the shares it holds in this subsidiary into an account held with OTP Bank.

11.6 During the year Mediterranean Hotel and Resorts Limited, a fully-owned subsidiary company was liquidated and subsequently wound up.

11.7 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.

12 Investments in associates

12.1

	The Group	**The Company**
	EUR	EUR
At 1 January 2005	1,981,018	913,496
Share of profit of associated companies	578,635	-
Dividend received from associated company	(716,731)	-
Tax at source on dividend received	250,856	-
At 31 December 2005	**2,093,778**	**913,496**

12.2 Associated companies - 20% holdings

Unquoted investments	**Registered Office**	**Nature of Business**
C.H.I. Limited	22 Europa Centre Floriana, Malta Malta	Hotel management company operating the hotel properties owned by IHI and CPHCL
Quality Project Management Limited	22 Europa Centre Floriana, Malta	Project management company

C.H.I. Limited owns 100% of the equity of CHI Belgium NV, the registered office of which is situated at Desguinlei 94, B-2018, Antwerp, Belgium. Also, Quality Project Management Limited owns the 100% of the equity of Corinthia Construction (Overseas) Limited. The registered office of this company is the same as that of Quality Project Management Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

12 Investments in associates - continued

12.3 Summary of financial information on associates

	Assets	Liabilities	Equity	Revenues	Profit/(loss)
	EUR	EUR	EUR	EUR	EUR
2004					
C.H.I. Limited	9,780,176	(5,311,136)	4,469,040	8,162,204	1,761,600
CHI Belgium NV	1,275,113	(1,209,103)	66,010	5,363,716	205,223
Quality Project Management Limited	1,610,069	(1,105,291)	504,778	473,114	2,258,780
Corinthia Construction (Overseas) Limited	4,104,754	(2,707,870)	1,396,884	3,995,917	370,211
	16,770,112	(10,333,400)	6,436,712	17,994,951	4,595,814
2005					
C.H.I. Limited	**9,881,464**	**(5,388,234)**	**4,493,230**	**8,906,932**	**2,293,471**
CHI Belgium NV	**1,460,240**	**(1,366,200)**	**94,040**	**5,858,223**	**28,029**
Quality Project Management Limited	**1,434,642**	**(817,782)**	**616,860**	**485,073**	**84,214**
Corinthia Construction (Overseas) Limited	**5,030,140**	**(3,068,677)**	**1,961,463**	**4,294,612**	**487,461**
	17,806,486	**(10,640,893)**	**7,165,593**	**19,544,840**	**2,893,175**

13 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%

14 Loans receivable

14.1

	The Group		The Company	
	2005	2004	**2005**	2004
	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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

14 Loans receivable - continued

14.2

		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			

15 Other receivables

15.1

	The Group		The Company	
	2005	2004	**2005**	2004
	EUR	EUR	**EUR**	EUR
Amounts owed by:				
Parent company	**207,997**	68,984	**-**	-
Group companies	**-**	-	**6,466,429**	4,699,665
Associated companies	**644,127**	94,422	**13,332**	9,531
Related companies	**429,205**	354,185	**145,576**	98,379
Other related parties	**212**	212	**-**	-
Loan owed by related company	**119,071**	122,195	**-**	-
Recoverable VAT on capital expenditure	**1,119,187**	363,449	**87,014**	98,934
Other debtors	**934,403**	815,577	**16,955**	4,297
Prepayments and accrued income	**744,989**	827,838	**304,413**	393,981
	4,199,191	2,646,862	**7,033,719**	5,304,787

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

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

15.4 Recoverable VAT includes EUR248,262 (2004: EUR287,243) expected to be refunded after more than one year from balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

16 Capital and reserves

16.1 Share capital

	Ordinary shares of EUR1 each	
	2005	2004
	EUR	EUR
On issue at 1 January	**129,053,489**	119,053,489
Issued for cash	**10,000,000**	10,000,000
On issue at 31 December – fully paid	**139,053,489**	129,053,489

At 31 December 2005, the authorised share capital comprised of 750,000,000 ordinary shares of EUR 1 each. All shares in issue are fully paid up.

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.

16.2 Revaluation reserve

	Note	**Revaluation surplus** EUR	**Deferred taxation** EUR	**Net** EUR
At 31 December 2004		18,249,899	(4,379,976)	13,869,923
Revaluation of hotel property carried ou at year end	9.4	13,990,158	(3,079,679)	10,910,479
At 31 December 2005		**32,240,057**	**(7,459,655)**	**24,780,402**

16.3 Translation reserve

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

16.4 Reporting currency conversion difference

The Reporting Currency Conversion Difference represents the excess of total assets over the aggregate of total liabilities and funds attributable to the shareholders, following the re-denomination of the paid up share capital from Maltese Liri to Euro in 2003.

16.5 Equity component of convertible bonds

The equity component of convertible bonds represents 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:

	Note	**EUR**
Amount of convertible bonds classified as equity	18.2	1,324,506
Transaction costs		(44,198)
		1,280,308
Deferred taxation		(448,108)
		832,200

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

16 Capital and reserves - continued

16.6 Other reserve

The Other Reserve represents the following unrealised gains:

	Gain	Deferred taxation	Net
	EUR	EUR	EUR
The Group			
Fair value gain on:			
Interest rate swap	22,062	(7,722)	14,340
Exchange gains	560,985	(196,345)	364,640
Tax benefit of unused tax losses			624,813
			1,003,793
The Company			
Fair value gains:			
Investments in subsidiary companies	18,497,501	(6,474,125)	12,023,376
Interest rate swap	22,062	(7,722)	14,340
Exchange gains	560,985	(196,345)	364,640
Tax benefit of unused tax losses			624,813
			13,027,169

16.7 Accumulated losses

The loss for the year has been transferred to accumulated losses as set out in the statement of changes in equity for the year ended 31 December 2005.

17 Bank borrowings

17.1

	The Group		The Company	
	2005	2004	**2005**	2004
	EUR	EUR	**EUR**	EUR
Bank loans	**116,809,097**	120,131,666	**11,000,000**	23,000,000
Bank overdrafts	**2,384,075**	2,620,211	**207,265**	-
	119,193,172	122,751,877	**11,207,265**	23,000,000
Non-current liabilities				
Bank loans	**107,385,443**	98,468,209	**8,166,600**	11,000,000
Current liabilities				
Bank loans	**9,423,654**	21,663,457	**2,833,400**	12,000,000
Bank overdrafts	**2,384,075**	2,620,211	**207,265**	-
	11,807,729	24,283,668	**3,040,665**	12,000,000

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 200

17 Bank borrowings - continued

17.2

			Terms				
				Repayment			
Group company		**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	6,000,000	6 month EURIBOR + 2.25%	8 October 2008	2,000,000	4,000,000	-	Second General Hypothec for EUR20 million over all Company's assets present and future.
Bank loan	5,000,000	6 month EURIBOR + 2%	30 October 2011	833,400	3,333,600	833,000	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 for EUR10 million. Second General and Special Hypothecary Guarantee given by Alfa Investimentos Turisticos Lda over the Corinthia Alfa Hotel. General and Special Hypothecary Guarantee for EUR10 million over property owned by a related company. First General Hypothec for EUR10 million over property owned by related company. 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.
Bank overdraft	207,265	3.622%	On demand	207,265	-	-	Unsecured.
	11,207,265			3,040,665	7,333,600	833,000	

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

17 Bank borrowings - continued

17.2 (continued)

		Terms					
			Repayment				
Group company	EUR	**Interest**	**By**	**Within 1 Year** EUR	**Between 2 - 5 years** EUR	**After 5 years** EUR	**Security**
Five Star Hotels Limited:							
Bank overdraft	1,697,331	5%	On Demand	1,697,331	-	-	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	1,760,531	5%	31 December 2006	1,760,531	-	-	
Alfa Investimentos Turisticos Lda:							
Bank overdraft	166,655	3 Month EURIBOR + 3.25%	On Demand	166,655	-	-	Secured by mortgages over the Corinthia Alfa Hotel including land.
Bank overdraft	312,824	3 Month EURIBOR + 2.75%	On Demand	312,824	-	-	
Bank loan	42,950,000	1 - 5 Years 4.7025%, thereafter at 3 Month EURIBOR + 1.25%	24 March 2022	860,000	5,160,000	36,930,000	
IHI Benelux B.V.:							
Bank loan	14,070,014	EURIBOR+ 3%	14 September 2009	2,000,000	12,070,014	-	Secured over the Corinthia Nevskij Palace Hotel and a pledge over the shares of IHI Benelux B.V. (see note 11.4). New loan agreements exceeding EUR2 million cannot be concluded without the Bank's prior written consent.
Bank loan	2,834,309	Margin 4.2% - 4.5%	14 September 2009	690,130	2,144,179	-	
IHI Hungary Rt.:							
Bank loan	44,194,243	3 Month EURIBOR + 2.2%	10 September 2019	1,279,593	6,038,375	36,876,275	Secured by mortgages over the Corinthia Grand Hotel Royal and by a security deposit over the shares of IHI Hungary Rt. (see note 11.5) and by a cash collateral amounting to EUR2,121,123 (see note 23). 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.
	107,985,907			8,767,064	25,412,568	73,806,275	
	119,193,172			**11,807,729**	**32,746,168**	**74,639,275**	

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

18 Bonds

18.1

	Note	2005 EUR	2004 EUR
Convertible bonds	18.2	**10,762,378**	10,456,020
Lm bond	18.3	**13,749,725**	13,553,330
Euro bond	18.3	**7,948,777**	7,920,479
		32,460,880	31,929,829

18.2 Convertible bonds

	Note	EUR
Proceeds from issue		12,283,000
Transaction costs		(365,681)
Net proceeds		11,917,319
Amount classified as equity	16.5	(1,324,506)
Imputed interest and amortisation of transaction costs to 31 December 2004		638,407
Reporting currency conversion difference		(335,500)
Provision for exchange fluctuations		(439,700)
At 31 December 2004		10,456,020
Imputed interest and amortisation of transaction costs for 2005		166,991
Provision for exchange fluctuations		139,367
At 31 December 2005		**10,762,378**

18.2.1 Conversion terms, dates and prices

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

18 Bonds - continued

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

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

18.2.2 Interest

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

18.2.3 Security

Thebonds 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.

18.3 Lm and Euro bonds

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

	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 2004	49,109	48,463
Provision for exchange fluctuations to 31 December 2004	(459,650)	-
At 31 December 2004	13,553,330	7,920,479
Amortisation of transaction costs	28,666	28,298
Provision for exchange fluctuations	167,729	-
At 31 December 2005	**13,749,725**	**7,948,777**

18.3.1 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.

18.3.2 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.

18.3.3 Security

Thebonds 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

19 Parent company loan and other borrowings

19.1

	The Group		The Company	
	2005	2004	**2005**	2004
	EUR	EUR	**EUR**	EUR
Amounts owed to:				
Parent company	**13,745,824**	553,969	**13,418,871**	116,684
Associated companies	**3,665,367**	4,549,642	**-**	-
Other related companies	**2,090,180**	2,101,206	**-**	-
	19,501,371	7,204,817	**13,418,871**	116,684
Non-current liabilities				
Amounts owed to:				
Parent company	**13,418,871**	-	**13,418,871**	-
Associated companies	**-**	1,653,362	**-**	-
Other related company	**1,671,475**	1,671,475	-	-
	15,090,346	3,324,837	**13,418,871**	-
Current liabilities				
Amounts owed to:				
Parent company	**326,953**	553,969	**-**	116,684
Associated companies	**3,665,367**	2,896,280	**-**	-
Other related companies	**418,705**	429,731	**-**	-
	4,411,025	3,879,980	**-**	116,684

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

		Terms		
	EUR	**Interest**	**Repayable by**	**Security**
Parent company	13,418,871	5.0%	At least after more than 12 months after balance sheet date	None
Parent company	326,953	5.5%	On demand	None
Associated companies	1,719,776	4.0%	On demand	None
Associated companies	1,945,591	4.5%	31/12/2006	None
Related company	67,926	5.5%	On demand	None
Related company	350,779	7.0%	On demand	None
Related company	1,671,475	EURIBOR + 1%	Subordinated (see note 17.2))	None
	19,501,371			

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

20 Deferred tax and liabilities

20.1 Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	The Group			The Company		
	1 January 2004	**31 December 2004**	**Movement**	**1 January 2004**	**31 December 2004**	**Movement**
	EUR	EUR	EUR	EUR	EUR	EUR
Property, plant and equipment:						
Excess of capital allowances over depreciation	3,246,614	3,602,391	(355,777)	-	-	-
Revaluation of land and buildings	20,417,164	18,715,819	1,701,345	-	-	-
Revaluation of investment property	8,170,736	5,482,104	2,688,632	-	-	-
Investment in subsidiaries	-	-	-	2,400,992	2,116,684	(284,308)
Derivative financial instruments	62,329	123,021	(60,692)	62,329	123,021	60,692
Provision for doubtful debts	(126,223)	(99,505)	(26,718)	-	-	-
Accrued charges	(278,755)	(280,461)	1,706	-	-	-
Provision for exchange differences	49,659	66,903	(17,244)	275,683	315,208	39,525
Equity component of convertible bonds	321,587	281,621	39,966	321,587	281,621	(39,966)
Unrelieved tax losses and unabsorbed capital allowances	(4,923,017)	(4,835,943)	(87,074)	(643,802)	(780,314)	(136,512)
	26,940,094	23,055,950	3,884,144	2,416,789	2,056,220	(360,569)
Recognised directly in equity						
Revaluation of hotel property Nevskij Palace Hotel			(263,901)			-
Exchange translation reserve: Deferred tax liabilities for foreign entities Translated at foreign exchange rates at year end			(10,359)			-
Recognised in the income statement			3,609,884			(360,569)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

20 Deferred tax and liabilities - continued

20.1 Recognised deferred tax assets and liabilities - continued

		The Group			The Company		
	Note	1 January 2005 EUR	31 December 2005 EUR	Movement EUR	1 January 2005 EUR	31 December 2005 EUR	Movement EUR
Property, plant and equipment:							
Excess of capital allowances over depreciation		3,602,391	3,093,012	509,379	-	-	-
Revaluation of land and buildings		18,715,819	23,097,708	(4,381,889)	-	-	-
Revaluation of investment property	16.2	5,482,104	6,098,425	(616,321)	-	-	-
Investment in subsidiaries		-	-	-	2,116,684	6,474,125	(4,357,441)
Derivative financial instruments		123,021	7,721	115,300	123,021	7,721	115,300
Provision for doubtful debts		(99,505)	(104,624)	5,119	-	-	-
Accrued charges		(280,461)	(273,408)	(7,053)	-	-	-
Provision for exchange differences		66,903	(42,901)	109,804	315,208	196,345	118,863
Equity component of convertible bonds		281,621	238,877	42,744	281,621	238,877	42,744
Unrelieved tax losses and unabsorbed capital allowances		(4,835,943)	(5,460,164)	624,221	(780,314)	(624,813)	(155,501)
		23,055,950	26,654,646	(3,598,696)	2,056,220	6,292,255	(4,236,035)
Recognised directly in equity							
Deferred taxation on revaluation of hotel property carried out at year end	16.1			3,079,679			-
Exchange translation reserve:							
Deferred tax liabilities for foreign entities							
Translated at foreign exchange rates at year end				15,386			-
Recognised in the income statement	7.1			(503,631)			(4,236,035)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

20 Deferred tax and liabilities - continued

20.2 Unrecognised deferred tax assets - continued

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

Expiry	Amount
2007	675,000
2008	15,366,000
2009	5,695,389
2010	5,953,427
2011	7,797,712
Unlimited	2,215,000
	37,702,528

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.

21 Other payables

21.1

	The Group		The Company	
	2005	2004	**2005**	2004
	EUR	EUR	**EUR**	EUR
Advance deposits	**2,273,358**	1,331,507	**-**	-
Amounts owed to:				
Parent company	**1,735,264**	714,892	**1,273,390**	700,275
Group companies	**-**	-	**-**	70,707
Associated companies	**483,554**	671,349	**-**	18,558
Other related companies	**569,447**	414,809	**155,910**	50,752
Capital creditors	**1,730,247**	13,654,898	**51,299**	171,277
Other creditors	**1,575,403**	1,503,738	**5,184**	19,188
Accruals	**7,794,818**	7,360,974	**1,788,351**	2,208,504
	16,162,091	25,652,167	**3,274,134**	3,239,261

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

22 Cash generated from/(absorbed by) operations

	The Group		The Company	
	2005	2004	**2005**	2004
	EUR	EUR	**EUR**	EUR
Profit/(loss) before taxation	**757,319**	(11,345,029)	**9,490,472**	(3,039,303)
Adjustments for:				
Depreciation	**9,983,855**	9,917,339	**-**	-
Loss on disposal of property, plant and equipment	**30,946**	362,959	**-**	-
Provision for charges	**(32,354)**	(150,350)	**-**	-
Liquidation of subsidiary company	**10,675**	-	**10,675**	
Impairment - (reversals)/charges	**(5,471,821)**	2,170,600	**-**	-
Fair value changes - investments in subsidiaries	**-**	-	**(12,449,819)**	812,296
Interest receivable and similar income	**(178,371)**	(329,442)	**-**	-
Fair value loss/(gain) on interest rate swap	**329,427**	(173,405)	**329,427**	(173,405)
Interest payable and similar charges	**8,503,352**	8,574,452	**-**	-
Imputed interest and amortisation of transaction costs	**223,955**	209,542	**223,956**	209,545
Realised exchange differences	**(180,610)**	(236,861)	**339,609**	(59,778)
Unrealised exchange differences	**288,588**	92,075	**(1,711)**	(111,598)
Revaluation to fair value of investment property	**(2,400,000)**	-	**-**	-
Income from associates	**(578,635)**	(458,863)	**-**	-
	11,286,326	8,633,017	**(2,057,391)**	(2,362,243)
Working capital changes:				
Inventories	**(110,025)**	(502,130)	**-**	-
Debtors	**(728,544)**	(1,496,747)	**(1,711,896)**	(439,265)
Advance deposits	**939,994**	(1,930,659)	**-**	-
Other creditors	**1,437,873**	2,658,374	**(353,705)**	549,950
	12,825,624	7,361,855	**(4,122,992)**	(2,251,558)

23 Cash and cash equivalents

		The Group		The Company	
		2005	2004	**2005**	2004
	Note	**EUR**	EUR	**EUR**	EUR
Cash at bank and in hand		**4,306,625**	2,854,831	**54,927**	20,655
Bank overdrafts	17.1	**(2,384,075)**	(2,620,211)	**(207,265)**	-
		1,922,550	234,620	**(152,338)**	20,655

Cash at bank includes an amount of EUR2,121,123 (2004: EUR736,439) pledged by way of collateral for amounts borrowed (see note 17.2).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

24 Related party disclosures

24.1 Identity of related parties

The Company has a related party relationship with its Parent Company (see note 31) of which IHI is a subsidiary and other entities forming part of the Corinthia Group of Companies and with its Directors and executive officers. 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.

24.2 Transactions with key management personnel

The Chairman and CEO has a beneficial interest in IHI of 231,759 ordinary shares, through the shareholding of A & A Pisani & Company Limited in CPHCL. Other Directors hold a total of 124,333 shares.

In addition to the remuneration paid to the Directors included in personnel expenses (see note 6), in the course of its operations, the IHI Group has a number of arrangements in place with its shareholders, officers, executives and other related parties, whereby concessions are made available for hospitality services rendered to them according to accepted industry norms. All transactions with other related parties are carried out on an arm's length basis.

24.3 Other related party transactions

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

	The Group		**The Company**	
	2005	2004	**2005**	2004
	EUR	EUR	**EUR**	EUR
Revenue				
Services rendered to the Parent Company and its subsidiaries by:				
Five Star Hotels Limited	**139,250**	183,555	**-**	-
IHI Hungary Rt	**8,189**	20,715	**-**	-
Alfa Investimentos Turisticos Lda	**18,269**	42,208	**-**	-
IHI Benelux B.V.	**3,115**	400	**-**	-
Services rendered to Associated companies by:				
Five Star Hotels Limited	**114,554**	54,229	**-**	-
IHI Hungary Rt	**23,403**	32,489	**-**	-
IHI Benelux B.V.	**43,747**	58,218	**-**	-
IHI St Petersburg LLC	**71,251**	-	**-**	-
	421,778	391,814	**-**	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

24 Related party disclosures - continued

24.3 Other related party transactions - continued

	The Group		The Company	
	2005	2004	**2005**	2004
	EUR	EUR	**EUR**	EUR
Direct costs				
Charged by the parent company and its subsidiaries to:				
Five Star Hotels Limited	**580,165**	417,279	**-**	-
IHI Hungary Rt	**20,503**	184,408	**-**	-
Alfa Investimentos Turisticos Lda	**68,300**	2,088	**-**	-
IHI Benelux B.V.	**-**	574	**-**	-
	668,968	604,349	**-**	-
Marketing costs				
Charged by C.H.I. Limited to:				
Five Star Hotels Limited	**32,118**	134,107	**-**	-
IHI Hungary Rt	**273,527**	103,150	**-**	-
Alfa Investimentos Turisticos Lda	**103,990**	143,183	**-**	-
IHI Benelux B.V.	**158,883**	158,999	**-**	-
	568,518	539,439	**-**	-
Administrative expenses				
Management fee charged by parent company to:				
IHI p.l.c.	**559,068**	520,031	**559,068**	520,031
Management fee charged by C.H.I. Limited to:				
Five Star Hotels Limited	**198,657**	178,810	**-**	-
IHI Hungary Rt	**323,813**	240,025	**-**	-
Alfa Investimentos Turisticos Lda	**227,956**	183,072	**-**	-
IHI Benelux B.V.	**322,554**	313,277	**-**	-
Incentive fee charged by C.H.I. Limited to:				
Five Star Hotels Limited	**191,474**	-	**-**	-
IHI Hungary Rt	**234,638**	281,543	**-**	-
Consultancy and sub-licence fees				
Charged by C.H.I. Limited to:				
IHI Benelux B.V.	**859,926**	853,009	**-**	-
	2,918,086	2,569,767	**559,068**	520,031
carried forward	**4,155,572**	3,713,555	**559,068**	520,031

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

24 Related party disclosures - continued

24.3 Other related party transactions - continued

	The Group		The Company	
	2005	2004	**2005**	2004
	EUR	EUR	**EUR**	EUR
brought forward	**4,155,572**	3,713,555	**559,068**	520,031
Sundry expenses				
Charged by the parent company and its subsidiary companies to:				
IHI p.l.c.	**29,032**	29,464	**29,032**	29,464
IHI Hungary Rt	**29,577**	-	**-**	-
Alfa Investimentos Turisticos Lda	**584**	-	**-**	-
IHI Benelux B.V.	**501**	7,535	**-**	-
Charged/(recharged) by/(to) C.H.I. Limited to:				
Five Star Hotels Limited	**144,840**	42,705	**-**	-
IHI Hungary Rt	**41,286**	-	**-**	-
Alfa Investimentos Turisticos Lda	**101,299**	359,030	**-**	-
IHI Benelux B.V.	**-**	105,955	**-**	-
IHI St Petersburg LLC	**-**	(132,942)	**-**	-
	347,119	411,747	**29,032**	29,464
Financing				
Interest receivable (see note 4)	**(50,003)**	(67,826)	**(47,196)**	(47,302)
Interest payable (see note 5)	**489,833**	490,533	**248,295**	168,288
	439,830	422,707	**201,099**	120,986
Expensed	**4,942,521**	4,548,009	**789,199**	670,481
Property, plant and equipment Construction and related services Provided by QPM Limited and Corinthia Construction Overseas Limited to:				
IHI Hungary Rt	**(77,706)**	180,634	**-**	-
Alfa Investimentos Turisticos Lda	**69,881**	974,440		-
IHI Benelux B.V.	**108,000**	-	**-**	-
Capitalised	**100,175**	1,155,074	**-**	-

24.4 In addition, Five Star Hotels Limited, a subsidiary company, is party to a joint and several guarantee, and a general and special hypothecary guarantee over the Corinthia San Gorg Hotel, originally for EUR14,428,252, now standing at EUR3,157,000 in favour of Corinthia Palace Hotel Company Limited. In addition, this subsidiary company issued general hypothecary guarantees over all its assets and special hypothecary guarantees over the Corinthia San Gorg Hotel in favour of Corinthia Palace Hotel Company Limited (see note 9.2).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

24 Related party disclosures - continued

24.5 Related party balances

Information regarding balances with related parties is set out in notes 14, 15, 19 and 21 to the financial statements. The net balance due at 31 December 2005 by IHI Group to its Parent Company and its other subsidiaries amounted to EUR19,419,024 (2004: EUR6,895,869).

25 Capital commitments

	The Group	
	2005	2004
	EUR	EUR
Property, plant and equipment:		
Contracted for:		
IHI Hungary Rt. (Corinthia Grand Hotel Royal)	**1,000,000**	2,927,000
IHI Benelux B.V. (Corinthia Nevskij Palace Hotel)	**4,000,000**	5,877,000
	5,000,000	8,804,000
Authorised but not yet contracted for:		
Five Star Hotels Limited (Corinthia San Gorg)	**5,000,000**	4,603,000
IHI Hungary Rt. (Corinthia Grand Hotel Royal)	**-**	1,174,000
IHI Benelux B.V. (Corinthia Nevskij Palace Hotel)	**250,000**	643,000
	5,250,000	6,420,000
	10,250,000	15,224,000

26 Financial instruments

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

26.2 Credit risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

26 Financial instruments - continued

26.3 Interest rate risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2005

26 Financial instruments - continued

26.3 Interest rate risk - continued

		2005							2004						
	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	**13.1**	**1.00**	**-**	**8,000,000**	**-**	**-**	**(8,000,000)**	**-**	1.08	-	8,000,000	-	-	(8,000,000)	-
Loan to related company:															
Euro floating rate loan	**14, 15**	**2.88**	**1,589,071**	**119,071**	**-**	**1,470,000**	**-**	**-**	3.40	1,592,195	122,195	-	1,470,000	-	-
Cash at bank and in hand	**23**	**1.11**	**4,306,625**	**4,306,625**	**-**	**-**	**-**	**-**	0.50	2,854,831	2,854,831	-	-	-	-
Bank loans:															
Lm floating rate loan	**17.2**	**4.00**	**(1,760,531)**	**-**	**(1,760,531)**	**-**	**-**	**-**	4.13	(3,250,696)	-	(3,250,696)	-	-	-
Euro fixed rate loan	**17.2**	**2.36**	**(42,950,000)**	**-**	**-**	**-**	**(42,950,000)**	**-**	4.71	(30,500,000)	-	-	-	(30,500,000)	-
Euro floating rate loans	**17.2**	**5.37**	**(72,098,566)**	**(72,098,566)**	**-**	**-**	**-**	**-**	4.90	(86,380,970)	(86,380,970)	-	-	-	-
Bank overdrafts:															
Lm floating rate	**17.2**	**3.15**	**(1,697,331)**	**-**	**(1,697,331)**	**-**	**-**	**-**	4.11	(1,620,211)	-	(1,620,211)	-	-	-
Euro floating rate	**17.2**	**2.12**	**(686,744)**	**(479,479)**	**(207,265)**	**-**	**-**	**-**	4.90	(1,000,000)	(1,000,000)	-	-	-	-
Debt securities in issue:															
Lm fixed rate convertible bond	**18.2**	**5.45**	**(10,762,378)**	**-**	**-**	**-**	**-**	**(10,762,378)**	5.60	(10,456,020)	-	-	-	-	(10,456,020)
Lm fixed rate bond	**18.3**	**6.74**	**(13,749,725)**	**-**	**-**	**-**	**-**	**(13,749,725)**	6.49	(13,553,330)	-	-	-	-	(13,553,330)
Euro fixed rate bond	**18.3**	**6.29**	**(7,948,777)**	**-**	**-**	**-**	**-**	**(7,948,777)**	6.31	(7,920,479)	-	-	-	-	(7,920,479)
Other interest-bearing liabilities:															
Lm fixed rate loan	**19**	**3.42**	**(326,953)**	**-**	**(326,953)**	**-**	**-**	**-**	3.44	(546,877)	-	(546,877)	-	-	-
Lm fixed rate loan	**19**	**3.03**	**(960,231)**	**-**	**(960,231)**	**-**	**-**	**-**	7.81	(507,793)	-	(507,793)	-	-	-
Lm fixed rate loan	**19**	**4.58**	**(418,705)**	**-**	**(418,705)**	**-**	**-**	**-**	3.41	(359,223)	-	(359,223)	-	-	-
Euro fixed rate loan	**19**	**5.00**	**(986,986)**	**-**	**(986,986)**	**-**	**-**	**-**	5.00	(129,955)	-	(129,955)	-	-	-
Euro fixed rate loan	**19**	**6.80**	**(1,718,150)**	**-**	**(1,718,150)**	**-**	**-**	**-**	1.25	(2,336,132)	-	(2,336,132)	-	-	-
Euro fixed rate loans	**19**	**1.85**	**(13,418,871)**	**-**	**-**	**-**	**-**	**(13,418,871)**	2.63	(1,653,362)	-	(1,653,362)	-	-	-
Euro floating rate loans	**19**	**5.00**	**(1,671,475)**	**-**	**-**	**(1,671,475)**	**-**	**-**	4.47	(1,671,475)	-	-	(1,671,475)	-	-
			(165,259,727)	**(60,152,349)**	**(8,076,152)**	**(201,475)**	**(50,950,000)**	**(45,879,751)**		(157,439,497)	(76,403,944)	(10,404,249)	(201,475)	(38,500,000)	(31,929,829)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

26 Financial instruments - continued

26.4 Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the Euro. The currencies giving rise to this risk are the Maltese Lira, Hungarian Forint, US Dollar, Russian Rouble 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 2005, the Group accounted for net exchange losses amounting to EUR107,978 (2004: net exchange gains EUR196,220), 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 gain arising on the translation of the net assets of foreign subsidiaries, amounted to EUR143,832 (2004: EUR95,476).

27 Contingent liabilities

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

	EUR
Guarantees issued by the bankers of one of the subsidiary companies in favour of third parties.	300,000
Litigation relating to termination of employment	98,000

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.

27.2 The Group is subject to tax in various jurisdictions. A number of possible claims may be raised by the tax authorities in these jurisdictions which may expose it to 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2005

28 Accounting estimates and judgements

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 9 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 10 includes details regarding the determination of fair value of the Group's investment property.

In note 26.3 detailed analysis is given of the foreign exchange exposure of the Group, whereas note 26.4 details the 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 variances will have an impact on the taxation charges for future periods.

29 Presentation of the financial statements

These financial statements are presented by reference to one of the alternative formats set out in the Third Schedule to the Companies Act, 1995 and the over-riding requirements of IAS 1, *Presentation of Financial Statements*. During the current year, the Directors changed the format of the balance sheet, as allowed by the Act, to reflect current practices in financial reporting.

In December 2003, and March 2004, the IASB approved amendments to a number of existing IFRSs as a result of the Improvements Project and several new ones, effective for financial periods on or after 1 January 2005. Whilst introducing changes to the presentation of the financial statements and related disclosures, the coming into force of these amendments and new standards did not change the Group's methods of accounting.

30 Comparative information

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