

Corinthia Palace Hotel Company  
Limited

Report and Financial Statements

31 December 2012

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## **Directors' report**

The directors present their report together with the audited financial statements of Corinthia Palace Hotel Company Limited (the 'company' or 'CPHCL') and the consolidated financial statements of the group of which it is the parent, for the year ended 31 December 2012.

### **Principal activities**

The group's main business is connected with the ownership, development and operation of hotels, leisure facilities, and other activities related to the tourism industry and commercial centres. The group is also actively engaged in the provision of residential accommodation, project management services and industrial catering.

### **Results**

During the year under review the group registered a profit after tax of € 2.9 million (2011: loss of € 11.4 million). The total comprehensive income for the year amounted to € 10.1 million as opposed to a loss of € 24.9 million registered in 2011.

### **Review of performance**

During 2012 the group's turnover amounted to € 153.8 million reflecting an increase of € 9.6 million equivalent to a 6.6% increase on the turnover registered in 2011 (€ 144.2 million).

In general the group's hotels registered increases in revenues over 2011 with much of this attributable to the higher rates being achieved through the in-house developed reservation and distribution system. The highest improvements were registered in St Petersburg, Libya and Tunisia. The Corinthia Hotel Tripoli however continues to be affected by the continued state of flux in Libya following the end of the revolution in 2011 with the result that the expected improvement in its operating performance was not materialised in the year under review.

On the other hand the Corinthia Hotel London registered the most notable increase in revenues and gross operating profit, but since it is an associate company, the results of this operation are reported with the share of equity accounted investments.

The moderate increase in direct costs reflects the generally improved hotel occupancy levels and the fact that in 2012 the Corinthia Hotel Tripoli returned to a normalised level of guest service albeit with a corresponding increase in costs.

The group's EBITDA of € 25.5 million achieved in 2012 represents an improvement of € 2.4 million on the amount of € 23.1 million reported in 2011 and represents a solid 10.4% growth year-on-year.

The depreciation charge of € 29.0 million (2011: € 29.7 million) and investment property revaluation uplifts of € 4.2 million (2011: € 5.4 million) remained on the same level year-on-year. In both years, the revaluation uplift on investment properties was due to an increase in value of the commercial centre adjacent to the Corinthia Hotel St Petersburg.

On the other hand, the valuations of the group's hotel properties resulted in a net impairment of € 6.4 million in the year under review. This charge was due to the reduction in the valuation of the Corinthia Hotel Lisbon largely triggered by an increase in country risk that pushed up the cost of capital on investments in Portugal.

The share of profit from equity accounted investments amounting to € 29.4 million (2011: loss of € 0.3 million) and principally reflects the combined share of results of the group's investment in associate companies, namely the direct 50% investment in Mediterranean Investments Holding plc (MIH) and its wholly owned subsidiary Palm City Ltd and the 50% investment in Corinthia Hotel and Residences in London through its subsidiary International Hotel Investments plc (IHI).

2012 was the first full year of operation for the London hotel and it resulted in a significant improvement in the operating profit. In fact this property registered a positive EBITDA of € 5.6 million (2011: loss of € 14.5 million). This was however impacted by substantial charges for depreciation and financing costs resulting in a net loss of € 22.0 million. This loss was however more than compensated by a substantial uplift of € 32.0 million in the value of the Residences that resulted in a combined net profit of € 10 million of which IHI's share was € 5 million.

On the MIH front the company remained focused on two principal objectives. The first was to re-organise and redeploy staff to strengthen the facilities management team to re-establish Palm City Residences as the leading provider of high-end residential properties for rent in the Libyan market. The second objective was to contribute actively to the commencement of the construction of the Medina Towers project in Tripoli, Libya. In 2012 Palm City Residences registered a significant increase in signed lease agreements with a 91% occupancy rate achieved by the end of the year. This resulted in a net profit after tax of € 11.4 million (2011: loss of € 2.7 million). In turn, the improvement in the property's operational results and expected future cash flow generation triggered an uplift in the value of the property of € 56.8 million less € 19.1 million in deferred tax. The group's share from these combined positive results amounted to € 24.5 million.

Net finance costs amounting to € 21.1 million were € 1.9 million higher than in 2011. Although the loan and bond repayments made during the year were largely matched by new bank loans and bonds, the finance costs for 2012 were impacted by a full year's charge on a loan of € 50 million taken in the fourth quarter of 2011 from a Russian bank.

During 2012 the group registered a profit after tax of € 2.9 million compared to a loss of € 11.4 million in 2011.

The net income of € 7.2 million recognised in the statement of comprehensive income (2011: loss of € 13.5 million) mainly reflects the group's share of revaluation uplifts, net of tax, of € 17.0 million on Corinthia Hotel London and € 2.83 million on Corinthia Hotel Prague less impairment charges, net of tax, of € 8.74 million on Corinthia Hotel St Petersburg and € 2.72 million on Corinthia Hotel Budapest.

Property revaluation adjustments feature in both the income statement and in the comprehensive income statement. Adjustments to the income statement represent movement in the values of investment properties (like the Commercial Centres in Tripoli and St Petersburg) and impairment adjustments or reversals thereof on hotel properties. Conversely adjustments to the comprehensive income statement represent increases in values, or reversals thereof vis-a-vis the book value of each hotel property.

After adding the net comprehensive income to the profit after tax of € 2.9 million, the total comprehensive income for 2012 amounted to € 10.1 million against a total comprehensive expense of € 24.9 million in 2011.

### **State of affairs**

During 2012 the group made the following investments:

It contributed a total of € 13.5 million to NLI, the owning company of the Corinthia Hotel London and Residences which enabled the whole project to reach a state of practical completion. This project is owned through a 50/50 joint venture between IHI and Lafico (Libya).

It acquired from Wyndham the 30% share in CHI Ltd which has now become a wholly-owned subsidiary of the group. CHI Ltd, which is entrusted to manage IHI's Corinthia branded properties, is being reorganised to enable it to spearhead further expansion in the group's hotel operations through the management of new group owned properties and management contracts with third parties.

It injected further funds in its associate company Medina Tower JSC (Libya) through its shareholding held via IHI and MIH bringing up its total investment in this project to € 26 million. Medina Tower will comprise 238 luxury apartments, 10,400 m<sup>2</sup> of retail space, 22,600 m<sup>2</sup> of office space and over 8,400 m<sup>2</sup> of conference and health and leisure facilities and 900 underground parking bays. Construction works on this project are expected to commence soon with an anticipated forty two-month construction period.

The group embarked on a € 7 million industrial project in Libya scheduled to be completed towards the middle of 2013. This consists of a concrete batching plant and a concrete block making unit.

The project management company QPM Ltd is being reorganised and expanded to be in a position to provide a comprehensive list of services both in Malta and overseas.

During 2012 the group issued two new bonds on the Malta Stock Exchange for a total of € 27.5 million. These funds were utilised to repay maturing bonds totalling € 36.7 million with the balance being repaid out of the group's cash flow. Both bond issues were oversubscribed.

The group's working capital as at the end of December 2012 shows a deficiency of € 12.2 million. This deficiency will be addressed through the projected improvements in operating performance and through the anticipated disposal of non-core assets including the London Residences. In the meantime the gearing ratio remained at a prudent level of 40% (2011: 39%).

### **Outlook**

The overall global economic situation in 2013 remains challenging, but there are signs of recovery which should positively impact the group's performance. Libya, which has historically been one of the group's main pillars from a profitability point of view, is equally moving towards an improved business momentum and one is hopeful that this will reflect itself in a stronger economic activity in the second half of 2013. The group is therefore confident that the operational results for 2013 will show further improvements over those achieved in 2012 notwithstanding the fragile economic situation.

In the meantime, the Board of Directors remains firmly committed to dispose of the Residences in London. In this respect, negotiations are being held with interested bidders with the ultimate objective of maximising shareholder returns.

Additionally, IHI and MIH also remain in active discussions with sovereign wealth funds and large institutions with the ultimate objective of raising fresh capital to enable the group to move ahead in its overall vision of expanding its operations in Europe, North Africa, North America and Asia.

## **Directors**

The following have served as directors of CPHCL during the year under review:

Mr Alfred Pisani – Chairman  
Mr Yousef A. Abdelmaula  
Mr Farag Gheryani  
Mr Mustafa T. Mohamed Khattabi  
Mr Joseph Pisani  
Mr Victor Pisani

## **Disclosure of information to the auditor**

At the date of making this report the directors confirm the following:

- As far as each director is aware, there is no relevant information needed by the independent auditor in connection with preparing their report of which the independent auditor is unaware, and
- Each director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the independent auditor in connection with preparing their report and to establish that the independent auditor is aware of that information.

## **Statement of directors' responsibilities**

The Companies Act, Cap 386 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group as at the end of the financial year and of the profit or loss of the company and group for that year. In preparing those financial statements, the directors are required to:

- adopt the going concern basis unless it is inappropriate to presume that the company and group will continue in business;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items; and
- report comparative figures corresponding to those of the preceding accounting period.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the financial statements have been properly prepared in accordance with the Companies Act, Cap 386.

They are also responsible for safeguarding the assets of the company and group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors, through oversight of management, are responsible for ensuring that the group designs, implements 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, for establishing a control environment and maintaining 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 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.

**Auditor**

The auditor Grant Thornton has intimated its willingness to continue in office.

By order of the board



**Alfred Pisani**  
Chairman



**Yousef A. Abdelmaula**  
Director

22, Europa Centre  
Floriana FRN 1400  
Malta

30 April 2013

## Income statements

	Notes	The Group		CPHCL	
		2012 €000	2011 €000	2012 €000	2011 €000
<b>Continuing operations</b>					
Revenue	6	153,778	144,233	1,481	1,512
Net operating expenses		(129,017)	(121,834)	(7,650)	(6,290)
Depreciation and amortisation		(29,014)	(29,695)	(131)	(165)
Other income		1,664	967	1,301	1,064
(Loss) gain on exchange		(965)	(320)	100	297
Impairment of hotel property	15.1	(6,402)	-	-	-
<b>Operating loss</b>	7	<b>(9,956)</b>	(6,649)	<b>(4,899)</b>	(3,582)
Finance income	9	2,670	3,185	2,911	980
Finance costs	9	(23,761)	(22,376)	(7,996)	(8,619)
Movement in tax indemnity		-	-	454	399
Share of results of associate companies	16.5	29,382	(289)	-	-
Reversal of impairment loss on asset held for sale		-	-	9,368	-
Gain on sale of investments in subsidiaries and associates		-	7,060	1,956	1,064
Profit (loss) on liquidation of associate/subsidiaries		-	83	-	(295)
Impairment loss on investments		(16)	(6)	(436)	(269)
Revaluation to fair value of investment properties	14	4,154	5,383	-	-
<b>Profit (loss) before taxation</b>		<b>2,473</b>	(13,609)	<b>1,358</b>	(10,322)
Tax income	10.1	973	2,352	45	202
<b>Profit (loss) for the year from continuing operations</b>		<b>3,446</b>	(11,257)	<b>1,403</b>	(10,120)
<b>Discontinued operations</b>					
<b>Loss for the year from discontinued operations</b>	11	<b>(532)</b>	(97)	<b>(532)</b>	(97)
		2,914	(11,354)	871	(10,217)
Non-controlling interest		4,109	4,254	-	-
<b>Profit (loss) attributable to owners of the parent</b>		<b>7,023</b>	(7,100)	<b>871</b>	(10,217)
<b>Earnings (loss) per share</b>					
Continuing operations	12	0.35	(0.35)	0.07	(0.50)
Discontinued operations		(0.03)	(0.01)	(0.03)	(0.01)
		0.32	(0.36)	0.04	(0.51)



## Statements of comprehensive income

	Notes	The Group		CPHCL	
		2012 €000	2011 €000	2012 €000	2011 €000
<b>Profit (loss) for the year</b>		<b>2,914</b>	<b>(11,354)</b>	<b>871</b>	<b>(10,217)</b>
<b>Other comprehensive income</b>					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Net revaluation/(impairment) of hotel properties		<b>(12,283)</b>	(12,218)	-	-
Share of other comprehensive expense of equity accounted investments					
- Revaluation (impairment) of hotel property		<b>18,456</b>	(5,357)	-	-
<i>Items that will be reclassified subsequently to profit or loss</i>					
Translation difference		<b>1,205</b>	1,236	(65)	61
Available for sale asset		<b>46</b>	-	-	-
Share of other comprehensive income of equity accounted investments					
- Hedging reserve		<b>1,239</b>	139	-	-
Tax (expense) income relating to components of other comprehensive income	10.3	<b>(1,458)</b>	2,696	-	-
<b>Other comprehensive income (expense) for the year, net of tax</b>		<b>7,205</b>	<b>(13,504)</b>	<b>(65)</b>	<b>61</b>
<b>Total comprehensive income (expense) for the year</b>		<b>10,119</b>	<b>(24,858)</b>	<b>806</b>	<b>(10,156)</b>
Attributable to:					
Owners of the parent		<b>10,797</b>	(15,764)	<b>806</b>	(10,156)
Non-controlling interest		<b>(678)</b>	(9,094)	-	-
		<b>10,119</b>	<b>(24,858)</b>	<b>806</b>	<b>(10,156)</b>

## Balance sheets

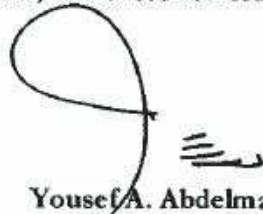
	Notes	2012 €000	The Group 2011 €000	2010 €000	2012 €000	CPHCL 2011 €000	2010 €000
<b>Assets</b>							
<b>Non-current</b>							
Intangible assets	13	<b>6,239</b>	6,023	5,808	-	-	-
Investment property	14	<b>209,800</b>	205,224	200,704	<b>925</b>	925	925
Property, plant and equipment	15	<b>660,485</b>	698,563	743,011	<b>346</b>	430	574
Investments in subsidiaries	16	-	-	-	<b>406,341</b>	399,246	406,046
Investments in associates	16	<b>286,180</b>	214,727	198,540	<b>25,869</b>	31,268	24,213
Other investments		<b>19</b>	19	19	<b>19</b>	19	19
Deferred tax assets	26	<b>2,566</b>	2,306	2,318	<b>2,172</b>	2,172	2,172
Cash at bank	19	-	-	9,793	<b>3</b>	3	4,393
Cash held by trustee	19	<b>2,626</b>	83	-	-	-	-
		<b>1,167,915</b>	1,126,945	1,160,193	<b>435,675</b>	434,063	438,342
<b>Current</b>							
Inventories	17	<b>7,298</b>	7,339	7,441	<b>241</b>	322	278
Investments		<b>14</b>	28	-	-	12	-
Trade and other receivables	18	<b>56,880</b>	59,032	42,276	<b>14,347</b>	19,888	11,934
Taxation		<b>621</b>	644	946	-	-	-
Cash and cash equivalents	19	<b>21,649</b>	48,425	27,520	<b>117</b>	234	783
		<b>86,462</b>	115,468	78,183	<b>14,705</b>	20,456	12,995
Assets held for sale	20	<b>9,404</b>	9,264	5,932	<b>9,848</b>	16,905	22,647
<b>Total assets</b>		<b>1,263,781</b>	1,251,677	1,244,308	<b>460,228</b>	471,424	473,984

## Balance sheets – continued

	Notes	The Group			CPHCL		
		2012 €000	2011 €000	2010 €000	2012 €000	2011 €000	2010 €000
<b>Equity</b>							
Called-up issued share capital	21	20,000	20,000	20,000	20,000	20,000	20,000
Other reserves	22	183,552	192,947	203,062	2,172	2,527	1,264
Retained earnings		179,083	153,952	159,601	246,053	244,892	256,311
		<b>382,635</b>	<b>366,899</b>	<b>382,663</b>	<b>268,225</b>	<b>267,419</b>	<b>277,575</b>
Non-controlling interest		248,457	254,534	264,003	-	-	-
<b>Total equity</b>		<b>631,092</b>	<b>621,433</b>	<b>646,666</b>	<b>268,225</b>	<b>267,419</b>	<b>277,575</b>
<b>Liabilities</b>							
<b>Non-current</b>							
Bank borrowings	23	264,070	258,281	223,968	14,679	6,159	9,437
Bonds	24	138,843	133,686	148,171	-	-	-
Other borrowings	25	16,571	16,823	17,087	132,930	125,427	138,293
Long term payables		5,108	5,072	5,045	165	915	1,536
Taxation		1,626	2,315	2,597	1,390	2,115	1,247
Deferred tax liabilities	26	102,762	103,313	109,195	-	-	-
Tax indemnity	27	-	-	-	23,448	22,432	22,831
Derivative financial instruments	28	4,884	6,404	6,863	-	-	-
Provision for charges	29	206	206	206	-	-	-
		<b>534,070</b>	<b>526,100</b>	<b>513,132</b>	<b>172,612</b>	<b>157,048</b>	<b>173,344</b>
<b>Current</b>							
Bank borrowings	23	37,020	37,612	36,593	6,965	8,305	11,495
Bonds	24	5,744	14,645	-	-	-	-
Other borrowings	25	-	-	-	400	26,487	2,028
Trade and other payables	30	47,793	43,233	39,919	11,207	11,283	7,578
Current tax liabilities		8,062	8,654	7,998	819	882	1,964
		<b>98,619</b>	<b>104,144</b>	<b>84,510</b>	<b>19,391</b>	<b>46,957</b>	<b>23,065</b>
<b>Total liabilities</b>		<b>632,689</b>	<b>630,244</b>	<b>597,642</b>	<b>192,003</b>	<b>204,005</b>	<b>196,409</b>
<b>Total equity and liabilities</b>		<b>1,263,781</b>	<b>1,251,677</b>	<b>1,244,308</b>	<b>460,228</b>	<b>471,424</b>	<b>473,984</b>

The financial statements on pages 7 to 73 were approved by the board of directors, authorised for issue on 30 April 2013 and signed on its behalf by:

  
Alfred Pisani  
Chairman

  
Yousef A. Abdelmaula  
Director

## Statement of changes in equity – the group

	Called-up issued share capital €000	*Other reserves €000	Retained earnings €000	Dividend payment reserve €000	Total attributable to owners of the parent €000	Non- controlling interest €000	Total equity €000
At 1 January 2010	18,710	187,987	179,164	4,659	390,520	263,123	653,643
Loss for the year	-	-	(14,745)	-	(14,745)	(5,421)	(20,166)
Other comprehensive income	-	15,644	-	-	15,644	7,593	23,237
<b>Total comprehensive income</b>	<b>-</b>	<b>15,644</b>	<b>(14,745)</b>	<b>-</b>	<b>899</b>	<b>2,172</b>	<b>3,071</b>
Issue of share capital	1,290	-	-	-	1,290	-	1,290
Increase in shareholding of subsidiary	-	-	101	-	101	(101)	-
Reversal from retained earnings	-	(16,243)	16,243	-	-	-	-
Transfer from retained earnings	-	525	(525)	-	-	-	-
Dividends paid	-	-	(5,488)	(4,659)	(10,147)	(1,191)	(11,338)
Transfer to retained earnings	-	15,149	(15,149)	-	-	-	-
<b>At 31 December 2010</b>	<b>20,000</b>	<b>203,062</b>	<b>159,601</b>	<b>-</b>	<b>382,663</b>	<b>264,003</b>	<b>646,666</b>

\* Not available for distribution (refer to note 22)

## Statement of changes in equity – the group – continued

	Called-up issued share capital €000	*Other reserves €000	Retained earnings €000	Total attributable to owners of the parent €000	Non- controlling interest €000	Total equity €000
At 1 January 2011	20,000	203,062	159,601	382,663	264,003	646,666
Loss for the year	-	-	(7,100)	(7,100)	(4,254)	(11,354)
Other comprehensive expense	-	(8,664)	-	(8,664)	(4,840)	(13,504)
<b>Total comprehensive expense</b>	<b>-</b>	<b>(8,664)</b>	<b>(7,100)</b>	<b>(15,764)</b>	<b>(9,094)</b>	<b>(24,858)</b>
Reversal from retained earnings	-	(15,419)	15,419	-	-	-
Transfer from retained earnings	-	3,818	(3,818)	-	-	-
Dividends paid	-	-	-	-	(375)	(375)
Transfer to retained earnings	-	10,150	(10,150)	-	-	-
<b>At 31 December 2011</b>	<b>20,000</b>	<b>192,947</b>	<b>153,952</b>	<b>366,899</b>	<b>254,534</b>	<b>621,433</b>
At 1 January 2012	20,000	192,947	153,952	366,899	254,534	621,433
Profit for the year	-	-	7,023	7,023	(4,109)	2,914
Other comprehensive income	-	3,774	-	3,774	3,431	7,205
<b>Total comprehensive income</b>	<b>-</b>	<b>3,774</b>	<b>7,023</b>	<b>10,797</b>	<b>(678)</b>	<b>10,119</b>
Reversal from retained earnings	-	(10,150)	10,150	-	-	-
Dividends paid	-	-	-	-	(210)	(210)
Payment to non-controlling interest	-	-	-	-	(250)	(250)
Transfer in acquisition of non-controlling interest	-	-	5,745	5,745	(5,745)	-
Transfer to non-controlling interest on transfer of Marina San Gorg Limited	-	(3,019)	2,213	(806)	806	-
<b>At 31 December 2012</b>	<b>20,000</b>	<b>183,552</b>	<b>179,083</b>	<b>382,635</b>	<b>248,457</b>	<b>631,092</b>

\* Not available for distribution (refer to note 22)

## Statement of changes in equity – CPHCL

	Called-up issued share capital €000	*Other reserves €000	Retained earnings €000	Dividend payment reserve €000	Total equity €000
1 January 2010	18,710	1,477	250,857	4,659	275,703
Profit for the year	-	-	10,720	-	10,720
Other comprehensive income	-	9	-	-	9
<b>Total comprehensive income</b>	<b>-</b>	<b>9</b>	<b>10,720</b>	<b>-</b>	<b>10,729</b>
Issue of share capital	1,290	-	-	-	1,290
Reversal from retained earnings	-	(16,243)	16,243	-	-
Transfers from retained earnings:					
- Net unrealised profit on exchange	-	464	(464)	-	-
- Impairment reversal on investment	-	16	(16)	-	-
- Deferred taxation	-	45	(45)	-	-
Transfer to retained earnings	-	15,496	(15,496)	-	-
Dividends paid	-	-	(5,488)	(4,659)	(10,147)
<b>At 31 December 2010</b>	<b>20,000</b>	<b>1,264</b>	<b>256,311</b>	<b>-</b>	<b>277,575</b>

\* Not available for distribution

## Statement of changes in equity – CPHCL – continued

	Called-up issued share capital €000	*Other reserves €000	Retained earnings €000	Dividend payment reserve €000	Total equity €000
1 January 2011	20,000	1,264	256,311	-	277,575
Loss for the year	-	-	(10,217)	-	(10,217)
Other comprehensive income	-	61	-	-	61
<b>Total comprehensive loss</b>	<b>-</b>	<b>61</b>	<b>(10,217)</b>	<b>-</b>	<b>(10,156)</b>
Reversal from retained earnings	-	(15,496)	15,496	-	-
Transfers from retained earnings:					
- Net unrealised profit on exchange	-	294	(294)	-	-
Transfer to retained earnings	-	16,404	(16,404)	-	-
<b>At 31 December 2011</b>	<b>20,000</b>	<b>2,527</b>	<b>244,892</b>	<b>-</b>	<b>267,419</b>
1 January 2012	20,000	2,527	244,892	-	267,419
Profit for the year	-	-	871	-	871
Other comprehensive income	-	(65)	-	-	(65)
<b>Total comprehensive income</b>	<b>-</b>	<b>(65)</b>	<b>871</b>	<b>-</b>	<b>806</b>
Reversal from retained earnings	-	(16,404)	16,404	-	-
Transfer from retained earnings					
- Net unrealised difference on exchange	-	96	(96)	-	-
- Reversal of investment impairment	-	9,793	(9,793)	-	-
Transfer to retained earnings	-	6,225	(6,225)	-	-
<b>At 31 December 2012</b>	<b>20,000</b>	<b>2,172</b>	<b>246,053</b>	<b>-</b>	<b>268,225</b>

\* Not available for distribution

## Statements of cash flows

	Notes	The Group		CPHCL	
		2012	2011	2011	2011
		€000	€000	€000	€000
<b>Operating activities</b>					
Profit (loss) before taxation -					
Continuing operations		2,473	(13,609)	1,358	(10,322)
Discontinued operations		(532)	(97)	(532)	(97)
		<b>1,941</b>	<b>(13,706)</b>	<b>826</b>	<b>(10,419)</b>
Adjustments	31	24,787	37,571	(14,222)	6,640
Change in working capital	31	9,058	(13,087)	(17,246)	(4,244)
Interest paid		(24,796)	(22,574)	7,996	(8,695)
Taxes paid		(2,183)	(115)	(788)	(12)
		<b>8,807</b>	<b>(11,911)</b>	<b>(23,434)</b>	<b>(16,730)</b>
<b>Investing activities</b>					
Proceeds from sale of assets held for sale		-	-	10,414	-
Proceeds from sale on short-term investments		-	-	387	-
Payments to acquire short-term investments		-	-	(404)	-
Payments to acquire intangible fixed assets		(891)	(838)	-	-
Payments to acquire investment property		-	(471)	-	-
Payments to acquire property, plant and equipment		(14,023)	(5,339)	(49)	(359)
Payments to acquire property, plant and equipment classified as held for sale		(217)	-	(217)	-
Proceeds from disposal of property, plant and equipment		189	153	1	-
Proceeds from disposal of assets held for sale		79	-	79	-
Payments to acquire shares in subsidiaries		-	-	(3,382)	-
Payments to acquire shares in associate		(9,100)	-	(1)	-
Proceeds from disposal/liquidation of associates		-	22,166	-	7,144
Proceeds from liquidation of subsidiaries		-	-	-	53
Loans repaid by subsidiary companies		-	-	20,202	6,477
Loans advanced to associate companies		(11,733)	(29,534)	(10,445)	(6,994)
Dividends received		-	1,306	1,607	325
Interest received		2,050	843	1,304	641
		<b>(33,646)</b>	<b>(11,714)</b>	<b>19,496</b>	<b>7,287</b>



## Statements of cash flows – continued

	Note	The Group		CPHCL	
		2012 €000	2011 €000	2012 €000	2011 €000
<b>Financing activities</b>					
Net proceeds from (repayments of) long-term borrowings		194	37,397	4,637	(4,518)
(Deposits into) withdrawals from bond redemption sinking fund		(2,543)	9,710	-	4,390
Movement on long term creditors		(216)	(237)	725	10,972
Dividends paid		(460)	(275)	-	-
		<b>(3,025)</b>	<b>46,595</b>	<b>5,362</b>	<b>10,844</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(27,864)</b>	<b>22,970</b>	<b>1,424</b>	<b>1,401</b>
Cash and cash equivalents at beginning of year		40,837	17,867	(4,793)	(6,194)
<b>Cash and cash equivalents at end of year</b>	19	<b>12,973</b>	<b>40,837</b>	<b>(3,369)</b>	<b>(4,793)</b>

## Notes to the financial statements

### 1 Nature of operations

The group's main business is connected with the ownership, development and operation of hotels, leisure facilities, and other activities related to the tourism industry and commercial centres. The group is also actively engaged in the provision of residential accommodation, project management services and industrial catering.

### 2 General information and statement of compliance with IFRS

Corinthia Palace Hotel Company Limited (the 'company' or 'CPHCL'), a private limited liability company, is the ultimate parent company of the group. It is incorporated and domiciled in Malta. The address of the company's registered office, which is also the principal place of business of the group, is 22, Europa Centre, Floriana FRN 1400.

The financial statements of the company and the consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and in accordance with the Companies Act, Cap 386.

The financial statements are presented in thousands of euro (€000). The functional currencies of its subsidiaries are the euro, the Libyan dinar, the Hungarian forint, the Tunisian dinar, the Great Britain pound, the Turkish lira and the Czech kroner.

### 3 Going concern

The going concern basis underlying the preparation of these financial statements assumes that the group's lenders and creditors will continue to provide the financial support necessary to enable it to finance its investments and to meet its debts as they fall due.

Following the events that took place in Libya during 2011 there has been a steady recovery of the group's business in this country. The financing of ongoing capital projects during the year under review continued to strain the group's short-term cash flow. The directors have taken and are still taking various measures to ensure that the group will continue to have adequate levels of cash to sustain its operations and investments. These include the sale of assets which are no longer considered to be core to the group's activities, discussions with financial institutions to raise fresh financing and discussions with potential equity investors to increase the capital base of a number of group companies.

These measures together with the continued improvement in the operating performances of the group's investments are expected to generate sufficient funds to enable the group to meet its financial obligations.

On the basis of their assessment of the financial position of the group, the directors anticipate that the group will continue to operate within the banking limits currently agreed. The directors also expect to be able to operate within the renewed limits that will be sanctioned when the existing facilities are reviewed.

Based on the foregoing, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. Consequently these financial statements do not include any adjustments that may be necessary should the directors' expectations not materialise.

#### **4 Change in accounting policies**

Significant effects on current prior or future periods arising from the first-time application of these new requirements in respect of presentation, recognition and measurement are described below. An overview of standards, amendments and interpretations to IFRSs issued but not yet effective is given in note 4.2.

##### **4.1 Adoption of ‘Presentation of Items of Other Comprehensive Income’ (Amendments to IAS 1)**

The group has early adopted ‘Presentation of Items of Other Comprehensive Income’ (Amendments to IAS 1). The Amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 and require entities to group items presented in other comprehensive income (OCI) into those that, in accordance with other IFRSs, will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss when specific conditions are met. The existing option to present items of OCI either before tax or net of tax remains unchanged; however, if the items are presented before tax, then the Amendments to IAS 1 require the tax related to each of the two groups of OCI to be shown separately.

##### **4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group**

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the group.

Management anticipates that all of the pronouncements will be adopted in the group’s accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the group’s financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group’s financial statements.

- **IFRS 9 *Financial Instruments (effective from 1 January 2015)***

The IASB aims to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management has yet to assess the impact that this amendment is likely to have on the financial statements of the group. However, it does not expect to implement the amendments until all chapters of IFRS 9 have been published and endorsed by the European Union.

- ***Consolidation standards***

A package of consolidation standards are effective for annual periods beginning or after 1 January 2013. Information on these new standards is presented below. The group’s management has yet to assess the impact of these new and revised standards on the group’s consolidated financial statements.

*IFRS 10 Consolidated Financial Statements (IFRS 10)*

IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements (IAS 27)* and SIC 12 *Consolidation - Special Purpose Entities*. IFRS 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore change the scope of consolidation. However, the requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary remain the same. Management's provisional analysis is that IFRS 10 will not change the classification (as subsidiaries or otherwise) of any of the Group's existing investees at 31 December 2012.

*Transition guidance for IFRS 10 and 12*

Subsequent to issuing the new standards the IASB made some changes to the transitional provisions in IFRS 10 and IFRS 12. The guidance confirms that the entity is not required to apply IFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also makes changes to IFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides additional relief by removing the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied.

The new guidance is also effective for annual periods on or after 1 January 2013, subject to adoption by the European Union.

*Consequential amendments to IAS 27 Separate Financial Statements (IAS 27) and IAS 28 Investments in Associates and Joint Ventures (IAS 28)*

IAS 27 now only deals with separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged.

- **IFRS 13 Fair Value Measurement (IFRS 13)**

IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The group's management has yet to assess the impact of this new standard.

- **Offsetting Financial Assets and Financial Liabilities (*Amendments to IAS 32*)**

The *Amendments to IAS 32* add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- that some gross settlement systems may be considered equivalent to net settlement.

The Amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Management does not anticipate a material impact on the group's consolidated financial statements from these Amendments.

- **Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)**

Qualitative and quantitative disclosures have been added to *IFRS 7 Financial Instruments: Disclosures* (IFRS 7) relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The Amendments are effective for annual reporting periods beginning on or after 1 January 2013 and interim periods within those annual periods. The required disclosures should be provided retrospectively. Management does not anticipate a material impact on the group's consolidated financial statements from these Amendments.

- **Annual Improvements 2009-2011 (the Annual Improvements)**

The *Annual Improvements 2009-2011* (the Annual Improvements) made several minor amendments to a number of IFRSs. The amendments relevant to the group are summarised below:

Clarification of the requirements for opening statement of financial position:

- clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period (related notes are no longer required to be presented)
- addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

Clarification of the requirements for comparative information provided beyond minimum requirements:

- clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements
- requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.

The *Annual Improvements* noted above are effective for annual periods beginning on or after 1 January 2013, subject to adoption by the European Union. Management does not anticipate a material impact on the group's consolidated financial statements from these Amendments.

## **5 Summary of accounting policies**

### **5.1 Overall considerations**

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

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

The financial information has been prepared from the audited financial statements of the following companies comprising the group:

**Parent company**

Corinthia Palace Hotel Company Limited

**Subsidiary companies**

*Croatia*

- IHI Zagreb d.d.

*Cyprus*

- CHI Hotels & Resort Limited  
 - Comox Enterprises Limited  
 - IHI Cyprus Limited

*Czech Republic*

- Amber Hotels s.r.o.  
 - Corinthia Panorama s.r.o.  
 - IHI Towers s.r.o.  
 - Konopiste Property Holding s.r.o.  
 - Top. Spirit a.s.

*Hungary*

- Corinthia Restaurants Kft  
 - IHI Hungary Rt  
 - Thermal Hotel Aquincum Rt

*Malta*

- CHI Limited  
 - Catering Contractors Limited  
 - Corinthia Construction (Overseas) Limited  
 - Corinthia Finance p.l.c.  
 - Corinthia Palace Holdings Limited  
 - Corinthia Palace Investments Limited  
 - Corinthia Towers Tripoli Limited  
 - Corinthia Villas Limited  
 - Danish Bakery Limited  
 - D.X. Design Consulting Services Limited  
 - Five Star Hotels Limited  
 - Flight Catering Company Limited  
 - HNS Consultancy Services Limited  
 - International Hotel Investments p.l.c.  
 - IHI Benghazi Limited  
 - IHI Lisbon Limited  
 - Marina San Gorg Limited  
 - Marsa Investments Limited  
 - QPM Limited  
 - QPM (Africa) Limited  
 - Swan Laundry and Drycleaning Company Limited

*Portugal*

- Alfa Investimentos Turisticos Lda

*Russia*

- IHI St Petersburg LLC

*Switzerland*

- Afina Ag

*The Netherlands*

- IHI Benelux Bv

*Tunisia*

- Corinthia Services Limited  
 - Corinthia Tunisie sarl  
 - Societe de Promotion Hoteliere Khamsa s.a.

*Turkey*

- Corinthia Turizm Yatirimlari ve Ticaret a.s.  
 - Internasyonal Turizm ve Otelcilik a.s.

*United Kingdom*

- Corinthia Investments Limited  
 - QPM (UK) Limited

**Associate companies**

*Cyprus*

- INI Hotels Holdings Limited  
 - INI Hotels Management Company Limited

*Hungary*

- Café Jubilee Zrt

*Jersey*

- NLI Holdings Limited

*Libya*

- Medina Towers J.S.C.

*Malta*

- B.C.W. Limited  
 - CaterMax Limited  
 - Malta Fairs and Conventions Centre Limited  
 - Mediterranean Investments Holding p.l.c.  
 - Palm City Limited  
 - Palm Waterfront Limited

*Turkey*

- Norm Turizm Yatirim Isletmeleri a.s.

*United Kingdom*

- Atkins Travel Limited

*Portugal*

- Scalotel-Sociedade Escalabitana Hotelier s.a.

## **5.2 Presentation of financial statements**

The consolidated financial statements are presented in accordance with IAS 1 *Presentation of Financial Statements (Revised 2007)*. The group has elected to present the 'statement of comprehensive income' in two statements the 'income statement' and a 'statement of comprehensive income'.

IAS 1 requires two comparative periods to be presented for the statement of financial position in certain circumstances. The group has elected to provide the additional comparatives in all circumstances to maintain a more consistent presentation each year.

## **5.3 Basis of consolidation**

The group financial statements consolidate those of the company and all of its subsidiary undertakings drawn up to 31 December 2012. Subsidiaries are all entities over which the group has power to control the financial and operating policies. The company obtains and exercises control through voting rights. All subsidiaries have a reporting date of 31 December.

Intra-group balances, transactions and unrealised gains and losses on transactions between the group companies are eliminated. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment losses from the group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests represent the portion of a subsidiary's profit or loss and net assets that is not held by the group. The group attributes total comprehensive income or loss of subsidiaries between the owner of the parent and the non-controlling interests based on their respective ownership interests.

## **5.4 Business combinations**

The group applies the acquisition method in accounting for business combinations. The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

## **5.5 Investments in associates**

Associates are those entities over which the group is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the group's share in the associate is included in the amount recognised as investment in associates.

All subsequent changes to the group's share of interest in the equity of the associate are recognised in the carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported within 'share of profit/loss of equity accounted investments' in profit or loss. These changes include subsequent depreciation, amortisation or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from other comprehensive income of the associate or items recognised directly in the associate's equity are recognised in other comprehensive income or equity of the group, as applicable. However, when the group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognised.

Unrealised gains and losses on transactions between the group and its associates are eliminated to the extent of the group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment losses from a group perspective.

Amounts reported in the financial statements of associates have been adjusted where necessary to ensure consistency with the accounting policies of the group.

## **5.6 Income and expense recognition**

Revenue is measured by reference to the fair value of consideration received or receivable by the group for goods supplied and services provided, excluding VAT and trade discounts.

Revenue from the sale of goods and services provided is recognised when all the following conditions have been satisfied:

- The group has transferred to the buyer the significant risks and rewards of ownership of the goods supplied or the services provided. This is generally when the customer has taken undisputed delivery of goods or has approved the services that have been provided.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the company, and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rental income from operating leases of the group's investment properties is recognised on a systematic basis over the lease term.

Interest income and expenses are reported on an accrual basis using the effective interest method.

Dividend income from investments is recognised at the time the right to reserve payment is established.

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

## **5.7 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is based on the rate of interest on bank borrowings. All other borrowing costs are expensed in the period in which they are incurred and recognised in 'finance costs'.



## **5.8 Foreign currency translation**

Foreign currency transactions are translated into the functional currency of the respective group entity using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

In the group's financial statements, all assets, liabilities and transactions of group entities with a functional currency other than the euro (the group's presentation currency) are translated into euro upon consolidation. The functional currency of the entities in the group has remained unchanged during the reporting period.

### *Foreign operations*

On consolidation, assets and liabilities have been translated into euro at the closing rate at the reporting date. Income and expenses have been translated into the group's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into euro at the closing rate.

## **5.9 Operating lease payments**

Payments on operating lease agreements are recognised as an expense on a systematic basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

## **5.10 Retirement benefit costs**

The group companies contribute towards state pensions in accordance with local legislation and do not contribute to any retirement benefit plans. Related costs are recognised as an expense during the year in which they are incurred.

## **5.11 Construction contracts revenue**

The group provides construction management, project management and ancillary services in respect of construction and refurbishment work. These contracts specify a fixed price for each contract and are within the scope of IAS 11, *Construction contracts*.

When the outcome can be assessed reliably, contract revenue and associated costs are recognised by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity.

When the group cannot measure the outcome of a contract reliably, revenue is recognised only to the extent of contract costs that have been incurred and are recoverable. Contract costs are recognised in the period in which they are incurred.

In either situation, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately in profit or loss.

A construction contract's stage of completion is assessed by management based on milestones (usually defined in the contract) for the activities to be carried out under the contract and other available relevant information at the reporting date. The maximum amount of revenue recognised for each milestone is determined by estimating relative contract fair values of each contract phase, i.e. by comparing the group's overall contract revenue with the expected profit for each corresponding milestone. Progress and related contract revenue in-between milestones is determined by comparing costs incurred to date with the total costs estimated for that particular milestone (a procedure sometimes referred to as the cost-to-cost method).

The gross amount due from customers for contract work is presented within trade and other receivables for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented within trade and other payables for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

### **5.12 Intangible assets**

Intangible assets are subject to impairment testing as described in note 5.15.

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Other intangible assets, including operating contracts, that are acquired by the group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, is recognised in profit or loss as incurred. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, other than goodwill, from the date they are available for use as follows:

	Years
- Operating contracts	20
- Others	3

### **5.13 Property, plant and equipment**

Property, comprising land and buildings held for use in the supply of goods and services or administration, is initially recognised at cost. Subsequently it is carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers.

As no finite useful life for land can be determined, related carrying amounts are not depreciated.

When buildings are revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any revaluation surplus arising upon appraisal of property is recognised in other comprehensive income and credited to revaluation reserve, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in 5.14. To the extent that any decrease has previously been recognised in profit or loss, a revaluation increase is booked to profit or loss with the remaining part of the increase charged to other comprehensive income. Downward revaluations are recognised upon appraisal or impairment testing, with the decrease being charged against any revaluation surplus in equity relating to this asset and any remaining decrease recognised in profit or loss.

Plant and equipment, furniture and fittings, and motor vehicles are initially recognised at acquisition cost. Subsequently they are carried at acquisition cost less subsequent depreciation and impairment losses.

Depreciation is calculated, using the straight-line method, to write off the cost or valuation of assets over their estimated useful lives on the following bases:

	%
- Freehold buildings	1-3
- Plant and equipment	5-10
- Motor vehicles	15-20

Gains or losses arising from the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within 'other income' or 'other expenses'.

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

#### **5.14 Investment property**

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Property that is being constructed for use as an investment property is included with investment property.

Investment properties are revalued annually and are included in the balance sheet at their fair values. These are determined by external professional valuers with sufficient experience with respect to both location and the nature of the investment property or by the directors.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in profit or loss within 'change in fair value of investment property'.

Rental income and operating expenses from investment property are reported within 'revenue' and 'net operating expenses' respectively.

#### **5.15 Impairment testing of goodwill, other intangible assets and property, plant and equipment**

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount which is the higher of fair value less costs to sell and value in use. To determine the value in use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. Cash flows and discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles, such as market- and asset-specific risk factors (see notes 13 and 15).

Impairment losses on cash-generating units first reduce the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

#### **5.16 Investments in subsidiaries and associates**

Investments in subsidiaries and associates are included in the company's balance sheet at cost less any impairment loss that may have arisen. Income from investments is recognised only to the extent of distributions received by the company.

At each balance sheet date the company reviews the carrying amount of its investments in subsidiaries and associates to determine whether there is any indication of impairment and, if any such indication exists, the recoverable amount of the investment is estimated. An impairment loss is the amount by which the carrying amount of an investment exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. An impairment loss that has been previously recognised is reversed if the carrying amount of the investment exceeds its recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the investment does not exceed the carrying amount that would have been determined if no impairment loss had been previously recognised. Impairment losses and reversals are recognised immediately in profit or loss.

#### **5.17 Non-current assets and liabilities classified as held for sale**

When the group intends to sell a non-current asset or a group of assets (a disposal group), and if sale within 12 months is highly probable, the asset or disposal group is classified as held for sale and presented separately in the statement of financial position. Liabilities are classified as held for sale and presented as such in the statement of financial position if they are directly associated with a disposal group.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some held for sale assets such as financial assets or deferred tax assets, continue to be measured in accordance with the group's relevant accounting policy for those assets. Once classified as held for sale, the assets are not subject to depreciation or amortisation.

Any profit or loss arising from the sale or remeasurement of discontinued operations is presented as part of a single line item, profit or loss from discontinued operations.

#### **5.18 Profit or loss from discontinued operations**

A discontinued operation is a component of the group that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Profit or loss from discontinued operations, including prior year components of profit or loss, is presented in a single amount in the income statement. This amount, which comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale (see also note 5.17), is further analysed in note 20.

The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date of the latest period presented.

### **5.19 Financial instruments**

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or when it expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

#### **Financial assets**

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss (FVTPL);
- held to maturity (HTM) investments; and
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, and are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within 'finance costs' or 'finance income', except for impairment of trade receivables which is presented within 'net operating expenses'.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Loans advanced by the company to its 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.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables is presented within 'net operating expenses'.

*Financial assets at FVTPL*

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see derivative financial instruments below). Assets in this category are measured at fair value with gains or losses recognised in profit or loss. Gains or losses on derivative financial instruments are based on changes in fair value determined by reference to active market transactions or using a valuation technique where no active market exists

*HTM investments*

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the group has the intention and ability to hold them until maturity.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

*AFS financial assets*

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'. Reversals of impairment losses for AFS securities are recognised in profit or loss if the reversal can be objectively related to an event after the impairment loss was recognised. For AFS equity instruments, impairment reversals are not recognised in profit or loss and any subsequent change in fair value is recognised in other comprehensive income.

**Financial liabilities**

The group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'finance costs' or 'finance income'.

*Derivative financial instruments*

A specific accounting treatment is required for derivatives designated as hedging instruments in cash flow hedge relationships. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness. All other derivative financial instruments are accounted for at FVTPL.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the balance sheet.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognised in the statement of comprehensive income is transferred immediately to profit or loss.

## **5.20 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to acquiring the inventories and to bringing them to their existing location and condition. Finance costs are not taken into consideration. Costs of inventories are assigned using the weighted average cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

## **5.21 Investments**

Current asset investments held on a short-term basis, which are those which are expected to be disposed of within the next twelve months, are stated at market value. Any increase or decrease in carrying amounts is accounted for through profit or loss.

## **5.22 Income taxes**

Tax income recognised in profit or loss comprises the sum of deferred tax and current tax not recognised directly in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the group and it is probable that reversal will not occur in the foreseeable future.

In addition, tax losses available to be carried forward as well as other income tax credits are assessed for recognition as deferred tax assets.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income.

Deferred tax assets and liabilities are offset only when the group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are recognised in other comprehensive income or directly in equity in which case the related deferred tax is also recognised in other comprehensive income or equity respectively.

### **5.23 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits and bank overdraft, together with other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### **5.24 Equity, reserves and dividend payments**

Share capital is determined using the nominal value of shares that have been issued.

Other reserves include revaluation reserve and foreign currency translation reserve.

The revaluation reserve comprises gains and losses due to the revaluation of property, plant and equipment.

Foreign currency translation differences arising on the translation of the group's foreign entries are included in the translation reserve (see note 5.8).

Retained earnings include all current and prior period retained profits less losses.

Dividend distributions payable to equity shareholders are included other liabilities in the balance sheet when the dividends are approved in general meeting prior to the balance sheet date.

All transactions with owners of the parent are recorded separately within equity.

### **5.25 Provisions and contingent liabilities**

Provisions are recognised when present obligations will probably lead to an outflow of economic resources from the group and they can be measured reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, such as product warranties, legal disputes or onerous contracts. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of the group's management.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.



## **5.26 Significant management judgement in applying accounting policies**

The following are significant management judgements in applying the accounting policies of the group that have the most significant effect on the financial statements. Critical estimation uncertainties are described in note 5.27.

### *Deferred tax assets*

The assessment of the probability of future taxable income in which deferred tax assets can be utilised is based on the group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the numerous jurisdictions in which the group operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is usually recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

### *Recognition of service and construction contract revenues*

Determining when to recognise revenues from after-sales services requires an understanding of the customer's use of the related products, historical experience and knowledge of the market. Recognising construction contract revenue also requires significant judgment in determining milestones, actual work performed and the estimated costs to complete the work (see note 5.11).

## **5.27 Estimation uncertainty**

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expense is provided below. Actual results may be substantially different.

### *Income taxes*

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 a result there are diverse transactions for which the ultimate tax determination is somewhat uncertain. 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.

### *Impairment*

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see note 5.15).

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

The group has incurred a net impairment loss of € 18.7 million (2011: € 15.2 million) on its hotel properties to reduce the carrying amount to their recoverable amounts (see note 15.1). If the independent valuer's discount rate was increased by 1% a further impairment loss of € 104.7 million (2011: € 70 million) would have to be recognised, of which € 46.4 million (2011 - € 30 million) would be written off against reserves and € 58.3 million (2011 - € 10 million) in profit or loss.

### *Business combinations*

Management uses valuation techniques in determining the fair value of various elements of a business combination (see note 5.4).

*Fair value of investment properties*

At each reporting date investment properties are revalued by independent valuers based either on management's estimates of expected future cash flows or market values. The group has recognised fair value adjustments to investments property of € 4.2 million (2011: € 5.4 million). When based on management's estimates of expected future cash flows the value of each property is determined by applying a suitable discount rate. If the discount rate is changed by 1%, the fair value of investment property would change by € 4.3 million (2011: € 5.2 million).

*Useful lives of depreciable assets*

Management reviews the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets to the group. The carrying amounts are analysed in note 15. Uncertainties in these estimates relate to technical obsolescence, that may change the utility of certain software and IT equipment.

*Construction contract revenue*

Recognised amounts of construction contract revenues and related receivables reflect management's best estimate of each contract's outcome and stage of completion. This includes the assessment of the profitability of on-going construction contracts and the order backlog. For more complex contracts in particular, costs to complete and contract profitability are subject to significant estimation uncertainty (see note 5.11).

**5.28 Segment reporting**

The standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The chief operating maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group board of directors.

An operating segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from that of other segments. The operating segments can be classified as hotel, investment property rental, industrial catering and construction.

Hotel ownership development and operations is the dominant source and nature of the group's risk and returns. The group is also engaged in the ownership and leasing of its investment property. Operations are based in 14 countries, Malta being the home of the parent and management companies.

The board of directors assesses performance based on the measure of earnings before interest, tax, depreciation and amortisation (EBITDA).

The group is not required to report a measure of total assets and liabilities for each reportable segment since such amounts are not regularly provided to the chief operating decision maker. However, in accordance with IFRS 8, non-current assets (other than financial instruments, investments accounted for using the equity method and deferred tax assets) are divided into geographical areas in note 6.

**6 Segment reporting**

**The Group**

	Malta €000	North Africa €000	Europe €000	Total €000	Discontinued operations €000	Continuing operations €000
<b>Year ended 31 December 2012</b>						
Revenue:						
Hotels	27,007	21,817	90,182	139,006	4,898	134,108
Net rental income from investment property	-	6,263	2,462	8,725	-	8,725
Industrial catering	6,090	-	-	6,090	-	6,090
Construction	1,568	2,566	-	4,134	-	4,134
Other	562	74	89	725	4	721
	<u>35,227</u>	<u>30,720</u>	<u>92,733</u>	<u>158,680</u>	<u>4,902</u>	<u>153,778</u>
EBITDA	3,004	7,949	14,031	24,984	(476)	25,460
Depreciation and amortisation	(3,173)	(8,224)	(17,617)	(29,014)	-	(29,014)
Impairment losses	-	-	(6,402)	(6,402)	-	(6,402)
Segment operating (loss) profit	<u>(169)</u>	<u>(275)</u>	<u>(9,988)</u>	<u>(10,432)</u>	<u>(476)</u>	<u>(9,956)</u>
Non-current assets	<u>398,726</u>	<u>245,946</u>	<u>483,238</u>	<u>1,127,910</u>	<u>9,404</u>	<u>1,118,506</u>
<b>Year ended 31 December 2011</b>						
Revenue:						
Hotels	22,051	17,406	83,893	123,350	5,149	118,201
Net rental income from investment property	-	5,969	898	6,867	-	6,867
Industrial catering	6,348	-	-	6,348	-	6,348
Construction	2,332	2,111	-	4,443	-	4,443
Other	7,213	730	467	8,410	36	8,374
	<u>37,944</u>	<u>26,216</u>	<u>85,258</u>	<u>149,418</u>	<u>5,185</u>	<u>144,233</u>
EBITDA	(3,258)	10,899	15,375	23,016	(30)	23,046
Depreciation and amortisation	(3,133)	(9,865)	(16,697)	(29,695)	-	(29,695)
Segment operating (loss) profit	<u>(6,391)</u>	<u>1,034</u>	<u>(1,322)</u>	<u>(6,679)</u>	<u>(30)</u>	<u>(6,649)</u>
Non-current assets	<u>339,395</u>	<u>242,405</u>	<u>515,395</u>	<u>1,097,195</u>	<u>9,264</u>	<u>1,087,931</u>

**CPHCL**

	Malta €000	North Africa €000	Total €000	Discontinued operations €000	Continuing operations €000
<b>Year ended 31 December 2012</b>					
Revenue:					
Hotels	4,898	-	4,898	4,898	-
Other	1,485	-	1,485	4	1,481
	<u>6,383</u>	<u>-</u>	<u>6,383</u>	<u>4,902</u>	<u>1,481</u>
EBITDA	(5,253)	9	(5,244)	(476)	(4,768)
Depreciation	(80)	(51)	(131)	-	(131)
Segment operating loss	<u>(5,333)</u>	<u>(42)</u>	<u>(5,375)</u>	<u>(476)</u>	<u>(4,899)</u>
Non-current assets	<u>416,863</u>	<u>935</u>	<u>417,798</u>	<u>9,848</u>	<u>407,950</u>
<b>Year ended 31 December 2011</b>					
Revenue:					
Hotels	5,149	-	5,149	5,149	-
Other	1,548	-	1,548	36	1,512
	<u>6,697</u>	<u>-</u>	<u>6,697</u>	<u>5,185</u>	<u>1,512</u>
EBITDA	(3,451)	4	(3,447)	(30)	(3,417)
Depreciation and assets written off	(145)	(20)	(165)	-	(165)
Segment operating loss	<u>(3,596)</u>	<u>(16)</u>	<u>(3,612)</u>	<u>(30)</u>	<u>(3,582)</u>
Non-current assets	<u>420,598</u>	<u>941</u>	<u>421,539</u>	<u>16,905</u>	<u>404,634</u>

**7 Operating loss**

The operating loss is stated after charging:

	The Group		CPHCL	
	2012 €000	2011 €000	2012 €000	2011 €000
Directors' remuneration	<b>633</b>	643	<b>612</b>	638
Loss on disposal of property, plant and equipment	<b>187</b>	80	<b>1</b>	1
Operating lease costs	<b>963</b>	1,085	<b>349</b>	-
Auditors' remuneration	<b>446</b>	440	<b>63</b>	62

## 8 Staff costs

	The Group		CPHCL	
	2012	2011	2012	2011
	€000	€000	€000	€000
Wages and salaries	40,691	37,122	1,512	1,442
Social security contributions	6,101	5,637	56	51
Other staff costs	4,477	3,747	171	170
	<b>51,269</b>	<b>46,506</b>	<b>1,739</b>	<b>1,663</b>

Weekly average number of employees:

	The Group		CPHCL	
	2012	2011	2012	2011
	No.	No.	No.	No.
Management and administrative	548	531	52	51
Operating	2,114	2,041	19	18
	<b>2,662</b>	<b>2,572</b>	<b>71</b>	<b>69</b>

## 9 Finance income and finance costs

The following amounts have been included in the income statement line for the reporting periods presented:

	The Group		CPHCL	
	2012	2011	2012	2011
	€000	€000	€000	€000
Dividend income from investments	-	1,306	1,607	325
Interest income charged to subsidiaries	-	-	811	568
Interest income charged to associates	253	319	253	21
Interest income charged to other related parties	883	-	53	64
Interest income on bank balances	274	234	2	2
Non-operating difference on exchange	620	1,036	-	-
Net fair value gain on interest rate swap	453	-	-	-
Others	187	290	185	-
<b>Finance income</b>	<b>2,670</b>	<b>3,185</b>	<b>2,911</b>	<b>980</b>

	The Group		CPHCL	
	2012	2011	2012	2011
	€000	€000	€000	€000
Interest expense for bank borrowings	12,973	11,395	709	794
Interest expense for bonds in issue	9,111	9,484	-	-
Interest expense for shareholders' loans	997	1,011	997	1,011
Interest expense for subsidiaries' loans	-	-	5,366	6,081
Interest expense for other related party loans	27	-	-	-
Net fair value loss on interest rate swaps	-	278	858	736
Amortisation of bond issue costs	171	160	-	-
Non-operating difference on exchange	307	-	-	-
Others	175	48	66	(3)
<b>Finance costs</b>	<b>23,761</b>	<b>22,376</b>	<b>7,996</b>	<b>8,619</b>

## 10 Tax income

The tax on profits (losses) derived from local and foreign operations has been calculated at the applicable tax rates in those jurisdictions and in accordance with applicable double tax treaties.

### 10.1 Tax income reconciliation

	The Group		CPHCL	
	2012 €000	2011 €000	2012 €000	2011 €000
Profit (loss) before tax	<b>1,941</b>	(13,706)	<b>826</b>	(10,419)
Income tax using the company's domestic tax rate	<b>(679)</b>	4,797	<b>(289)</b>	3,647
Effect of income subject to foreign/different tax rates	<b>930</b>	1,666	-	-
Non-tax income	-	2,925	<b>562</b>	114
Non-tax deductible expenses	<b>(626)</b>	(999)	-	(57)
Additional 20% reduction on rental income	<b>12</b>	8	<b>12</b>	8
Current year losses for which no deferred income is recognised	<b>(956)</b>	(5,003)	<b>(2,702)</b>	(3,849)
Effect of other consolidation adjustments	<b>3,614</b>	(2,760)	-	-
Change in unrecognised temporary differences	<b>(1,303)</b>	206	<b>2,417</b>	137
Group tax relief	-	-	<b>45</b>	164
(Over)under-provision in previous years	<b>(19)</b>	1,512	-	38
<b>Tax income</b>	<b>973</b>	<b>2,352</b>	<b>45</b>	<b>202</b>

### 10.2 Tax recognised in income statement

	The Group		CPHCL	
	2012 €000	2011 €000	2012 €000	2011 €000
Current taxation	<b>(947)</b>	(787)	-	-
(Over) under provision in respect of previous years	-	(4)	-	38
Tax surrender losses	-	-	<b>45</b>	164
Deferred taxation	<b>1,920</b>	3,143	-	-
	<b>973</b>	<b>2,352</b>	<b>45</b>	<b>202</b>

### 10.3 Tax recognised in other comprehensive income

	The Group	
	2012 €000	2011 €000
Tax effect on items:		
<i>Subsequently not reclassified:</i>		
Impairment/revaluation of hotel properties	<b>(988)</b>	2,428
<i>Subsequently reclassified:</i>		
Fair value adjustment on hedging instruments	<b>(232)</b>	36
Exchange translation difference	<b>(238)</b>	232
	<b>(1,458)</b>	<b>2,696</b>

Refer to note 26 for information on the entity's deferred tax assets and liabilities.

**11 Loss for the year from discontinued operations**

The Corinthia Palace Hotel property is held for sale following the directors' decision to dispose of this property. In 2010 the directors had agreed upon the terms of sale of associate companies, Tektur Turizm a.s. and Tekirova a.s. to a third party and the sales of the shares were completed in 2011.

Loss attributable to the discontinued operations is as follows:

	<b>The Group</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
<b>Results of discontinued operations</b>		
Corinthia Palace Hotel -		
Revenue	4,898	5,149
Operating and other expenses	(5,434)	(5,282)
Other income	4	36
Loss on discontinued operations	<u>(532)</u>	<u>(97)</u>
<b>Effect of disposal on the financial position of the group</b>		
Property, plant and equipment	<u>9,324</u>	<u>9,187</u>

In 2011 the directors took the decision to dispose of one of the hotels in the Czech Republic, owned by Amber Hotels s.r.o. The effect of disposal on the financial position of the group is as follows:

	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
<b>Amber Hotels s.r.o</b>		
Investment property	<u>80</u>	<u>77</u>

	<b>CPHCL</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
<b>Corinthia Palace Hotel -</b>		
<b>Results of discontinued operation</b>		
Turnover	4,898	5,149
Operating and other expenses	(5,434)	(5,282)
Other income	4	36
Loss for the year	<u>(532)</u>	<u>(97)</u>
<b>Cash flows from discontinued operation</b>		
Net cash from (used in) operating activities	283	(11)
Net cash used in investing activities	(217)	(414)
Net cash (used in) from financing activities	(60)	419
Net cash from (used in) discontinued operations	<u>6</u>	<u>(6)</u>
<b>Effect of disposal on the financial position of the company</b>		
Property, plant and equipment	9,848	9,711
Investments in subsidiaries	-	6,988
Loans receivable	-	9,574
Impairment losses recognised	-	(9,368)
Net identifiable assets	<u>9,848</u>	<u>16,905</u>

## 12 Dividends and earnings (loss) per share

In 2012 CPHCL did not pay any dividends to its equity shareholders.

The calculation of earnings per share is based on the net profit (loss) for the year attributable to ordinary shareholders and the number of ordinary shares outstanding during the year of 20,000,000. The group had no dilutive potential ordinary shares as of 31 December 2012 and 2011.

## 13 Intangible assets

### The Group

	Goodwill	Operating contracts	Others	Total €000
<b>Cost</b>				
Balance at 1 January 2010	96	7,000	62	7,158
Exchange difference	-	-	2	2
Additions	-	-	217	217
Balance at 31 December 2010	96	7,000	281	7,377
Balance at 1 January 2011	96	7,000	281	7,377
Exchange difference	-	-	(7)	(7)
Additions	-	-	839	839
Balance at 31 December 2011	96	7,000	1,113	8,209
Balance at 1 January 2012	96	7,000	1,113	8,209
Additions	719	-	172	891
<b>Balance at 31 December 2012</b>	<b>815</b>	<b>7,000</b>	<b>1,285</b>	<b>9,100</b>
<b>Amortisation</b>				
Balance at 1 January 2010	48	1,109	53	1,210
Exchange difference	-	-	1	1
Amortisation for the year	-	350	8	358
Balance at 31 December 2010	48	1,459	62	1,569
Balance at 1 January 2011	48	1,459	62	1,569
Exchange difference	-	-	(6)	(6)
Amortisation for the year	-	350	273	623
Balance at 31 December 2011	48	1,809	329	2,186
Balance at 1 January 2012	48	1,809	329	2,186
Amortisation for the year	-	350	325	675
<b>Balance at 31 December 2012</b>	<b>48</b>	<b>2,159</b>	<b>654</b>	<b>2,861</b>
<b>Carrying amounts</b>				
<b>Balance at 31 December 2012</b>	<b>767</b>	<b>4,841</b>	<b>631</b>	<b>6,239</b>
Balance at 31 December 2011	48	5,191	784	6,023
Balance at 31 December 2010	48	5,541	219	5,808
Balance at 1 January 2010	48	5,891	9	5,948



**14 Investment property**

	The Group			CPHCL		
	2012	2011	2010	2012	2011	2010
	€000	€000	€000	€000	€000	€000
Balance at 1 January	<b>205,224</b>	200,704	190,326	<b>925</b>	925	896
Fair value adjustments (a)	<b>4,154</b>	5,383	2,746	-	-	-
Additions (b)	-	471	1,352	-	-	29
Adjustments	-	(320)	-	-	-	-
Transfer from property, plant and equipment (c)	-	16	6,045	-	-	-
Transfer to asset held for sale	<b>(3)</b>	(77)	-	-	-	-
Exchange differences	<b>425</b>	(953)	235	-	-	-
Balance at 31 December	<b>209,800</b>	205,224	200,704	<b>925</b>	925	925

- a) At the balance sheet date the fair value of investment property held by the group in St Petersburg has been increased by the directors by € 4.2 million (2011 - € 5.6 million, 2010 - € 2.9 million), relying on the expert opinion of Colliers International, an independent firm of estate valuers and consultants.

In 2012 the valuation of the investment property in Lisbon gave rise to an impairment of € 46,000 (2011 - € 166,000 decrease, 2010 - € 166,000) based on the opinion of CPU, an independent firm of consultants.

In 2012, 2011 and 2010 the directors have retained the value of the commercial centre in Tripoli and the parcel of land, both adjacent to Corinthia Hotel Tripoli, unchanged. In doing so the directors have relied on expert opinions and all available information.

- b) The additions in 2011 represent further developments in properties in Hungary, Turkey, Czech Republic and Russia.

In 2010 additions of € 83,000 represented further work on the property in St Petersburg. A further € 1.27 million was expended on additions to properties in the Czech Republic and Hungary.

- c) In 2010 the Konopiste Hotel in the Czech Republic was transferred from property, plant and equipment since this is to be developed as investment property.
- d) Investment property with a carrying amount of € 191 million secures general banking facilities and loans granted to the group.
- e) Rental income earned by the group and the company from investment property amounted to € 9.5 million (2011 - € 7.5 million, 2010 - € 6.8 million) and € 70,000 (2011 and 2010 € 70,000) and direct expenses of € 0.8 million (2011 - € 0.9 million, 2010 - € 0.5 million) and € nil (2011 and 2010 - € nil) respectively.

**15 Property, plant and equipment**

**The Group**

	Land and buildings €000	Plant and equipment €000	Motor vehicles €000	Assets in the course of construction €000	Total €000
<b>Cost or valuation</b>					
Balance at 1.1.10	848,125	206,935	2,787	3,396	1,061,243
Exchange differences	(740)	(301)	6	-	(1,035)
Reclassifications	2,085	504	37	(2,683)	(57)
Additions	64	2,843	52	3,635	6,594
Disposals	(452)	(1,593)	(126)	(26)	(2,197)
Transfer to investment property	(5,842)	(3)	-	(205)	(6,050)
Revaluation surplus	561	-	-	-	561
<b>Balance at 31.12.10</b>	<b>843,801</b>	<b>208,385</b>	<b>2,756</b>	<b>4,117</b>	<b>1,059,059</b>
Balance at 1.1.11	843,801	208,385	2,756	4,117	1,059,059
Exchange differences	(3,783)	(976)	2	(4)	(4,761)
Reclassifications	1,168	34	-	(1,694)	(492)
Additions	1,007	3,128	35	2,311	6,481
Disposals	(25)	(884)	(140)	(182)	(1,231)
Transfer to assets held for sale (note 20)	(6,949)	(13,057)	(14)	-	(20,020)
Revaluation surplus	6,281	(334)	-	-	5,947
<b>Balance at 31.12.11</b>	<b>841,500</b>	<b>196,296</b>	<b>2,639</b>	<b>4,548</b>	<b>1,044,983</b>
Balance at 1.1.12	841,500	196,296	2,639	4,548	1,044,983
Exchange differences	(57)	54	(4)	1	(6)
Reclassifications	1,250	373	(6)	(1,706)	(89)
Acquisition of subsidiary	-	122	-	-	122
Additions	527	4,334	257	6,339	11,457
Disposals	-	(1,892)	(99)	(25)	(2,016)
Revaluation surplus	(1,938)	-	-	-	(1,938)
<b>Balance at 31.12.12</b>	<b>841,282</b>	<b>199,287</b>	<b>2,787</b>	<b>9,157</b>	<b>1,052,513</b>

	Land and buildings €000	Plant and equipment €000	Motor vehicles €000	Assets in the course of construction €000	Total €000
<b>Depreciation</b>					
Balance at 1.1.10	131,154	141,867	2,241	-	275,262
Exchange differences	(171)	(234)	2	-	(403)
Reclassifications	-	(19)	(3)	-	(22)
Charge for the year	15,383	14,695	285	-	30,363
Net impairment losses (note 15.1)	15,030	-	-	-	15,030
Released on disposal	(452)	(1,525)	(117)	-	(2,094)
Transfer to investment property	(5)	-	-	-	(5)
Revaluation surplus	(2,083)	-	-	-	(2,083)
<b>Balance at 31.12.10</b>	<b>158,856</b>	<b>154,784</b>	<b>2,408</b>	<b>-</b>	<b>316,048</b>
Balance at 1.1.11	158,856	154,784	2,408	-	316,048
Exchange differences	(670)	(820)	3	-	(1,487)
Reclassifications	(5)	(364)	2	-	(367)
Charge for the year	15,310	13,580	182	-	29,072
Net impairment losses (note 15.1)	15,199	-	-	-	15,199
Released on disposal	(18)	(853)	(127)	-	(998)
Transfer to asset held for sale (note 20)	(952)	(9,879)	(2)	-	(10,833)
Revaluation surplus	(214)	-	-	-	(214)
<b>Balance at 31.12.11</b>	<b>187,506</b>	<b>156,448</b>	<b>2,466</b>	<b>-</b>	<b>346,420</b>
Balance at 1.1.12	187,506	156,448	2,466	-	346,420
Exchange differences	(5)	125	(8)	-	112
Reclassifications	2	-	(2)	-	-
Acquisition of subsidiary	-	112	-	-	112
Charge for the year	15,208	12,989	142	-	28,339
Net impairment losses (note 15.1)	18,685	-	-	-	18,685
Released on disposal	-	(1,546)	(94)	-	(1,640)
<b>Balance at 31.12.12</b>	<b>221,396</b>	<b>168,128</b>	<b>2,504</b>	<b>-</b>	<b>392,028</b>
<b>Carrying amounts</b>					
<b>At 31 December 2012</b>	<b>619,886</b>	<b>31,159</b>	<b>283</b>	<b>9,157</b>	<b>660,485</b>
At 31 December 2011	653,994	39,848	173	4,548	698,563
At 31 December 2010	684,945	53,601	348	4,117	743,011
At 1 January 2010	716,971	65,068	546	3,396	785,981

**CPHCL**

	Land and buildings €000	Plant and equipment €000	Motor vehicles €000	Assets in the course of construction €000	Total €000
<b>Cost or valuation</b>					
Balance at 1.1.10	965	8,262	1,216	-	10,443
Exchange differences	1	8	7	-	16
Additions	9	170	18	-	197
Disposals	-	(12)	(4)	-	(16)
Transfer	-	(146)	-	-	(146)
Balance at 31.12.10	975	8,282	1,237	-	10,494
Balance at 1.1.11	975	8,282	1,237	-	10,494
Exchange differences	-	4	3	-	7
Additions	28	320	11	-	359
Disposals	(12)	(146)	-	-	(158)
Transfer	(27)	(299)	(10)	-	(336)
Balance at 31.12.11	964	8,161	1,241	-	10,366
Balance at 1.1.12	964	8,161	1,241	-	10,366
Exchange differences	-	-	(3)	-	(3)
Additions	-	49	-	-	49
Disposals	-	(11)	-	-	(11)
<b>Balance at 31.12.12</b>	<b>964</b>	<b>8,199</b>	<b>1,238</b>	<b>-</b>	<b>10,401</b>
<b>Depreciation</b>					
Balance at 1.1.10	704	8,030	1,016	-	9,750
Exchange differences	1	8	4	-	13
Charge for the year	36	64	71	-	171
Released on disposal	-	(11)	(3)	-	(14)
Balance at 31.12.10	741	8,091	1,088	-	9,920
Balance at 1.1.11	741	8,091	1,088	-	9,920
Exchange differences	-	5	3	-	8
Charge for the year	36	56	73	-	165
Released on disposal	(12)	(145)	-	-	(157)
Balance at 31.12.11	765	8,007	1,164	-	9,936
Balance at 1.1.12	765	8,007	1,164	-	9,936
Exchange differences	-	-	(2)	-	(2)
Change for the year	33	54	44	-	131
Released on disposal	-	(10)	-	-	(10)
<b>Balance at 31.12.12</b>	<b>798</b>	<b>8,051</b>	<b>1,206</b>	<b>-</b>	<b>10,055</b>
<b>Carrying amounts</b>					
<b>At 31 December 2012</b>	<b>166</b>	<b>148</b>	<b>32</b>	<b>-</b>	<b>346</b>
At 31 December 2011	199	154	77	-	430
At 31 December 2010	234	191	149	-	574
At 1 January 2010	261	232	200	-	693

**15.1 Impairment of assets**

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

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

Impairment losses and reversals have been recognised as follows:

	Recognised at 1.1.10 € 000	Change € 000	Recognised at 31.12.10 € 000
<i>Hotel property</i>			
Corinthia Hotel St George's Bay Malta	153	-	153
Corinthia Hotel & Spa Lisbon	3,306	(2,400)	906
Corinthia Hotel Prague	21,747	-	21,747
Corinthia Hotel Budapest	15,345	-	15,345
Marina Hotel	3,927	(3,927)	-
Corinthia Panorama Hotel	4,007	-	4,007
Amber Hotels	1,237	-	1,237
Corinthia Hotel Tripoli	-	20,300	20,300
Ramada Plaza Hotel Budapest	-	1,057	1,057
	<hr/>	<hr/>	<hr/>
	49,722	15,030	64,752
	<hr/>	<hr/>	<hr/>
Recognised in equity		(17,430)	
		<hr/>	
Recognised in income statement		(2,400)	
		<hr/>	

	Recognised at 1.1.11 € 000	Change € 000	Recognised at 31.12.11 € 000
<i>Hotel property</i>			
Corinthia Hotel St George's Bay Malta	153	2,650	2,803
Corinthia Hotel & Spa Lisbon	906	-	906
Corinthia Hotel Prague	21,747	(4,487)	17,260
Corinthia Hotel Budapest	15,345	4,333	19,678
Corinthia Panorama Hotel	4,007	-	4,007
Amber Hotels	1,237	-	1,237
Corinthia Hotel Tripoli	20,300	-	20,300
Ramada Plaza Hotel Budapest	1,057	-	1,057
Corinthia Hotel St. Petersburg	-	12,703	12,703
	<hr/>		<hr/>
	64,752	15,199	79,951
	<hr/>		<hr/>
Recognised in equity		(15,199)	
		<hr/>	
Recognised in income statement		-	
		<hr/>	
	Recognised at 1.1.12 € 000	Change € 000	Recognised at 31.12.12 € 000
<i>Hotel property</i>			
Corinthia Hotel St George's Bay Malta	2,803	-	2,803
Corinthia Hotel & Spa Lisbon	906	6,402	7,308
Corinthia Hotel Prague	17,260	(3,515)	13,745
Corinthia Hotel Budapest	19,678	3,022	22,700
Corinthia Panorama Hotel	4,007	-	4,007
Amber Hotels	1,237	-	1,237
Corinthia Hotel Tripoli	20,300	-	20,300
Ramada Plaza Hotel Budapest	1,057	-	1,057
Corinthia Hotel St. Petersburg	12,703	10,889	23,592
Marina Hotel St. George's Bay, Malta	-	1,887	1,887
	<hr/>		<hr/>
	79,951	18,685	98,636
	<hr/>		<hr/>
Recognised in equity		(12,283)	
		<hr/>	
Recognised in income statement		6,402	
		<hr/>	

In assessing the recoverable amounts of the above hotel properties by reference to their value in use, the future cash flows to be derived from the continuing use and ultimate disposal were estimated in the currency in which they will be generated, and discounted by applying the pre-tax discount rates. These discount rates reflect the current market assessment of the time value of money and the risks specific to these hotel properties for which the future cash flow estimates used in arriving at their carrying amount have not been adjusted for.

*Hotel property*

	Pre-tax discount rate		
	2012	2011	2010
	%	%	%
Corinthia Hotel St. George's Bay	8.15	8.36	8.39
Corinthia Hotel and Spa Lisbon	8.10	7.95	8.36
Corinthia Hotel Prague	7.66	7.84	8.54
Corinthia Hotel Budapest	8.82	9.12	8.68
Corinthia Hotel Tripoli	11.30	11.57	11.65
Corinthia Hotel St. Petersburg	9.64	10.35	-

The value of the Marina Hotel was based on its market value. There was no indication of impairment of other hotel properties.

**15.2 Revaluation to fair value of hotel properties**

The "value in use" calculations resulting from the impairment reviews of the group's hotel properties (see note 15.1) were also considered appropriate for the purpose of determining their fair value. The excess in prior years is shown in revaluation reserve.

In arriving at their 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, 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 values of these properties.

**15.3 Historic cost of hotel properties**

The carrying amounts of the land and buildings that would have been included in these financial statements had these assets been carried at cost less accumulated depreciation thereon would be € 615.1 million (2011 - € 647.4 million, 2010 - € 687.8 million).

**15.4 Security**

Certain tangible fixed assets owned by the group are hypothecated in favour of the group's bankers as collateral for amounts borrowed (refer to note 23).

**16 Investments in subsidiaries and associates**

**16.1 The amounts stated in the balance sheet are analysed as follows:**

	The Group			CPHCL		
	2012	2011	2010	2012	2011	2010
	€000	€000	€000	€000	€000	€000
Equity in subsidiary companies (note 16.4)	-	-	-	<b>382,566</b>	379,167	379,515
Loans to subsidiary companies	-	-	-	<b>25,740</b>	22,365	28,552
Impairment loss (note 16.7)	-	-	-	<b>(1,965)</b>	(2,286)	(2,021)
	-	-	-	<b>406,341</b>	399,246	406,046
Equity in associate companies (note 16.5)	<b>237,509</b>	178,102	191,449	<b>24,094</b>	24,093	24,093
Loans to associate companies (note 16.3)	<b>48,671</b>	36,625	7,091	<b>1,775</b>	7,175	120
	<b>286,180</b>	214,727	198,540	<b>25,869</b>	31,268	24,213

**16.2 Equity investments**

Subsidiary companies	Registered office	Percentage holding in ordinary shares				Nature of business
		The Group		CPHCL		
		2012 %	2011 %	2012 %	2011 %	
<b>Quoted</b>						
International Hotel Investments p.l.c.	22, Europa Centre, Floriana, Malta	59	59	59	59	Investment
<b>Unquoted</b>						
Afina Ag	CH-4336 Kaisten Eigematt 15 Switzerland	100	100	-	-	Investment
Alfa Investimentos Turisticos Lda	Avenida Columbana Bordalo Pinheiro Lisboa 1099-031, Portugal	59	59	-	-	Hotel owner
Amber Hotels s.r.o.	Milevska 7, Prague 4 Czech Republic	100	100	100	100	Hotel owner and operator
Catering Contractors Limited	6, Third Floor. Europa Centre, St. Anne Street, Floriana, Malta	100	100	100	100	Non trading
CHI Limited	22, Europa Centre, Floriana, Malta	59	41	-	-	Hotel management
CHI Belgium n.v.	Desguinlei 94, B-2018 Antwerp, Belgium	-	41	-	-	Liquidated
CHI Hotels & Resorts Limited	1, Deligiorgi Cosmo, 3 <sup>rd</sup> Floor 1066 Nicosia Cyprus	59	41	-	-	In liquidation
Comox Enterprises Limited	Agiou Nicolau, 41-49, Nimeli Court, Egkomi PC2408, Nicosia, Cyprus	100	100	100	100	Investment
Corinthia Construction (Overseas) Limited	22, Europa Centre, Floriana, Malta	100	92	100	-	Construction
Corinthia Finance p.l.c.	22, Europa Centre, Floriana, Malta	100	100	100	100	Investment



Corinthia Investments Limited	1, Brentham House 43c High Street Hampton Wick, Kingston-Upon- Thames, Surrey, UK	100	100	100	100	Investment
Corinthia Palace Holdings Limited	22, Europa Centre, Floriana, Malta	100	100	100	100	Non trading
Corinthia Palace Investments Limited	22, Europa Centre Floriana, Malta	100	100	100	100	Investment
Corinthia Panorama s.r.o.	Milevska 7, Prague 4, Czech Republic	100	100	100	100	Hotel owner
Corinthia Restaurants Kft	3527 Miskolc Bajcsy Zsilinszky U.17 Budapest, Hungary	100	100	-	-	Property owner
Corinthia Services Limited	34, Place de 7 Novembre 1987 Tunis, Tunisia	99	99	99	99	Non trading
Corinthia Towers Tripoli Limited	22, Europa Centre, Floriana, Malta	59	59	-	-	Hotel owner
Corinthia Tunisie sarl	Les Cotes de Carthage, Ghammarth, Tunisia	100	100	100	100	Non trading
Corinthia Turizm Yatirimlari ve Ticaret a.s.	Tayyareci Ethem Sokak No.24 Kat4 Daire 13, 80090 Gumussuyu Istanbul, Turkey	100	100	-	-	Hotel owner
Corinthia Villas Limited	22, Europa Centre, Floriana, Malta	100	100	100	100	Non trading
Danish Bakery Limited	22, Europa Centre, Floriana, Malta	65	65	65	65	Bakery
D.X. Design Consulting Services Limited	22, Europa Centre, Floriana, Malta	92	-	-	-	Project management services
Five Star Hotels Limited	22, Europa Centre, Floriana, Malta	59	59	-	-	Hotel owner
Flight Catering Company Limited	22, Europa Centre, Floriana, Malta	100	100	100	100	Inflight services
HNS Consultancy Services Limited	22, Europa Centre, Floriana, Malta	100	100	100	100	Consultancy services

IHI Benelux Bv	Frederick Roeskestraat 123 1076 EE Amsterdam P.O. Box 72888 1070 AC Amsterdam The Netherlands	59	59	-	-	Hotel owner
IHI Benghazi Limited	22, Europa Centre, Floriana, Malta	44	44	-	-	Investment
IHI Cyprus Limited	Naousis 1 Karapatakis Building 6018, Larnaca Cyprus	59	59	-	-	Investment
IHI Hungary Rt	1072, Budapest, Klauzal ter.3, Hungary	59	59	-	-	Hotel owner
IHI Lisbon Limited	22, Europa Centre, Floriana, Malta	59	59	-	-	Investment
IHI St Petersburg LLC	1/36 Volynsky per., St. Petersburg, Russian Federation	59	59	-	-	Investment
IHI Towers s.r.o	Kongresova 1655/1 1406/69 Praha 5 Czech Republic	59	59	-	-	Hotel Owner
IHI Zagreb d.d.	Centar Kaptol, Nova Kes 11, 10000 Zagreb, Croatia	59	59	-	-	Investment
Internasyonal Turizm ve Otelcilik a.s.	Osmanli Sokok No.24 Kat 4 Daire 13 80090 Gumussuyu Istanbul, Turkey	100	100	-	-	Hotel owner
Konopiste Property Holding s.r.o.	Milevska 1695/7 Prague 4 Czech Republic	100	100	100	100	Hotel owner
Marina San Gorg Limited	22, Europa Centre, Floriana, Malta	59	100	-	100	Hotel owner
Marsa Investments Limited	22, Europa Centre, Floriana, Malta	100	100	100	100	Investment property and hotel operator
QPM Limited	22, Europa Centre, Floriana, Malta	92	92	80	80	Project management services
QPM (Africa) Limited	22, Europa Centre Floriana, Malta	93	93	20	20	Non-trading

QPM (UK) Limited	Gate House, 5 <sup>th</sup> Floor 1, St. John's Square London EC1N 4DH United Kingdom	92	92	-	-	Project management services
Societe de Promotion Hoteliere Khamsa s.a.	Les Cotes de Carthage, Gammarth, Tunisia	100	100	65	63	Hotel owner
Swan Laundry and Drycleaning Company Limited	22, Europa Centre, Floriana, Malta	100	100	100	100	Laundry
Thermal Hotel Aquinicum Rt	Arpad Fejedelem Utja 94, H-1036 Budapest Hungary	100	100	-	-	Hotel owner
Top. Spirit a.s.	Milevska 7, 14063 Prague P.O. Box 41 Czech Republic	100	100	100	100	Investment
<b>Associate companies</b>						
Atkins Travel Limited	Towngate House, 2, Parkstone Road, Poole, Dorset BH15 2PJ United Kingdom	43	43	-	-	Tour operator
B.C.W. Limited	3, Princess Elizabeth Terrace, Ta' Xbiex, Malta	33	33	33	33	Investment
Café Jubilee Zrt	1055 Budapest, Szent Istvan krt. 13, Hungary	50	50	50	50	Restaurant and café
CaterMax Limited	22 Europa Centre, Floriana, Malta	50	50	50	50	Catering services
INI Hotels Holdings Limited	Naousis 1 Karapatakis Building 6018, Larnaca Cyprus	29	29	-	-	Investment
INI Hotels Management Company Limited	Naousis 1 Karapatakis Building 6018, Larnaca Cyprus	29	29	-	-	Investment
Malta Fairs and Conventions Centre Limited	Millenium Stand, Level 1, 33, National Stadium, Ta' Qali	33	-	-	-	Trade conference & Leisure Conventions
Medina Tower J.S.C	Suite 107, Tower 2, Level 10 Burj Al Fateh, Tripoli, Libya	27	27	-	-	Owns the Medina Towers Project in Tripoli

Mediterranean Investments Holding p.l.c.	22, Europa Centre, Floriana, Malta	50	50	50	50	Investment
NLI Holdings Limited (Group)	CTV House, La Pouqelaye, St Helier, Jersey	29	29	-	-	Parent company of NLI group
Norm Turizm Yatirim Isletmeleri a.s.	Mobucan Yokusu, 17/2 Findikli, Istanbul, Turkey	40	40	-	-	Hotel owner
Palm City Limited	22, Europa Centre, Floriana, Malta	50	50	-	-	Property development and operator
Palm Waterfront Limited	22, Europa Centre, Floriana, Malta	50	-	50	-	Property development and operator
Scalotel-Sociedade Escalabitana Hoteleira s.a.	Avenida Madre Andaluz Freguesia de Marvila, Canelho de Santarem, Portugal	41	41	-	-	Hotel owner

#### Other investments

Fish Market Company Limited

Steigenberger Reservation Service GmbH

#### 16.3 Loans

The loans to associate companies are unsecured, interest free and have no fixed repayment date.

#### 16.4 Equity in subsidiary companies

		CPHCL		
	2012	2011	2010	
	€000	€000	€000	
At 1 January	<b>379,167</b>	379,515	379,195	
Acquisition of equity in:				
Amber Hotels s.r.o	-	-	(1,561)	
Corinthia Finance plc	<b>17</b>	-	-	
Corinthia Palace Holdings Limited	-	-	1	
Corinthia Villas Limited	-	-	1	
Flight Catering Company Limited	-	-	318	
Konopiste Property Holdings	-	-	1,561	
Corinthia Construction (Overseas) Limited	<b>3,382</b>	-	-	
Liquidated companies:				
- Marin Aruba Limited	-	(298)	-	
- Med Construction Holding Company Limited	-	(50)	-	
At 31 December	<b>382,566</b>	379,167	379,515	

All investments were purchased at the nominal value of shares received i.e. at par, except for Corinthia Construction (Overseas) Limited which was acquired for € 3.38 million.

**16.5 Equity in associate companies**

	The Group		
	2012	2011	2010
	€000	€000	€000
At 1 January	<b>178,102</b>	191,449	151,265
Exchange differences	<b>1,477</b>	1,301	2,685
Additions	<b>9,100</b>	-	3,925
Disposal	-	(9,088)	-
Liquidated	<b>(133)</b>	(3)	-
Group's share of dividend paid by associate companies	<b>(160)</b>	(50)	(196)
Group's share of results:			
- income statement	<b>29,382</b>	(289)	(1,262)
- other comprehensive income	<b>19,741</b>	(5,218)	38,427
Transfer to assets held for sale	-	-	(3,395)
At 31 December	<b>237,509</b>	178,102	191,449

**16.6 Gross aggregate amounts of financial information of associate companies**

	The Group			CPHCL		
	2012	2011	2010	2012	2011	2010
	€000	€000	€000	€000	€000	€000
Total assets	<b>1,042,404</b>	854,992	753,565	<b>355,666</b>	294,209	289,471
Total liabilities	<b>(518,427)</b>	(491,926)	(271,500)	<b>(203,835)</b>	(185,511)	(82,688)
Net assets	<b>523,977</b>	363,066	482,065	<b>151,831</b>	108,698	206,783
Revenue	<b>108,967</b>	43,769	44,787	<b>32,908</b>	11,830	9,272
(Profit) loss for the year	<b>58,117</b>	(68)	(1,803)	<b>48,274</b>	(2,980)	(1,074)
Share of contingent liabilities of associates	<b>812</b>	-	-	-	-	-

**16.7 Impairment loss**

The carrying amount of the investment in and loan to Corinthia Tunisie Sarl was found to be impaired and therefore a total impairment loss of € 2.04 million had been recognised in the income statement of CPHCL at the end of 2009. € 19,000 was reversed in 2010, and a further € 53,000 in 2012 (nil in 2011).

In 2011, the company recognised an impairment on the investment in and loan to Amber Hotels s.r.o of € 268,000. This amount was reversed in 2012.

There has been no impairment in the carrying values of other investments.

**17 Inventories**

	The Group			CPHCL		
	2012 €000	2011 €000	2010 €000	2012 €000	2011 €000	2010 €000
Food and beverages	1,096	1,121	1,192	60	118	107
Consumables and other	5,818	5,915	5,892	181	204	171
Goods held for resale	55	121	91	-	-	-
Loose tools	8	7	7	-	-	-
Work-in-progress	321	175	259	-	-	-
	<b>7,298</b>	<b>7,339</b>	<b>7,441</b>	<b>241</b>	<b>322</b>	<b>278</b>

**18 Trade and other receivables**

	The Group			CPHCL		
	2012 €000	2011 €000	2010 €000	2012 €000	2011 €000	2010 €000
Trade receivables	26,365	30,147	22,558	1,485	1,822	2,003
Allowance for doubtful debts	(6,044)	(5,243)	(4,768)	(634)	(634)	(605)
	<b>20,321</b>	<b>24,904</b>	<b>17,790</b>	<b>851</b>	<b>1,188</b>	<b>1,398</b>
Amounts due from subsidiaries	-	-	-	8,430	9,567	7,851
Amounts due from associates	20,795	18,887	14,548	661	1,079	1,062
Amounts due from shareholders	-	902	613	-	-	-
Other receivables	9,285	9,924	4,153	2,007	7,153	927
Prepaid expenses and accrued income	6,479	4,415	5,172	2,398	901	696
<b>Total receivables – current</b>	<b>56,880</b>	<b>59,032</b>	<b>42,276</b>	<b>14,347</b>	<b>19,888</b>	<b>11,934</b>

The carrying values of short-term loans and receivables are considered a reasonable approximation of fair value.

The group has a credit policy in place under which new customers are analysed individually for creditworthiness before the group's standard payment and delivery terms and conditions are offered. The group's review includes external ratings where available, and in some cases bank references. Customers that fail to reach the group's benchmark creditworthiness may only transact with the group on a cash basis.

In determining the recoverability of trade receivables the group considers any change in the credit quality of each trade receivable from the date credit was initially granted up to the reporting date.

Included in trade receivables are debtors which are past due at the reporting date for which the group has not provided for as there has not been significant change in credit quality and the amounts are still considered recoverable. The age of trade receivables not impaired is as follows:

	The Group			CPHCL		
	2012 €000	2011 €000	2010 €000	2012 €000	2011 €000	2010 €000
Not more than 3 months	3,058	7,685	6,584	267	380	426
3 to 6 months	5,604	3,789	7,352	145	204	334
6 months to 1 year	4,253	5,363	2,731	278	386	478
More than one year	7,406	8,067	1,123	161	218	160
	<b>20,321</b>	<b>24,904</b>	<b>17,790</b>	<b>851</b>	<b>1,188</b>	<b>1,398</b>

In addition certain trade receivables were found to be impaired and a provision has been recorded accordingly. The movement in the allowance for doubtful debts is as follows:

	The Group			CPHCL		
	2012 €000	2011 €000	2010 €000	2012 €000	2011 €000	2010 €000
Balance at 1 January	5,243	4,768	3,930	634	605	469
Impairment losses recognised	801	908	1,007	-	29	136
Impairment losses reversed	-	(433)	(169)	-	-	-
Balance at 31 December	<b>6,044</b>	<b>5,243</b>	<b>4,768</b>	<b>634</b>	<b>634</b>	<b>605</b>

## 19 Cash and cash equivalents

Cash and cash equivalents include the following components:

### The Group

	2012 €000	2011 €000	2010 €000
(a) Cash and bank balances:			
- current	<b>21,649</b>	48,425	27,520
<b>Cash and cash equivalents in the balance sheet</b>	<b>21,649</b>	48,425	27,520
Bank overdraft	<b>(8,676)</b>	(7,588)	(9,653)
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>12,973</b>	40,837	17,867

### CPHCL

	2012 €000	2011 €000	2010 €000
(a) Cash and bank balances:			
Current	<b>117</b>	234	783
<b>Cash and cash equivalents in the balance sheet</b>	<b>117</b>	234	783
Bank overdraft	<b>(3,486)</b>	(5,027)	(6,977)
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>(3,369)</b>	(4,793)	(6,194)

The group bank balances include amounts of € 3.4 million (2011 - € 3.4 million) set aside by two subsidiary companies for debt servicing requirements and € 0.9 million (2011 - € 1.4 million) set aside by another subsidiary for capital expenditure purposes.

In 2011 an amount of € 4.7 million was set aside from group bank balances for the purposes of a development fund in accordance with the provisions of the subscription for shares agreement in a group company. In 2012 the group acquired the non-controlling interest and the conditions set out in the subscription agreement no longer apply.

#### (b) Cash held by trustee

The group companies, Corinthia Finance p.l.c. and International Hotel Investments p.l.c. are required to set aside amounts every year into sinking funds for the redemption of bonds. At 31 December 2012 the total funds set aside amounted to € 2.6 million (2011 - € 83 thousand). Since 2011 these funds are held by a trustee and are not included in cash and cash equivalents.

**20 Assets held for sale**

Following the directors' intention to sell Corinthia Palace Hotel assets to a third party these assets are presented as held for sale. The investment in Tektur Turizm a.s. was sold to a third party in 2011, while the sale of investment in Marina San Gorg Limited to IHI p.l.c. was completed in 2012

	The Group			CPHCL		
	2012 €000	2011 €000	2010 €000	2012 €000	2011 €000	2010 €000
<b>Corinthia Palace Hotel</b>						
Property, plant and equipment	<b>9,324</b>	9,187	-	<b>9,848</b>	9,711	9,373
<b>Amber Hotels s.r.o.</b>						
Investment property	<b>80</b>	77	-	-	-	-
<b>Marina San Gorg Limited</b>						
Investment in subsidiary shares	-	-	-	-	6,988	6,988
Loans receivable	-	-	-	-	9,574	9,574
Impairment losses recognised	-	-	-	-	16,562	16,562
	-	-	-	-	(9,368)	(9,368)
	-	-	-	-	7,194	7,194
<b>Tektur Turizm a.s.</b>						
Investment in associate shares	-	-	3,395	-	-	3,542
Loan receivable	-	-	2,537	-	-	2,538
	-	-	5,932	-	-	6,080
<b>Total assets held for sale</b>	<b>9,404</b>	9,264	5,932	<b>9,848</b>	16,905	22,647

**21 Called-up issued share capital**

The share capital of Corinthia Palace Hotel Company Limited consists of 20 million ordinary shares with a par value of € 1 each. The shares are all equally eligible to receive dividends and the repayment of capital, and represent one vote at the shareholders' meeting of Corinthia Palace Hotel Company Limited.

	2012 €000	2011 €000	2010 €000
<b>Shares issued and fully paid at 31 December</b>			
Ordinary shares	<b>20,000</b>	20,000	20,000
<b>Shares authorised at 31 December</b>			
Ordinary shares	<b>20,000</b>	20,000	20,000



**22 Other reserves**

The balance on other reserves, which is not available for distribution, represents profits not realised at balance sheet date including those arising from foreign exchange translations and revaluations of property, net of tax.

	Translation difference	Revaluation reserve	Other equity components	Total
	€000	€000	€000	€000
At 1 January 2010	62,161	116,072	9,754	187,987
Reclassifications to retained earnings	(569)	-	-	(569)
Net revaluation/(impairment) of properties	-	16,505	-	16,505
Exchange difference arising from translating foreign operations:				
- on net assets, excluding deferred tax	936	-	-	936
- on deferred tax	(600)	-	-	(600)
Current year losses	-	-	(1,197)	(1,197)
At 31 December 2010	61,928	132,577	8,557	203,062
At 1 January 2011	61,928	132,577	8,557	203,062
Reclassifications to retained earnings	(1,451)	-	-	(1,451)
Net revaluation/(impairment) of properties	-	(11,493)	-	(11,493)
Exchange difference arising from translating foreign operations:				
- on net assets, excluding deferred tax	2,038	-	-	2,038
- on deferred tax	31	-	-	31
Current year gains	-	-	760	760
At 31 December 2011	62,546	121,084	9,317	192,947
At 1 January 2012	62,546	121,084	9,317	192,947
Reclassifications to retained earnings	(10,150)	-	-	(10,150)
Transfer to non-controlling interest on transfer of Marina San Gorg Limited	-	(3,019)	-	(3,019)
Net revaluation/(impairment) of properties	-	2,595	-	2,595
Exchange difference arising from translating foreign operations:				
- on net assets, excluding deferred tax	197	-	-	197
- on deferred tax	344	-	-	344
Current year gains	-	-	638	638
At 31 December 2012	52,937	120,660	9,955	183,552

**23 Bank borrowings**

	The Group			CPHCL		
	2012	2011	2010	2012	2011	2010
	€000	€000	€000	€000	€000	€000
Bank overdraft	8,676	7,588	9,653	3,486	5,027	6,977
Bank loans	292,414	288,305	250,908	18,158	9,437	13,955
<b>Total borrowings</b>	<b>301,090</b>	<b>295,893</b>	<b>260,561</b>	<b>21,644</b>	<b>14,464</b>	<b>20,932</b>
<b>Comprising:</b>						
<b>Long term borrowings</b>						
- due within 2 - 5 years	126,888	112,055	95,152	14,679	6,159	9,437
- due later than 5 years	137,182	146,226	128,816	-	-	-
	264,070	258,281	223,968	14,679	6,159	9,437
<b>Borrowings due within 12 months</b>						
- bank overdraft	8,676	7,588	9,653	3,486	5,027	6,977
- bank loans	28,344	30,024	26,940	3,479	3,278	4,518
	37,020	37,612	36,593	6,965	8,305	11,495

a) Bank borrowings have the following terms:

Group company	Total amount of bank				Repayable		
	borrowings			Interest rate	Within 1 year €000	between 2-5 years €000	After 5 years €000
	2012 €000	2011 €000	2010 €000				
Alfa Investimentos Turisticos Lda	<b>37,007</b>	38,303	39,469	1.25% over 3 month Euribor	3,453	9,871	23,683
CHI Limited	<b>1,520</b>	-	-	2.5% over bank base rate	1,520	-	-
Corinthia Construction (Overseas) Limited	<b>1,512</b>	381	677	5.1% per annum	13	1,499	-
Corinthia Panorama s.r.o.	<b>19,764</b>	20,519	21,249	1.45% over 3 month Euribor	780	3,400	15,584
Corinthia Towers Tripoli Limited	<b>51,500</b>	52,000	48,250	1.5% over 3 month Libor/2-2.25% over 3 month Euribor	9,500	28,667	13,333
Danish Bakery Limited	<b>408</b>	586	856	2.5 % over bank base rate	189	219	-
Five Star Hotels Limited	<b>4,854</b>	4,443	5,497	2.5% over bank base rate	2,678	2,176	-
IHI Benelux Bv	<b>49,095</b>	49,995	-	4.6% over 3 month Euribor	2,700	23,040	23,355
IHI Hungary Rt	<b>33,396</b>	35,283	37,047	3.0% over 3 month Euribor (composite rate)	2,013	12,273	19,110
IHI Towers s.r.o.	<b>40,126</b>	42,162	44,131	1.45% over 3 month Euribor	2,107	9,175	28,844
International Hotel Investments p.l.c.	<b>13,300</b>	9,900	12,333	2.5% over bank base rate/1.5% over 6 month euribor	2,100	9,700	1,500
Marina San Gorg Limited	<b>1,483</b>	1,378	2,044	2.5 % over bank base rate	646	837	-
S.P.H. Khamsa s.a.	<b>7,976</b>	9,127	10,000	1.5% over 3 month Euribor	1,336	6,640	-
Swan Laundry and Drycleaning Co. Ltd	<b>504</b>	542	218	2.5 % over bank base rate	229	275	-
QPM Limited	<b>800</b>	-	-	5.1% per annum	-	800	-
Thermal Hotel Aquincum Rt	<b>16,201</b>	16,810	17,858	2% over 3 month Euribor	791	3,637	11,773
	<b>279,446</b>	281,429	239,629		30,055	112,209	137,182
CPHCL (see below)	<b>21,644</b>	14,464	20,932		6,965	14,679	-
	<b>301,090</b>	295,893	260,561		37,020	126,888	137,182

The carrying amount of bank borrowing is considered a reasonable approximation of fair value.

- b) Bank loans and overdrafts amounting to € 21.6 million (2011 - € 14.4 million, 2010 - € 20.9 million) pertaining to CPHCL are secured by general and special hypothecs over its tangible fixed assets and by guarantees given by other group companies.

The repayment terms of these borrowings are set out below:

	Total amount of bank borrowings				Repayable		
	2012	2011	2010	Interest rate	Within 1 year	Between 2-5 years	After 5 Years
	€000	€000	€000		€000	€000	€000
Bank loans	<b>18,158</b>	9,437	13,955	1.5 – 2.5% over bank base rate	3,479	14,679	-
Bank overdraft	<b>3,486</b>	5,027	6,977	1.5% over euro base rate/2.75% over bank base rate	3,486	-	-
	<b>21,644</b>	14,464	20,932		6,965	14,679	-

## 24 Bonds

### The Group

	Interest rate %	Repayable by	2012 €000	2011 €000	2010 €000
Redeemable bonds -					
Bond 3	6.75	8 April 2012	-	14,645	14,645
Bond 4	6.30	15 February 2013	<b>4,054</b>	13,966	13,924
Bond 5	6.20	15 February 2013	<b>1,690</b>	8,070	8,079
Bond 6	6.50	27 March 2014	<b>12,475</b>	12,456	12,438
Bond 7	6.25	10 July 2019	<b>34,600</b>	34,527	34,459
Bond 8	6.25	23 September 2019	<b>40,000</b>	40,000	40,000
Bond 9	6.25	8 April 2020	<b>24,711</b>	24,667	24,626
Bond 10	5.80	21 December 2021	<b>19,557</b>	-	-
Bond 11	6.00	29 March 2022	<b>7,500</b>	-	-
			<b>144,587</b>	148,331	148,171
Current			<b>5,744</b>	14,645	-
Non-current			<b>138,843</b>	133,686	148,171
			<b>144,587</b>	148,331	148,171

- a) The bonds constitute the general direct unconditional, unsecured and unsubordinated obligations of the issuing companies and will rank pari passu, without any priority or preference, with all other present and future unsecured and unsubordinated obligations of the issuing companies
- b) In the case of bonds 6, 7, 8, 9 and 11 the respective company has the right to redeem the bond or any part thereof at any time prior to the stated maturity date during the redemption option period.

- c) In the case of bonds 7, 8, 9, 10 and 11, the prospectuses provide for the setting up sinking funds for the repayment of bonds on maturity. During the year the group deposited the required instalments of € 2.6 million in an account administered by a trustee (refer to note 19(b)).

The carrying amount of bonds is considered a reasonable approximation of fair value.

## 25 Other borrowings

	The Group			CPHCL		
	2012 €000	2011 €000	2010 €000	2012 €000	2011 €000	2010 €000
Shareholders' loans	<b>16,571</b>	16,823	17,087	<b>16,571</b>	16,823	17,087
Loans due to subsidiaries	-	-	-	<b>116,759</b>	135,091	123,234
	<b>16,571</b>	16,823	17,087	<b>133,330</b>	151,914	140,321
Current	-	-	-	<b>400</b>	26,487	2,028
Non-current	<b>16,571</b>	16,823	17,087	<b>132,930</b>	125,427	138,293
	<b>16,571</b>	16,823	17,087	<b>133,330</b>	151,914	140,321

### Terms of related party loans

The Group €000	Interest rate	Repayment
<u>16,571</u>	6.00%	No fixed date
CPHCL €000	Interest rate	Repayment
39,600	6.40%	7 September 2019
16,571	6.00%	No fixed date
16,383	2.25% over 3 month Euribor	After April 2010
312	6.25%	No fixed date
7,500	6.20%	15 March 2022
13,116	1.5% over 3 month Euribor	No fixed date
8,593	9.00%	No fixed date
31,255	1.25% over Euribor	No fixed date
<u>133,330</u>		

The carrying amount of other borrowings is considered a reasonable approximation of fair value.

**26 Deferred taxation**

**The Group**

	2012	2011	2010
	€000	€000	€000
Tax effect of temporary differences relating to:			
Excess of tax base over carrying amount of tangible and intangible fixed assets	29,819	31,241	28,382
Provision for doubtful debts	(459)	(459)	(378)
Unrelieved tax losses and unabsorbed capital allowances	(19,895)	(21,932)	(17,081)
Investment in associate	14,714	9,393	9,603
Revaluation of land, buildings and investment property	74,766	83,565	85,629
Provision for exchange differences	479	(999)	(672)
Other	772	198	1,394
	<b>100,196</b>	<b>101,007</b>	<b>106,877</b>
Disclosed as:			
Deferred tax liability	102,762	103,313	109,195
Deferred tax asset	(2,566)	(2,306)	(2,318)
	<b>100,196</b>	<b>101,007</b>	<b>106,877</b>
Unrecognised deferred tax asset:			
Unrelieved tax losses	18,900	15,943	14,523

Deferred tax benefits arising from unrelieved tax losses have not been recognised in these financial statements since it cannot be determined with reasonable certainty whether the respective group companies will generate sufficient profits in the foreseeable future to utilise such losses.

The expiry date of tax losses is as follows:

	2012	2011	2010
	€000	€000	€000
2011	-	-	5,668
2012	-	3,152	3,152
2013	2,520	2,520	2,520
2014	3,085	3,085	3,085
2015	3,375	3,375	3,375
2016	2,704	2,704	2,704
2017	1,703	1,703	-
2018	2,745	-	-
	<b>16,132</b>	<b>16,539</b>	<b>20,504</b>

**CPHCL**

	2012	2011	2010
	€000	€000	€000
Tax effect of temporary differences relating to:			
Unrelieved tax losses and unabsorbed capital allowances	(2,172)	(2,172)	(2,172)
Disclosed as:			
Deferred tax asset	(2,172)	(2,172)	(2,172)
Unrecognised deferred tax asset:			
Unrelieved tax losses	14,625	11,560	9,089

**CPHCL**

**27 Tax indemnity**

	CPHCL		
	2012	2011	2010
	€000	€000	€000
Tax indemnity – IHI p.l.c.	<b>23,448</b>	22,432	22,831

At the date of the transfer of CPHCL’s shares in subsidiaries to another subsidiary IHI plc, CPHCL owned and controlled more than 50% of the subsidiaries concerned. Therefore, by virtue of Maltese tax intra-group relief provisions at the time, no gain chargeable to tax arose on the transfer of such shares.

However, in the event that IHI subsequently sells the shares in these subsidiaries, IHI may suffer tax by reference to CPHCL’s cost of acquisition of the shares and property instead of on the basis of the amount effectively paid by IHI.

An indemnity agreement was drawn up whereby CPHCL agreed to indemnify IHI for any additional tax it might suffer as a consequence of the fact that this tax would be computed by CPHCL’s lower cost of acquisition.

The indemnity has no time limit and is for a maximum value of € 45 million.

On the sale of its shares in Marina San Gorg Limited (“MSG”), CPHCL provided a tax indemnity to IHI. The sales contract was exempt from taxation on the basis that share capital of MSG was transferred rather than the hotel property. Should IHI dispose of the hotel property, it may become liable to tax that it would not have become liable to pay had CPHCL transferred the hotel property as opposed to the transfer of the issued share capital. The indemnity agreement provides that in this event, CPHCL will indemnify against any tax which IHI may incur or sustain up to a maximum of € 4.77 million. An amount of € 1.47 million has been recognised in the current year.

The indemnity shall automatically expire on 13 February 2019.

**28 Derivative financial instruments**

	The Group			CPHCL		
	2012	2011	2010	2012	2011	2010
	€000	€000	€000	€000	€000	€000
Liability – non current	<b>4,884</b>	6,404	6,863	-	-	-
Notional amounts maturing in:						
2013	14,030	14,030	14,030	-	-	-
2014	67,989	67,989	67,989	-	-	-

The interest rate swap agreements are subject to the following terms:

2013 -

Receive interest at the rate of 3 month Euribor  
 Pay fixed interest at the rate of 4.89% to 5.2% per annum

2014 -

Receive variable interest at the rate of 3 month Euribor  
 Pay fixed interest at the rate of 4.15 % per annum

## 29 Provision for charges

	The Group €000
Balance at 1 January 2010	272
Movement	(66)
<b>Balance at 31 December 2010, 2011 and 2012</b>	<b>206</b>

## 30 Trade and other payables

	The Group			CPHCL		
	2012 €000	2011 €000	2010 €000	2012 €000	2011 €000	2010 €000
Trade payables	14,917	12,631	12,759	1,088	1,164	1,193
Amounts due to subsidiaries	-	-	-	5,790	8,276	4,328
Amounts due to associates	4,039	553	1,348	186	23	16
Other payables	1,675	3,838	4,594	524	431	653
Accrued expenses	20,019	19,778	15,578	3,013	965	1,095
<b>Financial liabilities</b>	<b>40,650</b>	<b>36,800</b>	<b>34,279</b>	<b>10,601</b>	<b>10,859</b>	<b>7,285</b>
Advance deposits	4,835	4,783	4,871	-	2	125
Statutory liabilities	2,308	1,650	769	606	422	168
<b>Total payables – current</b>	<b>47,793</b>	<b>43,233</b>	<b>39,919</b>	<b>11,207</b>	<b>11,283</b>	<b>7,578</b>

The carrying amount of short-term financial liabilities is considered a reasonable approximation of fair value.

**31 Statement of cash flows**

The following non-cash flow adjustments have been made to the pre-tax result for the year to arrive at operating cash flow:

	The Group		CPHCL	
	2012	2011	2012	2011
	€000	€000	€000	€000
<b>Adjustments:</b>				
Amortisation of intangible assets	675	623	-	-
Depreciation	28,339	29,072	131	165
Loss (gain) on disposal of property, plant and equipment	187	80	(1)	-
Gain on sale of assets held for sale	-	-	(1,956)	-
Impairment reversal on property, plant and equipment	6,402	-	-	-
Reversal of impairment on assets held for sale	-	-	(9,368)	-
Impairment loss on investments	16	6	436	269
Fair value adjustment on investment properties	(4,154)	(5,383)	-	-
Share of results of associate companies	(29,382)	289	-	-
Gain on sale of associates	-	(7,060)	-	(1,064)
(Gain) loss on liquidation of associates/subsidiaries	-	(83)	-	295
Movement in tax indemnity	-	-	(454)	(399)
Provision for exchange differences	499	(675)	(99)	(294)
Provision for doubtful debts	801	475	-	29
Interest receivable	(2,050)	(843)	(1,304)	(655)
Interest payable	23,454	22,376	-	8,619
Dividends received	-	(1,306)	(1,607)	(325)
	<b>24,787</b>	<b>37,571</b>	<b>(14,222)</b>	<b>6,640</b>
<b>Changes in working capital:</b>				
Change in inventories	41	102	81	(44)
Change in investments	-	(28)	-	(12)
Change in trade and other receivables	5,586	(12,066)	(437)	364
Amounts owed by related companies	(1,006)	(4,628)	7,012	(8,333)
Change in trade and other payables	951	4,328	4,362	(126)
Amounts owed to related parties	3,486	(795)	(28,264)	3,907
	<b>9,058</b>	<b>(13,087)</b>	<b>(17,246)</b>	<b>(4,244)</b>



## 32 Commitments

### The Group

	2012 €000	2011 €000	2010 €000
Capital expenditure commitments:			
<i>Tangible fixed assets</i>			
Authorised but not yet contracted for	16,950	17,610	46,150
Contracted for but not provided for in financial statements	7,860	4,748	1,500
<i>Financial assets</i>			
Authorised but not yet contracted for			
Investment in associates	11,400	20,700	1,855
Investment in subsidiary	-	-	360
	11,400	20,700	2,215
Contracted for but not provided for in financial statements			
Investment in associate	125	200	55
Commitments under operating leases:			
On land and buildings			
- expiring within one year	137	135	135
- expiring between two and five years	565	568	568
- expiring after more than five years	15,731	14,672	14,805
	16,433	15,375	15,508

Commitments under operating leases are payable in respect of non-cancellable operating lease rentals relating to leasehold land and buildings. These land and buildings are held under title of temporary emphyteusis for a term of ninety-nine years reckoned from 1 September 1992.

### CPHCL

	2012 €000	2011 €000	2010 €000
Capital expenditure commitments:			
<i>Tangible fixed assets</i>			
Authorised but not yet contracted for	-	-	250
Contracted for but not provided for in financial statements	50	100	500
<i>Financial assets</i>			
Investment in associate	125	200	55
Investment in subsidiary	-	555	360
	125	755	415

### 33 Contingent liabilities

#### The Group

	2012	2011	2010
	€000	€000	€000
Guarantees given to secure bank facilities for related companies	24,525	26,955	55,930
Amounts in dispute	812	-	-
	<b>25,337</b>	<b>26,955</b>	<b>55,930</b>

#### CPHCL

	2012	2011	2010
	€000	€000	€000
Guarantees given to secure bonds	47,100	54,645	54,645
Guarantees given to secure bank facilities for related companies	80,103	85,841	87,116
	<b>127,203</b>	<b>140,486</b>	<b>141,761</b>

### 34 Related party transactions

Except as stated in note 27, none of the other transactions incorporates special terms and conditions and no guarantee was given or received. Transactions with related companies are generally effected on a cost plus basis. Outstanding balances are usually settled in cash. Amounts owed by/to related parties are shown separately in notes 16, 18, 25 and 30.

### 35 Transactions with subsidiaries

#### CPHCL

	2012	2011	2010
	€000	€000	€000
Purchases and expenses	315	703	712
Interest charged to subsidiaries	811	568	151
Interest charged by subsidiaries	5,366	6,081	5,668
Management and royalty fees charged to related companies	622	742	1,800
Purchase of investment in subsidiary	3,382	-	-
Sale of brand to subsidiary	-	-	19,600
Sale of investment in subsidiary	10,414	-	-

**36 Transactions with associates**

	The Group			CPHCL		
	2012	2011	2010	2012	2011	2010
	€000	€000	€000	€000	€000	€000
Interest charged to associates	253	319	137	253	21	137
Management fee charged to associates	2,749	2,700	1,408	220	140	221

**37 Transactions with other related parties**

	The Group			CPHCL		
	2012	2011	2010	2012	2011	2010
	€000	€000	€000	€000	€000	€000
Management fees	-	154	181	-	-	-
Interest charged to other related parties	883	-	-	53	64	48
Interest payable on shareholders' loan	997	1,011	680	997	1,011	680
Interest payable on other related party loans	27	-	-	-	-	-

**38 Transactions with key management personnel**

In addition to the remuneration paid to the directors included in note 7, in the course of its operations the group has a number of arrangements in place with its officers, executives and other related parties whereby concessions are made available for hospitality services rendered to them according to accepted industry norms.

**39 Risk management objectives and policies**

The group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities. The group's risk management is coordinated by the directors and focuses on actively securing the company's short to medium term cash flows by minimising the exposure to financial markets. Long term financial investments are managed to generate lasting returns.

The group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the group is exposed to are described below. See also note 39.5 for a summary of the group's financial assets and liabilities by category.

**39.1 Credit risk**

The group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

**The Group**

	Notes	2012 €000	2011 €000	2010 €000
Classes of financial assets – carrying amounts				
Assets held for sale	20	-	-	5,932
Long term receivables	16	<b>48,671</b>	36,625	7,091
Cash at bank	19	-	-	9,793
Cash held by trustee	19	<b>2,626</b>	83	-
Trade and other receivables	18	<b>46,401</b>	53,960	36,554
Cash and cash equivalents	19	<b>21,649</b>	48,425	27,520
		<b>119,347</b>	139,093	86,890

**CPHCL**

	Notes	2012 €000	2011 €000	2010 €000
Classes of financial assets – carrying amounts				
Assets held for sale	20	-	7,194	13,274
Long term receivables	16	<b>25,550</b>	27,254	26,651
Cash at bank	19	<b>3</b>	3	4,393
Trade and other receivables	18	<b>11,949</b>	18,987	11,221
Cash and cash equivalents	19	<b>117</b>	234	783
		<b>37,619</b>	53,672	56,322

The group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The group's policy is to deal only with creditworthy counterparties.

Management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. See note 5.18 for further information on impairment of financial assets that are past due.

None of the group's financial assets is secured by collateral or other credit enhancements.

In respect of trade and other receivables, the group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

The group and company have issued guarantees as stated in note 33 which is the maximum exposure to credit risk if the group and company are called upon to pay such guarantees.

**39.2 Liquidity risk**

The group's exposure to liquidity risk arises from its obligations to meet its financial liabilities, which comprise borrowings and trade and other payables (see notes 23, 24, 25 and 30). Prudent liquidity risk management includes maintaining sufficient cash and committed credit facilities to ensure the availability of an adequate amount of funding to meet the group's obligations when they become due.

The group manages its liquidity needs through yearly cash flow forecasts by carefully monitoring expected cash inflows and outflows on a monthly basis. The group's liquidity risk is not deemed to be significant in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments, as well as the group's committed borrowing facilities that it can access to meet liquidity needs.

At 31 December 2012 the group and company have financial liabilities with contractual maturities which are summarised below:

**The Group**

	Current Within 1 year €000	Non-current	
		2 to 5 years €000	After 5 years €000
Long-term financial liabilities	61,599	218,228	289,279
Derivative financial instruments	-	4,884	-
Bank overdraft	8,676	-	-
Trade and other payables	40,650	20,596	1,084
	<u>110,925</u>	<u>243,708</u>	<u>290,363</u>

This compares to the maturing of the group's financial liabilities in the previous reporting periods as follows:

**At 31 December 2011**

	Current Within 1 year €000	Non-current	
		2 to 5 years €000	After 5 years €000
Long-term financial liabilities	66,610	212,207	285,489
Derivative financial instrument	678	6,835	-
Bank overdraft	7,588	-	-
Trade and other payables	36,800	21,080	915
	<u>111,676</u>	<u>240,122</u>	<u>286,404</u>

**At 31 December 2010**

	Current Within 1 year €000	Non-current	
		2 to 5 years €000	After 5 years €000
Long-term financial liabilities	46,543	207,324	278,147
Derivative financial instrument	740	6,592	-
Bank overdraft	9,653	-	-
Trade and other payables	34,279	20,596	1,536
	<u>91,215</u>	<u>234,512</u>	<u>279,683</u>

**CPHCL**

**At 31 December 2012**

	Current Within 1 year €000	Non-current	
		2 to 5 years €000	After 5 years €000
Long-term financial liabilities	3,479	37,291	93,746
Bank overdraft	3,486	-	-
Trade and other payables	11,001	16,571	165
	<u>17,966</u>	<u>53,862</u>	<u>93,911</u>

This compares to the maturing of the company's financial liabilities in the previous reporting periods as follows:

**At 31 December 2011**

	Current Within 1 year €000	Non-current	
		2 to 5 years €000	After 5 years €000
Long-term financial liabilities	30,106	8,533	106,504
Bank overdraft	5,027	-	-
Trade and other payables	10,859	16,823	1,528
	<u>45,992</u>	<u>25,356</u>	<u>108,032</u>

**At 31 December 2010**

	Current Within 1 year €000	Non-current	
		2 to 5 years €000	After 5 years €000
Long-term financial liabilities	7,049	25,283	106,011
Bank overdraft	6,977	-	-
Trade and other payables	7,285	17,087	1,536
	<u>21,311</u>	<u>42,370</u>	<u>107,547</u>

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting date.

In addition the group maintains a credit facility of a € 1.5 million secured overdraft available to IHI Hungary Zrt. Interest would be payable at the variable, overnight euribor plus 2% interest margin per annum.

**39.3 Foreign currency risk**

Apart from Portugal and Malta, where the local currency is the euro, the group operates in a number of countries where the local currency is different from the euro, namely the Russian Federation (Russian rouble), Libya (Libyan dinar), Czech Republic (Czech crown), Hungary (Hungarian forint), Tunisia (Tunisian dinar) and the United Kingdom (Great Britain pound).

Whereas a substantial part of the group's revenues are based on and generated in euros, enough revenues denominated in the respective local currencies are generated to serve as a natural hedge against expenditure incurred in these currencies. On the other hand the revenues generated in euros cover all the expenditure incurred in euros, the euro denominated debt service requirements relating to the bank loans financing the group's hotel properties, and any excess cash flow is repatriated to the holding company.

In view of the above natural hedges and the group's presence in various countries with difference currencies, the currency risk is not considered material.

#### **39.4 Interest rate risk**

The group adopts a policy of ensuring adequate hedging against its exposure to charges in interest bearing borrowings by entering into financial arrangement subject to fixed rates of interest whenever possible.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +10% and -10% with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the group's financial instruments held at each balance sheet date. All other variables are held constant.

	The Group		CPHCL	
	€000	€000	€000	€000
<b>Interest payable</b>	+10%	-10%	+10%	-10%
31 December 2012	(2,328)	2,328	(714)	714
31 December 2011	(2,238)	2,238	(862)	862
31 December 2010	(2,202)	2,202	(845)	845
<b>Interest receivable</b>				
31 December 2012	160	(160)	130	(130)
31 December 2011	84	(84)	66	(66)
31 December 2010	72	(72)	47	(47)

#### **39.5 Summary of financial assets and liabilities by category**

The carrying amounts of the group's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows. See notes 5.19 for explanations about how the category of financial instruments affects their subsequent measurement.

**The Group**

	2012	2011	2010
	€000	€000	€000
<b>Non-current assets</b>			
Loans and receivables			
- Amounts due from related companies	48,671	36,625	7,091
- Cash at bank	-	-	9,793
- Cash held by trustee	2,626	83	-
	<u>51,297</u>	<u>36,708</u>	<u>16,884</u>
<b>Current assets</b>			
Assets held for sale	-	-	5,932
Loans and receivables			
- Amounts due from related companies	20,795	19,789	15,161
- Trade receivables	20,321	24,904	17,790
- Other receivables	9,285	9,267	3,603
- Cash and cash equivalents	21,649	48,425	27,520
	<u>72,050</u>	<u>102,385</u>	<u>70,006</u>
<b>Non-current liabilities</b>			
Financial liabilities measured at amortised cost			
- Bank and other borrowings	419,484	408,790	389,226
- Long term payables	5,108	5,072	5,045
- Derivative financial instruments	4,884	6,404	6,863
	<u>429,476</u>	<u>420,266</u>	<u>401,134</u>
<b>Current liabilities</b>			
Financial liabilities measured at amortised cost			
- Bank and other borrowings	42,764	52,257	36,593
- Amounts due to related companies	4,039	553	1,348
- Trade payables	14,917	12,631	12,759
- Other payables	1,675	3,838	4,594
- Accruals	20,019	19,778	15,578
	<u>83,414</u>	<u>89,057</u>	<u>70,872</u>



**CPHCL**

	2012	2011	2010
	€000	€000	€000
<b>Non-current assets</b>			
Loans and receivables			
- Amounts due from related companies	25,550	27,254	26,651
- Cash at bank	3	3	4,393
	<b>28,553</b>	<b>27,257</b>	<b>31,044</b>
<b>Assets held for sale</b>	<b>-</b>	<b>7,194</b>	<b>13,274</b>
<b>Current assets</b>			
Loans and receivables			
- Amounts due from related companies	9,091	10,646	8,913
- Trade receivables	851	1,188	1,398
- Other receivables	907	7,153	910
- Cash and cash equivalents	117	234	783
	<b>10,966</b>	<b>19,221</b>	<b>12,004</b>
<b>Non-current liabilities</b>			
Financial liabilities measured at amortised cost			
- Bank and other borrowings	147,609	131,586	147,730
- Long term payables	165	915	1,536
- Tax indemnity	23,448	22,432	22,831
	<b>171,222</b>	<b>154,933</b>	<b>172,097</b>
<b>Current liabilities</b>			
Financial liabilities measured at amortised cost			
- Bank and other borrowings	7,365	34,792	13,523
- Amounts due to related companies	5,976	8,299	4,344
- Trade payables	1,088	1,164	1,193
- Other payables	524	431	653
- Accruals	3,013	965	1,095
	<b>17,966</b>	<b>45,651</b>	<b>20,808</b>

**39.6 Financial instruments measured at fair value**

Financial assets and liabilities measured at fair value in the balance sheet are grouped into three levels of fair value hierarchy.

This grouping is determined based on the lowest level of significant input to the fair value measurement, as follows:

- Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: based on information other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: information for the asset or liability that is not based on observable market data (unobservable inputs).

The financial assets and liabilities measured at fair value in the balance sheet are grouped into the fair value hierarchy as follows:

	Level 2	
	2012 €000	2011 €000
<b>The Group</b>		
<b>Liabilities</b>		
Interest rate swaps	4,884	6,404
<b>Net fair value</b>	4,884	6,404

There have been no transfers between levels in the reporting period.

#### **Measurement of fair value**

The methods and valuations techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

#### **40 Ultimate controlling parties**

The parent company is ultimately controlled by the Libyan Foreign Investment Company, which owns 50% of the issued share capital, and members of the Pisani family, who collectively own the other 50% shareholding.

#### **41 Comparative figures**

Certain figures in the financial statements have been reclassified for the purpose of fairer presentation.

#### **42 Events after the balance sheet date**

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation.

#### **43 Authorisation of financial statements**

The group and company financial statements for the year ended 31 December 2012 (including comparatives) were approved and authorised for issue by the board of directors on 30 April 2013.

## **Independent auditor's report**

To the shareholders of

Corinthia Palace Hotel Company Limited

### **Report on the financial statements**

We have audited the accompanying financial statements of Corinthia Palace Hotel Company Limited and the consolidated financial statements of its group set out on pages 7 to 73, which comprise the balance sheets of the company and the group as at 31 December 2012 and their income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Directors' responsibility for the financial statements**

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

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

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

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

Opinion

In our opinion, the group's consolidated financial statements and the company's financial statements give a true and fair view of their financial position as at 31 December 2012, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and have been properly prepared in accordance with the requirements of the Companies Act, Cap 386.

**Report on other legal and regulatory requirements**

We also have responsibilities under the Companies Act, Cap 386 to report to you if, in our opinion:

- the information given in the directors' report is not consistent with the financial statements.
- the company has not kept proper accounting records.
- the company's financial statements are not in agreement with the accounting records.
- we have not received all the information and explanations we require for our audit.
- certain information required by the Act regarding directors' remuneration is not disclosed in the financial statements, in which case we are required to include the required particulars in a statement in our report.

We have nothing to report to you in respect of these responsibilities.



Mark Bugeja (Partner) for and on behalf of

**GRANT THORNTON**  
Certified Public Accountants

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30 April 2013