Annual Report 2011

Delivering on our promise

pphe HOTEL GROUP

Park Plaza Hotels & Resorts

artotel

ARENA TURIST

Contents

Forward-looking statements

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

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

PPHE Hotel Group at a glance

Understanding our business model

Welcome to PPHE Hotel Group.

Our primary activities are owning, leasing, developing, operating and franchising full service upscale and lifestyle hotels in major gateway cities and regional centres predominantly in Europe.

The majority of our hotels operate under two distinct brands, Park Plaza® Hotels & Resorts and art'otel®.

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

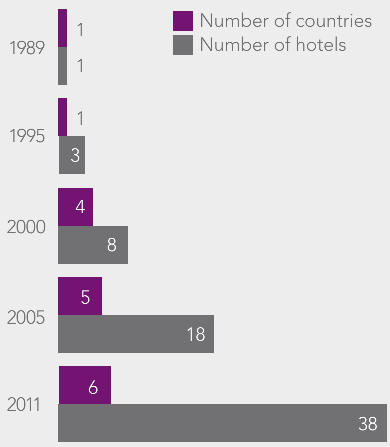
We have a minority ownership interest in the Arenaturist group, one of Croatia's leading hospitality companies.

Our portfolio of owned, leased, managed and franchised hotels comprises 38 hotels offering a total of 8,376 rooms.

Our development pipeline includes three new hotels and two mixed-use developments, which together are expected to add approximately a further 900 rooms to the portfolio by the end of 2014.

pphe.com

History of growth



Key strengths

- High quality portfolio with an attractive geographical spread
- Multi-brand approach
- Integrated approach of hotel and brand ownership and operation
- Powerful distribution and marketing network through the partnership with Carlson Rezidor Hotel Group
- Focus on expanding affordable luxury market segment

Our brands

Park Plaza Hotels & Resorts

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

parkplaza.com

art'otel

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

artotels.com

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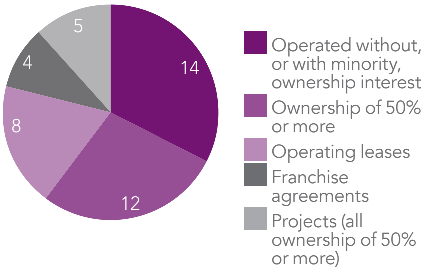
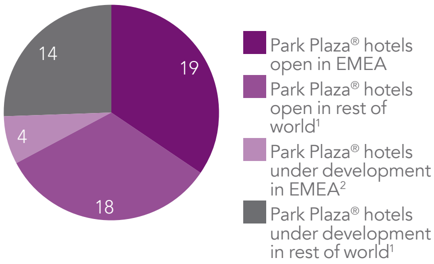
Arenaturist is one of Croatia's best known hospitality groups and consisting of eight hotels, five holiday apartment complexes, eight campsites and 52 food and beverage outlets, all of which are located in Istria. Arenaturist caters primarily for tourists and all properties are located in prime locations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

arenaturist.com

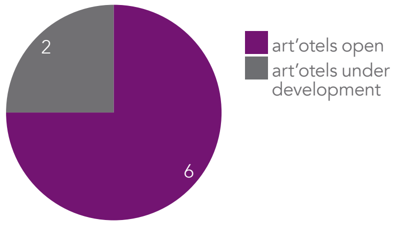
Hotel portfolio: contract mix



Park Plaza® Hotels & Resorts global brand portfolio



art'otel® portfolio



Our hotels

Ownership of 50% or more

We wholly own eight hotels and have a 50% or more interest in four hotels. Although this model is capital intensive, owning the underlying assets enables us to capitalise on increase in property value and to develop flagship hotels.

Ownership of less than 50%, or management only

We have a minority interest in, or a management agreement only for, 14 hotels. We are actively looking to expand such arrangements as it requires less capital and enables faster growth whilst retaining control over the assets.

Operating leases

Eight of our hotels are leased from third parties. This model eliminates the need for upfront capital investment and is largely the preferred structure of institutional investors.

Franchise

We have four franchised hotels, whereby third party operators have been granted a licence to use our brands and operate them according to the brand standards. We are actively exploring similar new arrangements to accelerate growth of the brands.

Development projects

We have a controlling interest in three of our current projects and a 50% interest in the other two developments.

Current portfolio

United Kingdom

Rooms in operation
2,893
Rooms pipeline
352
Owned hotels
Park Plaza Leeds
Park Plaza Nottingham
Park Plaza Riverbank London
Park Plaza Sherlock Holmes London
Park Plaza Victoria London
Plaza on the River – London
Park Plaza Westminster Bridge London
Managed hotels
Park Plaza County Hall London
Franchised hotels
Park Plaza Belfast
Park Plaza Cardiff

The Netherlands

Rooms in operation
1,010
Rooms pipeline
105
Owned hotels
Park Plaza Eindhoven
Park Plaza Vondelpark, Amsterdam
Co-owned hotels
Park Plaza Utrecht
Park Plaza Victoria Amsterdam
Park Plaza Amsterdam Airport

Israel

Rooms in operation
182
Franchised hotel
Park Plaza Orchid Tel Aviv

Hungary

Rooms in operation
165
Leased hotel
art'otel budapest

Germany

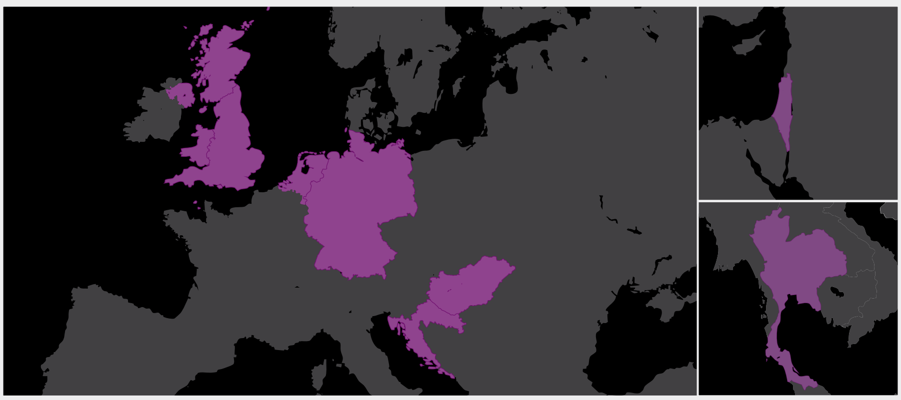
Rooms in operation
1,258
Rooms pipeline
175
Leased hotels
art'otel berlin city center west
art'otel berlin kudamm
art'otel berlin mitte
art'otel cologne
art'otel dresden
Park Plaza Prenzlauer Berg Berlin
Park Plaza Wallstreet Berlin
Franchised hotels
Park Plaza Trier

Croatia

Rooms in operation
2,868*
Co-owned hotels
Park Plaza Histria Pula[3]
Park Plaza Medulin[3]
Guest House Riviera
Hotel Belvedere
Hotel Brioni
Hotel Holiday
Hotel Palma
Hotel Park
Co-owned resorts
Park Plaza Verudela Pula[3]
Ai Pini Medulin Resort
Horizont Resort
Splendid Resort
Verudela Beach and Villas Resort

Development pipeline

art'otel amsterdam, The Netherlands
Park Plaza Nuremberg, Germany
art'otel london hoxton, United Kingdom
Mixed-use development in London, United Kingdom
Mixed-use development in Pattaya Bay, Thailand



* Room count excludes Arenaturist's campsites.

[1] These hotels are managed or franchised directly by Carlson Rezidor Hotel Group.

[2] Includes three hotels of the Arenaturist group which, following extensive renovations, will reopen as Park Plaza® hotels in May 2012.

[3] These hotels are currently undergoing extensive renovations and will reopen as Park Plaza® hotels in May 2012.

2011 highlights
A year of achievements

Total revenue
€202.4m
+44.7%

EBITDAR
€75.0m
+61.5%

EBITDA
€65.0m
+72.9%

Occupancy
77.7%
+0.3%

Average room rate
€119.2
+7.6%

RevPAR*
€92.6
+8.0%

* Revenue per available room.

EBITDA margin*
32.1%
+5.2%

* EBITDA divided by total revenue.

Profit before tax
€10.6m
€13.6m[1]

[1] Normalised profit.

Earnings per share
€0.37
€0.33[2]

[2] Normalised EPS.

2011 highlights:

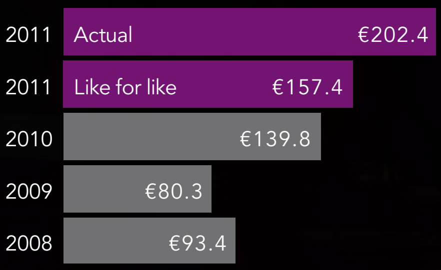
- Total Group revenue increased by 44.7% to €202.4 million (2010: €139.8 million)
- EBITDAR increased by 61.5% to €75.0 million (2010: €46.5 million)
- EBITDA increased by 72.9% to €65.0 million (2010: €37.6 million)
- Impressive first full year performance, and significant contribution from Park Plaza Westminster Bridge London
- Migration from AIM to the Official List of the UK Listing Authority (standard listing) and to trading on LSE's main market
- Long term refinancing of banking facility for Park Plaza Westminster Bridge London
- Development financing for the construction of art'otel amsterdam
- Acquisition of sites for mixed-use developments in London, United Kingdom and Pattaya Bay, Thailand
- Winner of the 2011 Business Travel 'Best Small or Independent Hotel Brand' award
- Completed extension of 61 rooms at art'otel berlin city center west
- Significant refurbishments at Park Plaza Victoria Amsterdam, Park Plaza Eindhoven and Park Plaza Leeds

2012 highlights to date:

- Company name changed to PPHE Hotel Group Limited
- Completed significant renovations at art'otel berlin city center west and art'otel budapest
- Residential sales at our Pattaya Bay project in Thailand commenced, with 85 of the 301 apartments contracted for sale
- The Board recommends to the Annual General Meeting to declare the payment of a final dividend of 6.0 pence per share for the year ended 31 December 2011

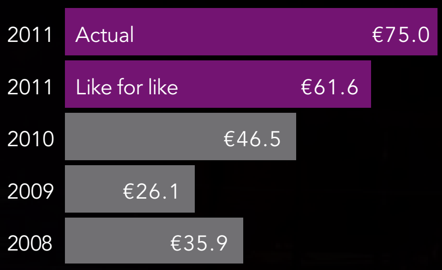
Financial KPIs

Total revenue (in € million)



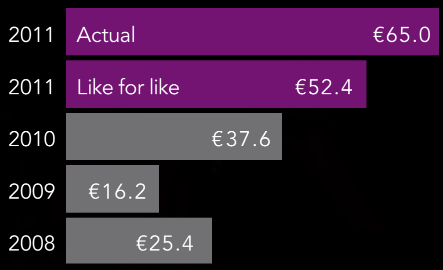
Our total revenue increased by 44.7% to a record €202.4 million as we benefited from a strong operating performance, and first full year contributions from our 2010 openings and acquisitions.

EBITDAR (in € million)



Our reported €75.0 million EBITDAR for the year represents a 61.5% increase year on year. Effectively we have more than doubled our EBITDAR since 2008.

EBITDA (in € million)



For the second consecutive year, we are proud to report a record EBITDA for the Group. At €65.0 million our EBITDA increased by 72.9% year on year.

Occupancy

Occupancy increased by 0.3% to 77.7%, which was in line with our strategy of focusing on growing average room rates, whilst retaining our level of occupancy.

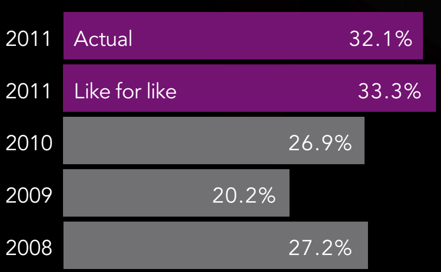
Average room rate

Our strategy of growing our average room rate has been successful in delivering revenue growth and at €119.2, this was even an improvement on our pre-financial crisis average room rates achieved.

RevPAR

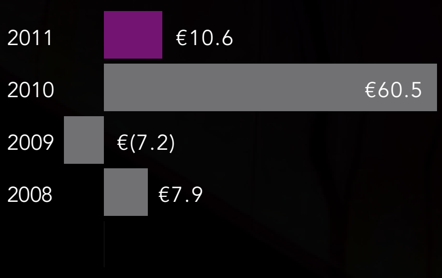
Our RevPAR increased by €6.9 year on year, due to a sustained occupancy and significant average room rate increase.

EBITDA margin



Due to continued revenue growth and efficient management of our cost base, our EBITDA margin (EBITDA divided by total revenue) increased to 32.1%, a 5.2% year on year increase.

Profit before tax (in € million)



Profit before tax decreased to €10.6 million (2010: €60.5 million). Normalised profit before tax increased to €13.6 million (2010: €6.1 million).

Earnings per share

Earnings per share decreased to €0.37 (2010: €1.52). Normalised earnings per share increased to €0.33 (2010: €0.16).

A continued strong performance with good achievements

Dear shareholders,

I am pleased to report that 2011 has been another year of progress for the Company. Our team delivered a record trading performance, generating unprecedented revenues and EBITDA. We are now seeing the full year benefits from our 2010 acquisitions, new hotel openings and several successfully completed hotel renovation projects.

Reflecting on 2011, the headlines were largely dominated by continued global economic unrest, turmoil in the Middle East and North Africa and one Euro crisis after another. We are proud to have delivered strong results in spite of these macroeconomic challenges.

Company highlights during the year include the migration of our listing from AIM to the standard listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities in June 2011. The objectives of this move were to raise our profile both domestically and internationally, improve liquidity in our shares and give rise to further funding opportunities in the future. Since our migration, our share price has increased by approximately 35%* and with this in mind we are considering to move from standard to premium listing. We have confidence in our business model and took the opportunity to acquire into treasury an additional 800,000 shares at 227.5 pence per share in October 2011.

We acquired a mixed-use development site in Thailand, contracted to acquire a mixed-use development site in the United Kingdom and refinanced banking facilities for Park Plaza Westminster Bridge London and art'otel amsterdam.

Our high standards of service remain at the heart of our business and we have continued to focus on, and deliver, a great guest experience. This can only be achieved by having an enthusiastic, committed and professional team and I am pleased to report that guest satisfaction was yet again at a very high level and employee satisfaction at an all time high this year.

During the year the Company's performance was recognised with a number of awards. In the first half of 2011, we were awarded the 'Best Small or Independent Hotel Brand' award by Business Travel which was followed by multiple other awards and recognition throughout the year for hotels, teams and individual employees. Such recognition is a testimony to our continued investment in service and training.

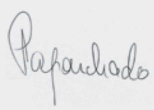
The Board is committed to applying high levels of corporate governance and has been particularly active over the last year. On the Board's recommendation, the Company has appointed an independent internal auditor who is mandated by the Audit Committee to audit group structure and procedures.

The Company changed its name from Park Plaza Hotels Limited to PPHE Hotel Group Limited on 29 February 2012. Since flotation of the Company in 2007, we have significantly expanded our hotel portfolio with new hotel acquisitions and hotel developments which have positioned the Company as an established growing hotel owner and operator. The Board believes that the name of the Company did not distinguish it clearly enough from the hotel brand names which the Group operates under a licence or ownership. Nor did the name fully reflect the Group's multi-brand approach for operating hotels. With several art'otels under development, the Group's interest in Arenaturist, and recent acquisitions in London and Pattaya Bay, Thailand, this name change will further position PPHE Hotel Group as a multi-brand operator, better placed for further portfolio expansion.

Whilst we have changed our name, our business principles and strategy remain the same. We will continue to focus on operating contemporary hotels in vibrant destinations, offering excellent service and value to our guests in order to deliver returns to our shareholders.

The Board is pleased to recommend to the Annual General Meeting the payment of a final dividend of 6.0 pence per share for the year ended 31 December 2011. The Board is very proud of its achievements during 2011 and wishes to thank all members of staff for delivering such a great set of results.

The Board also believes that the recent strengthening of the Group's senior management team, its strong partnership with Carlson Rezidor Hotel Group, excellent hotel portfolio and developments and the sports events and the Diamond Jubilee in London, position it well for the future.



Eli Papouchado
Chairman

* As at 31 December 2011.

Chief Executive Officer's statement

Welcome,

The industry in which we operate showed an initial recovery during 2010 which gained further momentum in 2011. However, this recovery generally applied to capital cities and other traditional high demand destinations, with provincial destinations trailing due to continuing low levels of demand paired with increased costs and new supply.

In such turbulent times, every business requires strong and focused management and I believe our teams have really delivered this year through the growth and development of our excellent network of hotels. Our vision is to realise growth potential and I am happy to report that we delivered on our strategy and promise. As set out in our 2010 Annual Report, we were committed to focusing on improving our overall performance, growing our average room rates, managing our expenses, progressing our development projects and adding new projects to our pipeline. To this end, the Group has broken some significant records in the year. Total revenue was up by 44.7% and EBITDA was up by 72.9%. There have been many other successes of which I am very proud. We earned some excellent industry recognition, maintained our very high levels of guest and employee satisfaction, recorded various operational successes and added several new exciting projects to our development pipeline.

Overall performance

A large proportion of our revenues are generated by our London hotels which performed well in 2011. This year was the first full year of operation for our largest hotel, Park Plaza Westminster Bridge London and we are delighted with its performance.

We saw the benefits from our first year as sole owner of Park Plaza Sherlock Holmes London, Park Plaza Victoria London, Park Plaza Riverbank London (including Plaza on the River), Park Plaza Leeds and Park Plaza Nottingham. As mentioned, although the London hotels performed well, the provinces are more challenging and they will take longer to recover from the economic downturn. We are, however, confident that with our recent and planned investments into our hotels in these destinations we can capitalise on our strong position in the market.

In The Netherlands, our recent refurbishments have helped improve the hotels' performance and in particular our hotels in Amsterdam reported strong growth.

Germany and Hungary have been the most challenging countries in which we have been operating for several years, although the positive trends experienced in 2010 continued this year, albeit at a slower growth rate. art'otel cologne, which opened in 2010, reported a strong growth year on year and art'otel budapest, arguably our worst affected hotel during the downturn, made a remarkable comeback. Despite the reported loss for this region, it contributed positively to the Group's cash flow.

Improved products and new developments

Extensive renovation works were undertaken and completed at Park Plaza Leeds in the United Kingdom and Park Plaza Victoria Amsterdam and Park Plaza Eindhoven in The Netherlands. These hotels have clearly benefited from these investments with average room rates and overall guest satisfaction increasing.

We completed a 61-room extension at the art'otel berlin city center west. In addition, this Andy Warhol and Christopher Makos dedicated hotel now offers new meeting rooms, leisure facilities and an inviting bar and lounge.

Preparations for the construction of art'otel amsterdam, which is set to open in 2013, are now well underway and this hotel will be our first art'otel® in ownership.

During the year, we announced a new mixed-use development project in Pattaya Bay, Thailand and we contracted to acquire a mixed-use development site in London. We commenced extensive renovations at three of the Arenaturist hotels in Croatia, which will be ready for the new season when they reopen in May 2012 as the first Park Plaza® Resorts worldwide.

Improving our financial position

Following 2009 and 2010 refinancing activities, in 2011 we successfully secured new banking facilities for Park Plaza Westminster Bridge London and the construction of art'otel amsterdam. The Group has sound financial arrangements, with no significant loans set to expire within the next few years, a comforting position in what still remains an uncertain financial environment.

We have broken some significant records in the year, including total revenue and EBITDA, but there have been many other successes of which I am very proud

Industry recognition
The year got off to an excellent start, with our hard work and dedication recognised in the form of the Business Travel Award for 'Best Small or Independent Hotel Brand'. Winning this award was not an easy feat considering that we were up against some strong competition. Winning this prestigious award was merely the start of many more to come during the year, including awards for hotels, hotel teams, restaurants and bars and individual members of staff.

Safeguarding our future
To ensure we continue to deliver on our strategy we have strengthened our senior management team during the year and have optimised our organisational structure. Following his successful tenure at Park Plaza Westminster Bridge London, Andrew Swindells was promoted to Chief Operating Officer and a Vice President Restaurants and Bars and a Vice President of Asset Management were appointed.

Global partnerships
We have continued to benefit from our unique partnership with the Carlson Rezidor Hotel Group. In particular, the launch of the new Club Carlson℠ guest rewards programme in the year was a success. With its substantial benefits for members, as well as the participating hotels, the membership base has grown significantly and currently has over eight million members worldwide. A new programme extension, Club Carlson℠ for Business, was launched in the second half of the year and this initiative focuses on attracting new business from small to medium enterprises.

In partnership with Carlson Rezidor Hotel Group, we continued to invest in developing a stronger online presence. This year we launched brand-wide social media channels, a mobile friendly website, the new Club Carlson℠ App and a range of online advertising and email marketing initiatives. These activities have helped us to generate more direct business and increase our share of brand website bookings.

In the year, Carlson Rezidor Hotel Group added six new Park Plaza® hotels in Thailand and India, including key markets such as Bangkok and New Delhi and has announced its intent to add a further 14 hotels under the Park Plaza® Hotels & Resorts umbrella by 2015. These new openings will lead to greater customer recognition and improved cross marketing and sales opportunities.

Guest experience
Making our guests feel welcome and consistently offering them a high standard of service and good overall experience are essential to our success. Our teams are passionate to achieve this and have delivered another outstanding performance through continued focus on delivering a quality service.

Guest and employee satisfaction remained strong; in fact employee satisfaction was at an all time high of 83.3, an increase of 2.8% year on year. This growth is underpinned by our strategy of investing in people.

The hotels collectively generated over 50,000 completed guest satisfaction surveys through our online system. These surveys are invaluable for us to not only improve satisfaction levels, but also to further improve our policies and procedures in general. We pride ourselves on listening to our guests and responding to their needs and the guest survey tool enables us to develop and maintain direct relationships with each and every guest. Our teams take this seriously and as a testimony to their success, 91% of these survey respondents indicated that they were satisfied or extremely satisfied with their stay. We see a clear trend of Club Carlson℠ members rating our performance better than non-members and showing a stronger intention to return to, and recommend, our hotels.

In the year we launched you:niverse, our bespoke and highly intuitive intranet and e-learning portal which has been developed to improve internal communications and foster a climate of best practice sharing. This portal will serve as our primary platform for e-learning modules which are currently being developed as part of our proprietary business school, you:niversity, which is set to be introduced in 2012.

Current trading
In comparison with previous years, our performance in January and February 2012 has not changed significantly. RevPAR for the first two months of the year is in line with the Board's expectations in all markets.

The first quarter is traditionally our weakest and with the continued uncertainty in the global economy we remain more focused than ever on driving top line growth and managing our costs. We are optimistic about the benefits the sports events in London will bring.

I want to take this opportunity to sincerely thank our Board and all members of staff for their hard work, passion and commitment. I am very pleased with the significant achievements for 2011 and believe that our focus on revenue generation, improved portfolio (including new hotels which are yet to mature), reinforced management structure, recent refinancing activities and the global partnership with Carlson put us in an advantageous position for delivering strong results in 2012 and beyond.

Boris Ivesha
President and Chief Executive Officer

Awards and accolades
Best Small or Independent Hotel Brand by Business Travel (Park Plaza Hotels)

Best Family Friendly Hotel HRS Excellence Awards (Park Plaza County Hall London)

AA Rosettes for the restaurants at Park Plaza County Hall London, Park Plaza Riverbank London (2nd Rosette)

Green Key Silver Award for Park Plaza Eindhoven and Park Plaza Utrecht

One of Top-30 Best Employers in Hospitality 2011 by Caterer & Hotelkeeper (Park Plaza Westminster Bridge London)

Hotel Restaurant Team of the Year Award Hotel Cateys (Chino Latino® at Park Plaza Riverbank London)

Front of House Manager of the Year Award Hotel Cateys (Joanne Alder, Park Plaza Victoria London)

Gold Award – Green Tourism (Park Plaza County Hall London)

Best Student Placement Provider 2011 Springboard Awards for Excellence (Park Plaza County Hall London)

Measuring our success

1
Improving our financial structure and performance

Performance

During the year we refinanced two banking facilities. No significant loans are due to expire in the next few years. Record EBITDA Margin. Improved Working Capital.

2
Improving our overall performance through innovative revenue generation and marketing

Performance

Strong RevPAR growth, balanced mix of market segments, channel shift strategy to generate more direct business, significant focus on online marketing.

3
Improving operational performance through better service quality

Performance

Continued high levels of guest satisfaction, record number of survey responses, highest level of employee satisfaction, launch of you:niverse intranet and e-learning portal.

4
Utilising our partnership with the Carlson Rezidor Hotel Group to promote our business and further grow revenues

Performance

Launch of Club Carlson℠ and its positive impact on our business such as record level of new member enrolments, award stays booked and growth of share of occupancy.

5
Driving revenue growth through expanding our asset portfolio

Performance

We benefited significantly from our 2010 acquisitions, completed extensive renovations at several hotels and added 63 rooms to existing hotels and two new projects to our development pipeline.

PPHE Hotel Group's primary objective is to become one of the leading hotel owner/operators in the upscale and lifestyle hotel segments in certain key European markets. We may also invest in selected projects outside Europe with upside potential.

The Group intends to use its established portfolio and network to grow the number of hotels and brands in its portfolio, increase profitability through revenue growth and cost management and utilise the Carlson Rezidor Hotel Group partnership as the driver to market the Group's business and further grow revenues.

Indicator

5.2%

EBITDA Margin increased by 5.2% year on year (EBITDA divided by total revenue).

2

Two banking facilities refinanced.

Looking forward

Continue to grow our EBITDA margin through further improving our financial structure, asset management and cost-effective management.

see page 8

Indicator

8.0%

8.0% RevPAR increase.

Deployed extensive marketing initiatives, launched mobile friendly website and Club Carlson℠ App, developed social media fan base.

Looking forward

Continue to focus on generating more direct business through our own channels, expand our online footprint, engage with our customers online, increase conversion and develop new strategic alliances.

see page 10

Indicator

91%

91% of guest survey respondents extremely satisfied or satisfied.

83.3

83.3 employee satisfaction score, up by 2.8%.

Looking forward

Further grow guest and employee satisfaction and loyalty through the continued monitoring of, and responding to, customer feedback, the delivery of tailored service culture and training programmes and the launch of the you:niversity business school.

see page 12

Indicator

8.0m

8.0 million Club Carlson℠ members worldwide.

+19%

19% increase in Club Carlson℠ members' share of occupancy.

55% increase in award stays.

Looking forward

Continue to embrace all marketing, sales and distribution programmes and opportunities available to us through the Carlson Rezidor Hotel Group partnership. Drive more direct business and increase customer loyalty and engagement.

see page 14

Indicator

63

63 rooms added to existing hotels.

2

Two new projects added to development pipeline.

Looking forward

Successfully deliver renovation projects in progress at art'otel berlin city center west and art'otel budapest. Construction work underway at art'otel amsterdam, advance other projects in our committed pipeline. Opening of first three Park Plaza® Resorts in Croatia. Capitalise on new hotel opportunities.

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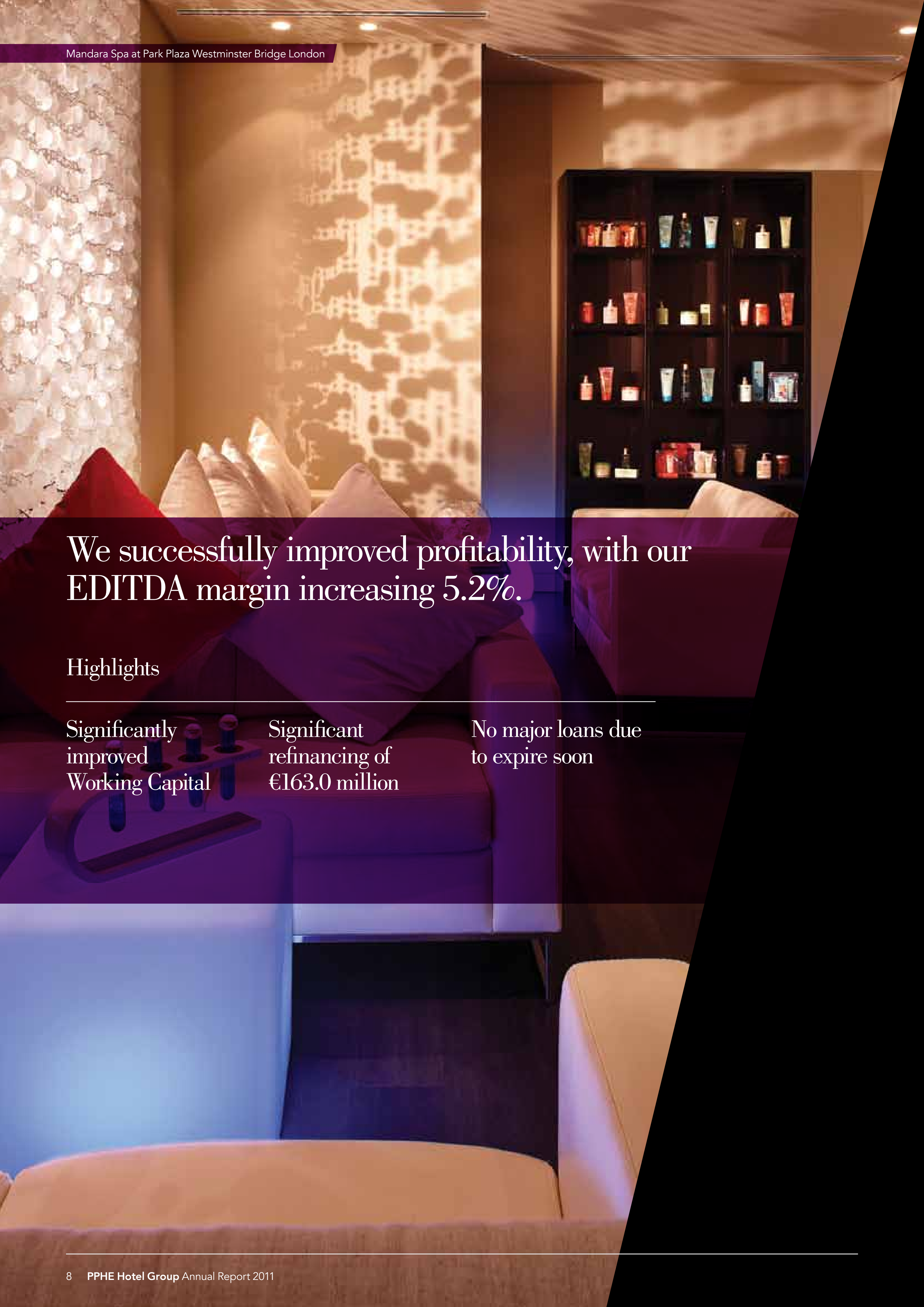


Mandara Spa at Park Plaza Westminster Bridge London

We successfully improved profitability, with our EDITDA margin increasing 5.2%.

Highlights

Significantly improved Working Capital

Significant refinancing of €163.0 million

No major loans due to expire soon

Strategic objective

1

Improving our financial structure and performance

Strategy

We are committed to maintaining a solid financial base which allows us to capitalise on new hotel opportunities that will enhance our presence in our market for affordable luxury hotels.

New acquisitions will be considered either as outright purchases, utilising our strong relationship with our financial providers, or where appropriate through joint venture schemes.

Market penetration may also be increased without significant capital resource through carefully structured management and franchise agreements.

We seek to continue our investment in our existing portfolio maintaining the high standards set. This policy is complemented by remaining focused on increasing profitability by managing operational costs whilst maintaining our high standards to provide our customers with a quality product and service.

2011 performance

Notwithstanding continued pressure on financial markets, we have not only continued to invest in renovations of several of our hotels during the year, but we also acquired new projects and refinanced existing banking facilities.

In June 2011, we announced the refinancing of the existing banking facilities for Park Plaza Westminster Bridge London. The refinancing involved seven-year term facilities totaling £115.0 million (€137.0 million) with Bank Hapoalim.

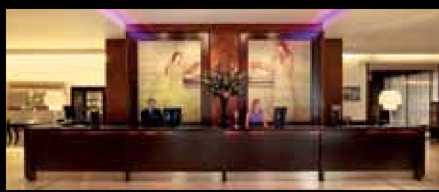
This significant refinancing was followed in September 2011 by the refinancing of existing banking facilities with Bank Hapoalim for art'otel amsterdam. The €26.0 million facility, which matures in March 2014, is in connection with the land acquisition and redevelopment of an office building to art'otel amsterdam.

These two refinancing agreements, which followed several completed refinancing activities in 2009 and 2010, have significantly improved our financial position as we have no major loans due to expire in the next few years.

Due to continued focus on working capital management and successful refinancing, we were able to improve our working capital to a current ratio* of 1.22 (2010: 0.35).

We were successful in improving our overall profitability by increasing our revenues whilst tightly managing our cost base. This has resulted in a 5.2% increase in EBITDA margin to 32.1%.

*Current ratio is total current assets divided by total current liabilities.



Park Plaza Riverbank London
art'otel berlin city center west
Chino Latino staff

Record level EBITDA Margin

32.1%

EBITDA Margin year on year

+5.2%

Plaza on the River – London

Key drivers for our RevPAR growth are a well balanced business mix and growth through direct channels.

Highlights

8.5 million email newsletters sent

Email newsletter revenue up by 178%

Three new languages added to parkplaza.com

Launched mobile friendly website

Club Carlson℠ App

Strategic objective

2

Improving our overall performance through innovative revenue generation and marketing

Strategy

Our team has always been focused on generating revenue whilst carefully managing our expenses and 2011 has been no exception. With early signs of recovery in some of our markets in the second half of 2010, we were quick to respond to increased demand levels. Our primary focus for 2011 was to benefit from this trend and to grow our average room rates across the board.

Generating more direct business through our own channels is also part of this strategy, including the yielding of all booking channels and business segments to optimise the revenue stream. In particular electronic distribution channels such as brand websites, social media and the Global Distribution Systems have started to play an even more significant role.

Despite new strategies being adopted and our growth in recent years, our overhead structure has not changed and we believe that our efficient management structure can be used to service a larger portfolio.

2011 performance

On a like for like basis we delivered a strong RevPAR growth and our overall results exceeded Board expectations. Key drivers for RevPAR growth are a balanced mix of business from different market segments and the ability to attract more business through direct channels. The direct electronic channels are the most cost effective for us, and our channel shift strategy heavily focuses on generating more revenue through these. To deliver on this strategy we have introduced several initiatives across the organisation and we have created a new e-commerce team.

We have made great strides in directly targeting our existing and potential customers, through the extensive use of the various loyalty programmes, targeting frequent travellers through our airline partners and in particular through new online marketing initiatives.

A new online marketing strategy was deployed, focusing on driving more traffic to our direct channels, improving our online sales proposition and increasing conversion. We launched several social media campaigns during the year to increase our online footprint and create more customer engagement, we completed extensive website and booking funnel redesigns to improve the overall customer experience, we introduced new online advertising campaigns to raise awareness and generate more traffic and implemented several new languages online and hotel videos for all our managed hotels.

Cross channel marketing campaigns were also introduced during the year to ensure all customer touchpoints such as our websites, social media channels, hotels as point-of-sale, public relations and online and print advertising carried the same message or offer. The results have been impressive. One of our major successes in the year was our successful migration to a highly sophisticated email marketing platform, enabling us to create tailored email newsletters for different customer groups.

Our partner, the Carlson Rezidor Hotel Group, also launched a brand new mobile website platform and a Club Carlson℠ App, both of which have proven to be of great value to our business. The mobile devices market, with tablets such as iPads in particular, has grown extensively in the past year in particular, and the launch of the mobile friendly website and the Club Carlson℠ App ensure that we are well prepared to fully take advantage of these rapidly emerging booking channels.

All of these initiatives, paired with increased customer recognition, have helped us to generate more direct business and increase our share of brand website bookings.

Park Plaza Victoria London
Passionate chefs

RevPAR increase

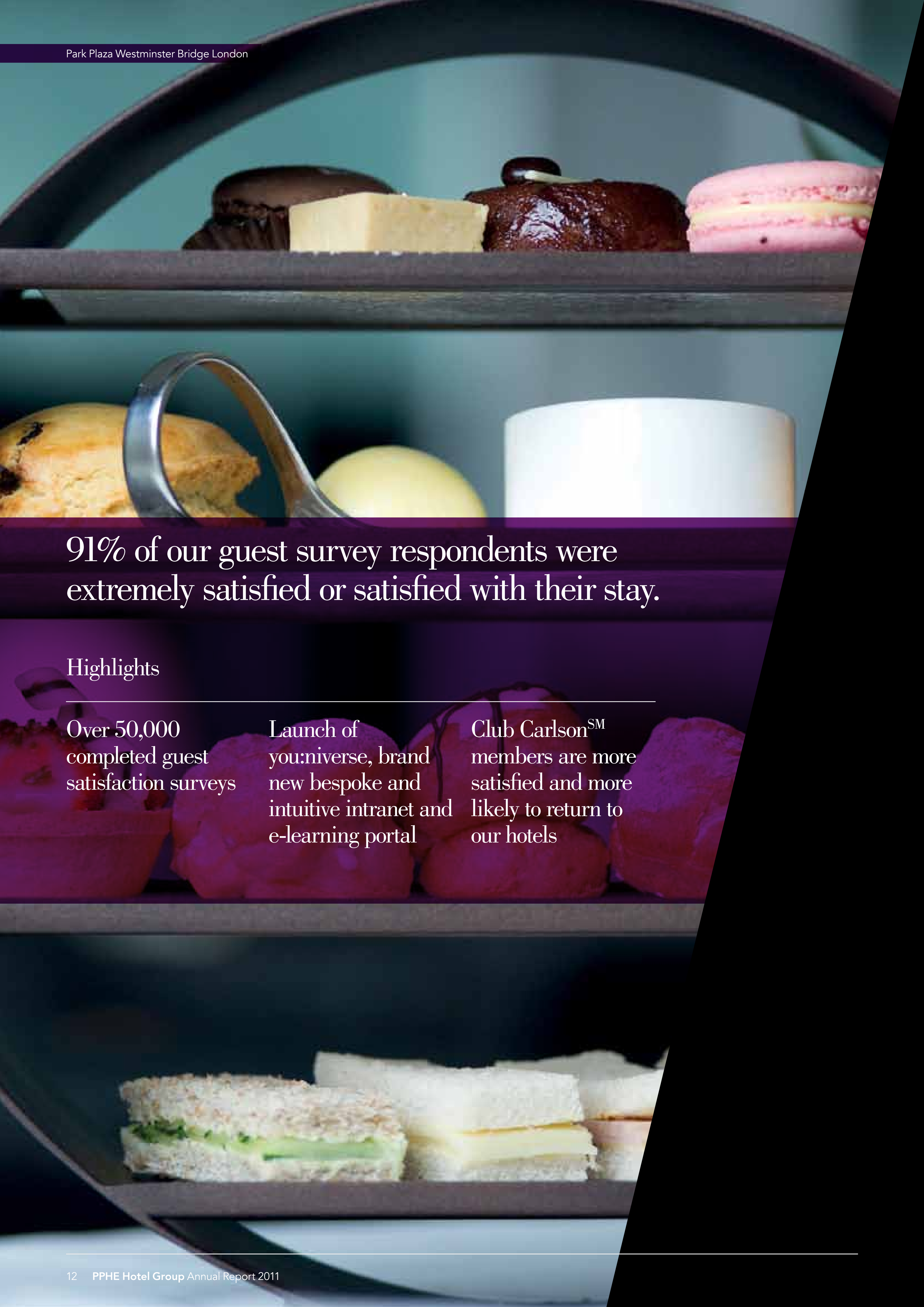
+8.0%

Social media fans and followers

12,000+

Airline partners

23



Park Plaza Westminster Bridge London

91% of our guest survey respondents were extremely satisfied or satisfied with their stay.

Highlights

Over 50,000 completed guest satisfaction surveys

Launch of you:niverse, brand new bespoke and intuitive intranet and e-learning portal

Club Carlson[SM] members are more satisfied and more likely to return to our hotels

Strategic objective

3

Improving operational performance through better service quality

Strategy

Delivering a consistently high level of service is paramount to our success. In our industry, service excellence is still regarded as the key to continued success and we have, even in difficult economic conditions, never comprised on service. Our strategy is to deliver an excellent customer experience at all times. To ensure we remain fully focused on this service delivery and continuously improve, we actively solicit customer feedback, invest in employee training and empower – and listen to – our employees.

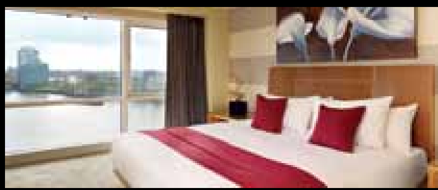
2011 performance

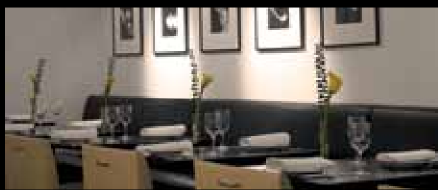
Our teams have delivered yet another set of great results during the year. We pride ourselves on listening to our guests and responding to their needs and our online guest survey tool enables us to develop and maintain direct relationships with each and every guest.

Never before have we received so much feedback from our guests through our online system. An impressive 50,000 completed surveys were received, which is approximately a 28% increase year on year. The invaluable data collected through these surveys enables us to further improve our service levels leading to greater guest satisfaction and increased loyalty. Our teams take this very seriously and as a testimony to their success, 91% of the survey respondents indicated that they were extremely satisfied or satisfied with their stay. We also see a clear trend of Club Carlson℠ members not only rating our performance better than non members, but they are also more likely to recommend our hotels or return for another stay.

Such high results can only be delivered by having a passionate and committed team and we are therefore proud to report that employee satisfaction was at an all time high of 83.3 in 2011. This represents an increase of 2.8% year on year and the participation rate was also very high at 96%. The loyalty rate from our employees increased by nearly 5% and the most significant growth was reported in the areas of Leadership and Personal Development, underpinning our strategy of investing in people.

Towards the end of 2011 we launched the first phase of you:niverse, our bespoke and highly intuitive intranet and e-learning portal. This new portal has been created to further improve internal communication and foster an environment of sharing best practice and success stories. It will also serve as our primary platform for e-learning modules which will take centre stage as part of the proprietary business school currently under development. This new initiative, you:niversity will be introduced in the first half of 2012 and will serve as the backbone for all trainings available and created by the Group.





Plaza on the River – London
art'otel budapest

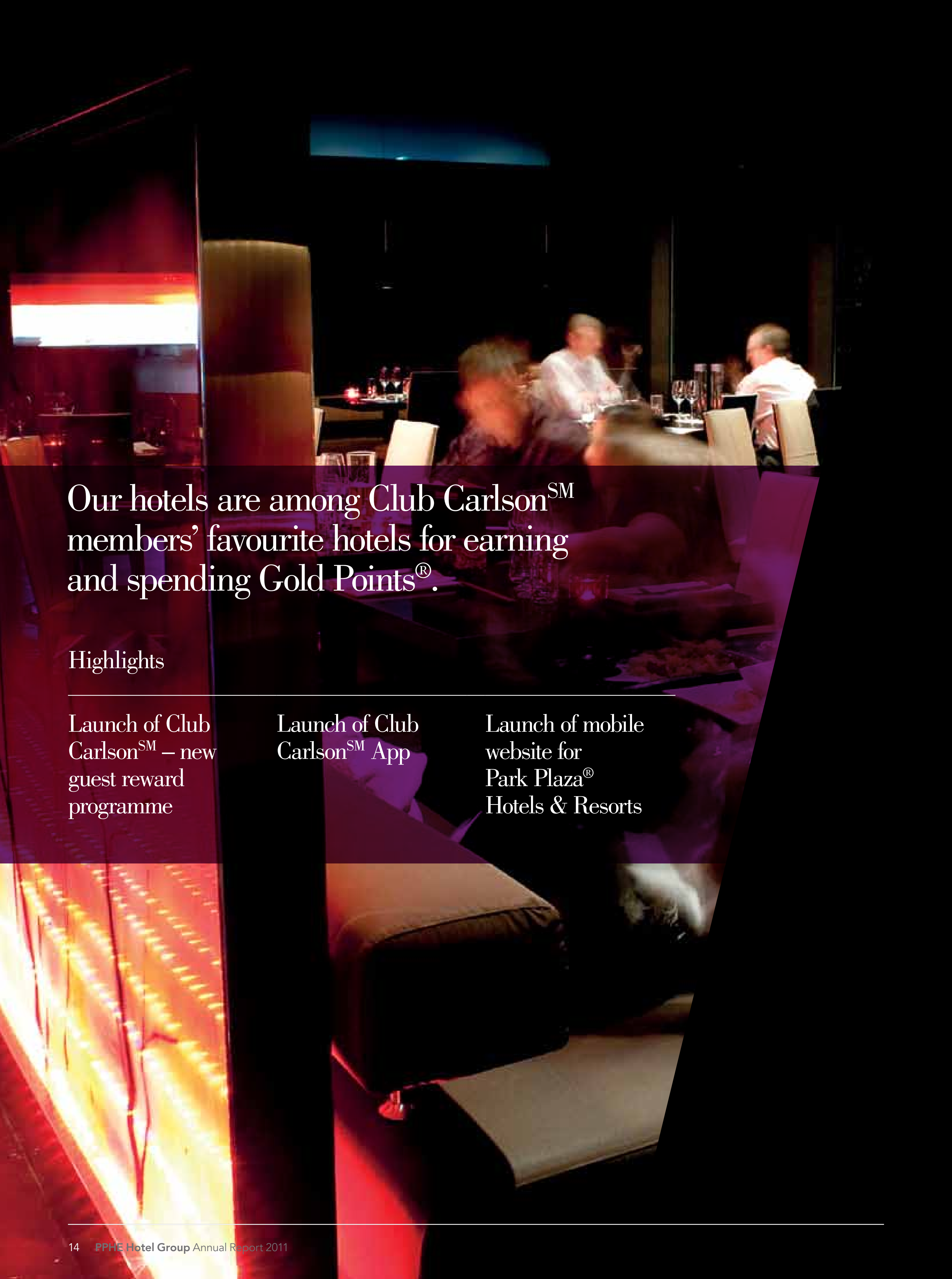
Guest satisfaction survey respondents who were extremely satisfied or satisfied with their stay

91%

Record level of employee satisfaction

83.3

Chino Latino®



Our hotels are among Club Carlson℠ members' favourite hotels for earning and spending Gold Points®.

Highlights

Launch of Club Carlson℠ – new guest reward programme

Launch of Club Carlson℠ App

Launch of mobile website for Park Plaza® Hotels & Resorts

Strategic objective

4

Utilising our partnership with the Carlson Rezidor Hotel Group to promote our business and further grow revenues

Strategy

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

The Carlson Rezidor Hotel Group is one of the world's largest hotel groups and its portfolio includes more than 1,300 hotels in 80 countries. In a global market where major corporations are consolidating their supplier relationships, being part of such global network ensures that our hotels remain at the forefront of corporate travel buyers and it improves our positioning and visibility with global travel consortia.

The Carlson Rezidor network has a cross-selling and cross-marketing strategy for all customer touchpoints for the different brands within the family of brands. This includes reservation call centres, loyalty programmes (for guests, meeting planners and travel agents), Global Distribution Systems, points of sale, the brand websites and their own global sales force. These marketing and reservation services cover the Park Plaza® Hotels & Resorts and art'otel® brands, which are both marketed through the Carlson Rezidor Hotel Group reservation system.

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

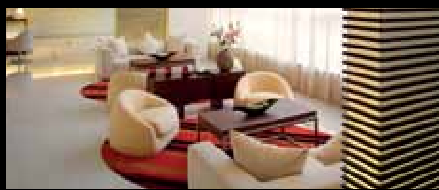
2011 performance

Our teams have worked very closely with the Carlson Rezidor Hotel Group teams during the year and together they have delivered some significant milestones.

Most of the notable successes booked in the year were in the areas of customer loyalty and online marketing. Our e-commerce and revenue teams ensured that we attracted more direct business through our own channels, such as the brand websites, through direct marketing campaigns, social media and online advertising. 2011 also marked our entry into areas such as mobile friendly websites and apps.

The new Club Carlson℠ reward programme was introduced in March 2011 and this new programme has proven to be a real success. Our hotels are among the members' favourite hotels for award stays (Club Carlson℠ members redeem their Gold Points® for free award stays) and for our Group the total number of award stays increased by 55% year on year. Our hotels also signed up a record 56,400 new members into the programme, a 19% increase year on year, with the global membership base at 8.0 million at the end of 2011. This represents a 27% increase year on year and on target to meeting the programme goal of ten million members by the end of 2013.

The share of occupancy from Club Carlson℠ members staying at our hotels increased by 19% year on year and we expect this trend to continue. The global Club Carlson℠ App was introduced in the year, as well as a new programme extension aimed at small to medium size corporations whereby the travel organiser is entitled to earn Gold Points®. The Carlson Rezidor Hotel Group now offers loyalty benefits to guests, small to medium sized corporations, meeting planners and travel agents.



Park Plaza Beijing West
Park Plaza Sukhumvit Bangkok

Club Carlson℠ membership

8.0m

Members' share of occupancy at our hotels increased

+19%

Increase in reward stays for our hotels

+55%


Park Plaza Eindhoven

Timely investments are important to safeguard our strong position and we completed significant renovations in 2011.

Highlights

Extensive renovations completed at several hotels

New development projects in London and Pattaya Bay

Construction art'otel amsterdam well under way

Strategic objective

5

Driving revenue growth through expanding our asset portfolio

Strategy

Our unique business model combines hotel ownership with branding, management and franchise expertise and services. We believe that this operating diversity is fundamental to our success and puts us in an excellent position to capitalise on new growth opportunities.

Our owner/branded operator model, in combination with our long-term exclusive licence in the EMEA region for the Park Plaza® Hotels & Resorts brand and worldwide ownership of the art'otel® brand, allows us to leverage a wide range of opportunities to expand our portfolio. Our hotel interests and contractual arrangements involve ownership (and, in some cases, development) and operation through operating leases, management and franchise arrangements.

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

We intend to grow the number of rooms in our portfolio by acquisition either alone or in joint ventures with third parties. Management is reviewing several acquisition opportunities and we expect that further acquisition opportunities will arise as a result of our extensive network of contacts. If available at attractive prices, we intend to acquire hotels in our target markets which will benefit from rebranding.

We use our experience of development projects, gained as a result of the Company's participation in such projects to exploit development opportunities. We also look at opportunities for operating leases, management and franchise agreements as and when available.

2011 performance

Our 2010 acquisitions have had a significant impact on our bottom line in 2011 and we expect their contribution to continue to grow in 2012 and beyond as these hotels mature. To safeguard our strong position in the markets in which we operate, timely investments are also extremely important and during the year we completed significant renovations at Park Plaza Victoria Amsterdam and Park Plaza Eindhoven in the Netherlands, and the first phase of renovations at Park Plaza Leeds in the United Kingdom.

As a result of the renovations at Park Plaza Eindhoven two new rooms were added, and in November 2011 we were pleased to open 61 new rooms at art'otel berlin city center west. A new extension was built at this hotel and in 2012 a new bar and lounge, two meeting rooms and wellness area were added.

Our development pipeline was expanded with new mixed-use development projects in London in the United Kingdom and Pattaya Bay in Thailand.

Following the refinancing of our banking facilities for art'otel amsterdam we are pleased to report that construction work is on schedule. We also progressed project planning work for Park Plaza Nuremberg and art'otel london hoxton during the year.

We are excited with the progress made in Croatia, where three hotels of the Arenaturist Group are currently undergoing extensive renovation work. These hotels will reopen in the 2012 summer season as Park Plaza® Resorts, a first for the brand.

Park Plaza Westminster Bridge London
Chino Latino staff

Total revenues

€202.4m

2010: €139.8 million

New rooms added to existing hotels

63

Park Plaza® Resorts soon to open

3

Chief Financial Officer's statement

Record revenue, record EBITDA and an improved financial position with no significant loans due to expire soon

The Group has delivered a record performance, once again exceeding the Board's expectations.

In addition to a significant increase in revenue and EBITDA, during the past years we were successful in refinancing several banking facilities which have significantly improved our financial position with no significant loans due to expire in the next several years.

Occupancy
Across the Group, occupancy increased to 77.7% (2010: 77.4%), in line with our strategy of focusing on growing average room rates. On a like for like basis, occupancy increased by 1.9% to 79.3% (2010: 77.4%).

Average room rate
Management has been successful in delivering real revenue growth this year by capitalising on increased demand and growing the average room rate. The overall average room rate as a result increased by 7.6% to €119.2 (2010: €110.7) and on a like for like basis, the average room rate increased by 9.7% to €121.5 (2010: €110.7).

RevPAR
The sustained occupancy level in combination with the increase in average room rate, has resulted in a 8.0% increase in RevPAR which for the period was €92.6 (2010: €85.7). On a like for like basis, RevPAR increased by 12.4% to €96.3 (2010: €85.7).

Room revenue
During the year room revenue increased by 48.9% to €139.0 million (2010: €93.4 million). On a like for like basis, room revenue increased by 14.7% to €107.1 million (2010: €93.4 million).

Total revenue
Total Group revenue for the period increased by 44.7% to €202.4 million (2010: €139.8 million). A significant part of this growth is a direct result of our new openings and acquisitions in 2010. In particular the performance of Park Plaza Westminster Bridge London has had a great impact on our results. On a like for like basis, total Group revenue increased by 12.6% to €157.4 million reflecting a strong underlying performance, in particular from our hotels in London and Amsterdam.

EBITDA
Our overall EBITDA increased by 72.9% to €65.0 million (2010: €37.6 million). On a like for like basis, EBITDA increased by 39.2% to €52.4 million (2010: €37.6 million), showing a strong underlying performance in the Group's established hotel portfolio.

Due to this improved EBITDA and our continued focus on managing our cost base, the EBITDA margin increased by 5.2% to 32.1% (2010: 26.9%). On a like for like basis our EBITDA margin increased to 33.3%.

EBITDA primarily benefited from contributions of the additional hotels in the portfolio and the increased ownership share of hotels. EBITDA improved as well due to the recovery in the London and Amsterdam hotel markets, which resulted in a healthy RevPAR growth.

All our regions have reported a positive EBITDA result, apart from our hotels in Germany and Hungary. Despite the reported EBITDA loss this region still positively contributes in the form of management fees which are accounted for in the Management and Holdings Operations.

Profit before tax
The reported profit before tax was €10.6 million (2010: €60.5 million). The profit relates mainly to the increased EBITDA contribution of €27.4 million from the full year benefits of our 2010 acquisitions and openings, somewhat offset by a €6.1 million increase in finance expenses and interest expenses guaranteed to unit holders of Park Plaza Westminster Bridge London. In addition an income of €2.5 million from the final settlement of the construction contract for Park Plaza Riverbank London was recorded and interest and income from forfeited deposits relating to the sale of units in Park Plaza Westminster Bridge London amounted to €0.7 million. The Group faced an additional finance expense due to revaluation of derivative financial instruments of €4.7 million and a one-off €1.5 million expense due to the costs associated with its migration from AIM to the Official List was also incurred.

Normalised profit before tax increased to €13.6 million (2010: €6.1 million). The 2010 profits mainly related to gains arising from one-off events amounting to €54.4 million. 2011 normalised profit adjustments include fair value losses from derivatives (see Note 23 to the Consolidated financial statements), one-off (re-)finance expenses (see Note 23) and other income (see Note 25).

Earnings per share
Basic and diluted earnings per share for the year was €0.37 (2010: €1.52). The year on year decrease was a result of a lower profit before tax, with our 2010 profit before tax positively affected by one-off events. Details on the calculation of earnings/loss per share are provided in Note 27 to the Consolidated financial statements.

Dividend
The Directors are proposing a final dividend of 6.0 pence per share (2010: None), which will absorb £2,460,918 of equity. Subject to

Total revenue

€202.4m
+44.7%

EBITDA

€65.0m
+72.9%

Normalised Profit

€13.6m
+123.7%

shareholder approval at the AGM, to be held on 25 April 2012, the dividend will be paid on 27 April 2012 to shareholders on the register at 23 March 2012. The shares will go ex-dividend on 21 March 2012.

Debt position and refinancing

Our net debt as at 31 December 2011 was €387.1 million, a net year on year increase of €17.2 million (as at 31 December 2010: €369.9 million). This includes €31.0 million of liquid assets (2010: €30.9 million), of which cash and cash equivalents were €29.5 million (2010: €25.6 million) and other liquid financial assets of €1.5 million (2010: €5.3 million).

During the period, the movement in net debt primarily included a €10.5 million increase in loans, an increase due to foreign exchange of €11.0 million and €5.5 million redemption of loans (see Note 31f for current and targeted gearing ratio).

Financial structure and investments – main developments during the period

Refinancing of Park Plaza Westminster Bridge London, UK

On 2 June 2011, we were pleased to announce the refinancing of existing banking facilities for Park Plaza Westminster Bridge London. The refinancing involved seven year term facilities totalling £115.0 million (€137.0 million) with Bank Hapoalim. Further details are set out in Note 17 to the Consolidated financial statements.

Acquisition of site in London, UK

On 12 July 2011, we exchanged contracts to acquire a two-acre site on 628 Western Avenue in west London for £6.0 million (€7.2 million). A 10% deposit has been paid and the balance is payable in cash upon completion which is due to take place by no later than June 2012. This is a high profile gateway site with prime frontage onto the A40, a major arterial route into central London. We have submitted an application for planning permission and expect this to be granted in 2012.

Acquisition of site in Pattaya Bay, Thailand

On 18 August 2011, we completed the acquisition of a site, via a joint venture, located in Pattaya Bay, Thailand for €6.8 million. This opportunity allows us to expand into Asia with the development of a 40,000 square metre mixed-use development, including a 100-room upscale apart-hotel.

Since the year end, residential sales at our Pattaya Bay project in Thailand commenced and, to date, 85 of the 301 apartments have been contracted for sale.

Refinancing of art'otel amsterdam, The Netherlands

On 14 September 2011, we were pleased to announce the refinancing of existing banking facilities with Bank Hapoalim for art'otel amsterdam. The €26.0 million facility, which matures in March 2014, is in connection with the land acquisition and redevelopment of an office building to art'otel amsterdam. Further details are set out in Note 17 to the Consolidated financial statements.

Purchase of shares

Management strongly believes in the Group's long term future and value proposition and underlined this view in the year by increasing the number of shares it holds in treasury. On 26 October 2011, we announced the purchase of 800,000 of our own shares increasing the total number of shares held in treasury to 1,662,000 (constituting 4.1% of the Company's issued share capital, excluding treasury shares). Further details are set out in Note 15 to the Consolidated financial statements.

Looking ahead

We have an exciting year ahead of us with our London hotels expected to benefit from the global exposure and high levels of demand, on the back of the summer sports events. Construction is underway for our new development in Amsterdam and we have several extensive refurbishments planned throughout the year. These investments are necessary to further strengthen our foothold within the 'affordable luxury' segment of the market and safeguard our revenue streams.

Despite excellent achievements in 2011, we remain highly vigilant about the current unrest in the financial markets. As demonstrated in earlier downturns, our teams are very focused on generating revenues and operating as efficiently as possible and although no slowdown is yet experienced, we remain on our guard.

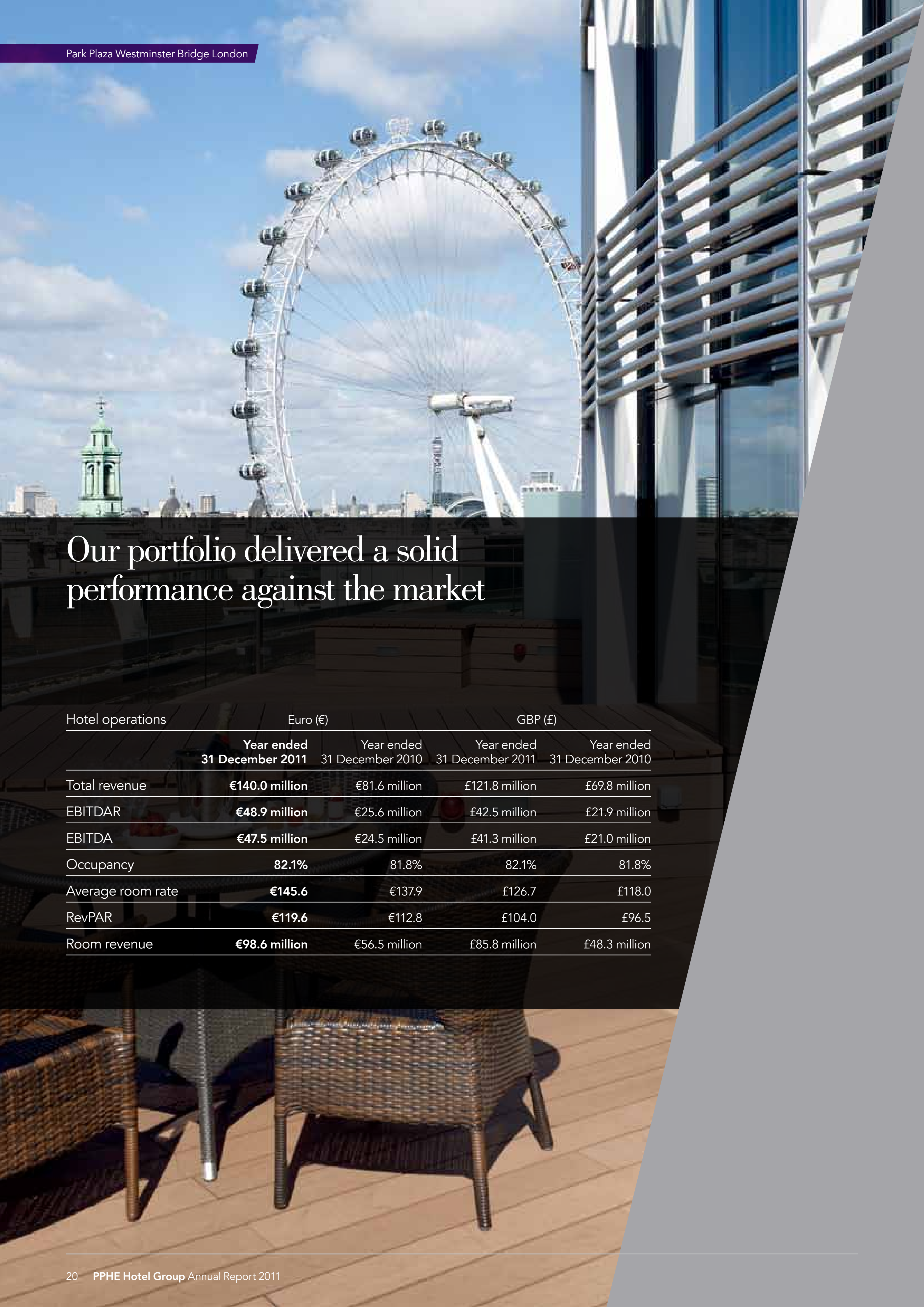
Chen Moravsky
Chief Financial Officer

	Reported			Like for like**		
	Year ended 31 December 2011	Year ended 31 December 2010	% change#	**Year ended 31 December 2011**	Year ended 31 December 2010	% change#
Total revenue	**€202.4 million**	€139.8 million	44.7%	**€157.4 million**	€139.8 million	12.6%
EBITDAR	**€75.0 million**	€46.5 million	61.5%	**€61.6 million**	€46.5 million	32.5%
EBITDA	**€65.0 million**	€37.6 million	72.9%	**€52.4 million**	€37.6 million	39.2%
Occupancy	**77.7%**	77.4%	0.3%	**79.3%**	77.4%	1.9%
Average room rate	**€119.2**	€110.7	7.6%	**€121.5**	€110.7	9.7%
RevPAR	**€92.6**	€85.7	8.0%	**€96.3**	€85.7	12.4%
Room revenue	**€139.0 million**	€93.4 million	48.9%	**€107.1 million**	€93.4 million	14.7%

Percentage change figures are calculated from actual figures as opposed to the rounded figures included in the tables.

** The like for like figures exclude Park Plaza Nottingham and Park Plaza Leeds for the first seven months of 2011, Park Plaza Westminster Bridge London for the first two months of 2011, Park Plaza Amsterdam Airport for the first four months of 2011 and art'otel cologne for the first two months of 2011. The financial contribution of Park Plaza Sherlock Holmes London, Park Plaza Victoria London and Park Plaza Riverbank London (including Plaza on the River) in 2011 in the like for like comparison has been calculated on the basis of the ownership interest of PPHE Hotel Group in those hotels during the financial year ended 31 December 2010.

All financial information in this report for room revenue and total revenue reflects PPHE Hotel Group's interest.



Park Plaza Westminster Bridge London

Our portfolio delivered a solid performance against the market

Hotel operations	Euro (€)		GBP (£)	
	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2010
Total revenue	**€140.0 million**	€81.6 million	£121.8 million	£69.8 million
EBITDAR	**€48.9 million**	€25.6 million	£42.5 million	£21.9 million
EBITDA	**€47.5 million**	€24.5 million	£41.3 million	£21.0 million
Occupancy	**82.1%**	81.8%	82.1%	81.8%
Average room rate	**€145.6**	€137.9	£126.7	£118.0
RevPAR	**€119.6**	€112.8	£104.0	£96.5
Room revenue	**€98.6 million**	€56.5 million	£85.8 million	£48.3 million

In the United Kingdom, our EBITDA has nearly doubled to €47.5 million

Our performance

2011 was the first fully operational year for Park Plaza Westminster Bridge London, and our first full year as sole owners of the established London hotels (Park Plaza Riverbank London, Park Plaza Victoria London and Park Plaza Sherlock Holmes London) and Park Plaza Leeds and Park Plaza Nottingham.

Although our increased ownership in these hotels is one of the reasons for our significant year on year growth, it is also the result of a strong performance by most of our London hotels.

RevPAR in the United Kingdom for the year was €119.6 (2010: €112.8), representing an increase of 6.0% year on year. However, this result was impacted by the currency exchange rate from Sterling to Euro and in local currency RevPAR increased by 7.8% to £104.0 (2010: £96.5).

On a like for like basis, RevPAR increased by an impressive 13.8% to €128.3 (2010: €112.8), showing a strong underlying performance of our established London hotels in particular. Like for like RevPAR in local currency increased by 15.8% to £111.7 (2010: £96.5).

Most of our portfolio in the United Kingdom delivered a solid performance against the market, with our hotels outperforming the market in occupancy by 8.3 points, average room rates by £33.7 and RevPAR by £35.3. Occupancy remained almost flat in most hotels, but in local currency our average room rates increased by 7.4%, versus 3.8% for the market and RevPAR increased by 7.8%, versus 4.1% growth for the market (TRI HotStats, UK Chain Hotels Market Review December 2011).

The majority of our hotels in the United Kingdom outperformed their competitor sets in occupancy and RevPAR, mainly driven by a strong growth in average room rates, with several of our hotels in London reporting a double digit growth (STR Global, December 2011). The hotels in the provincial destinations, which were acquired on 4 August 2010, continued to experience a more difficult trading environment due to a soft corporate demand.

In the United Kingdom, reported total revenue increased by 71.6% to €140.0 million (2010: €81.6 million), on a like for like basis total revenue increased by 19.1% to €97.1 million (2010: €81.6 million).

EBITDA nearly doubled to €47.5 million (2010: €24.5 million) and on a like for like basis EBITDA increased by 42.0% to €34.8 million (2010: €24.5 million).

Developments

In March 2011 we launched the Mandara Spa at Park Plaza Westminster Bridge London. The first of its kind in Europe, the Mandara Spa is now fully operational and offers 700 square metres of treatment rooms, a relaxation lounge, Spa boutique, fitness centre and indoor swimming pool.

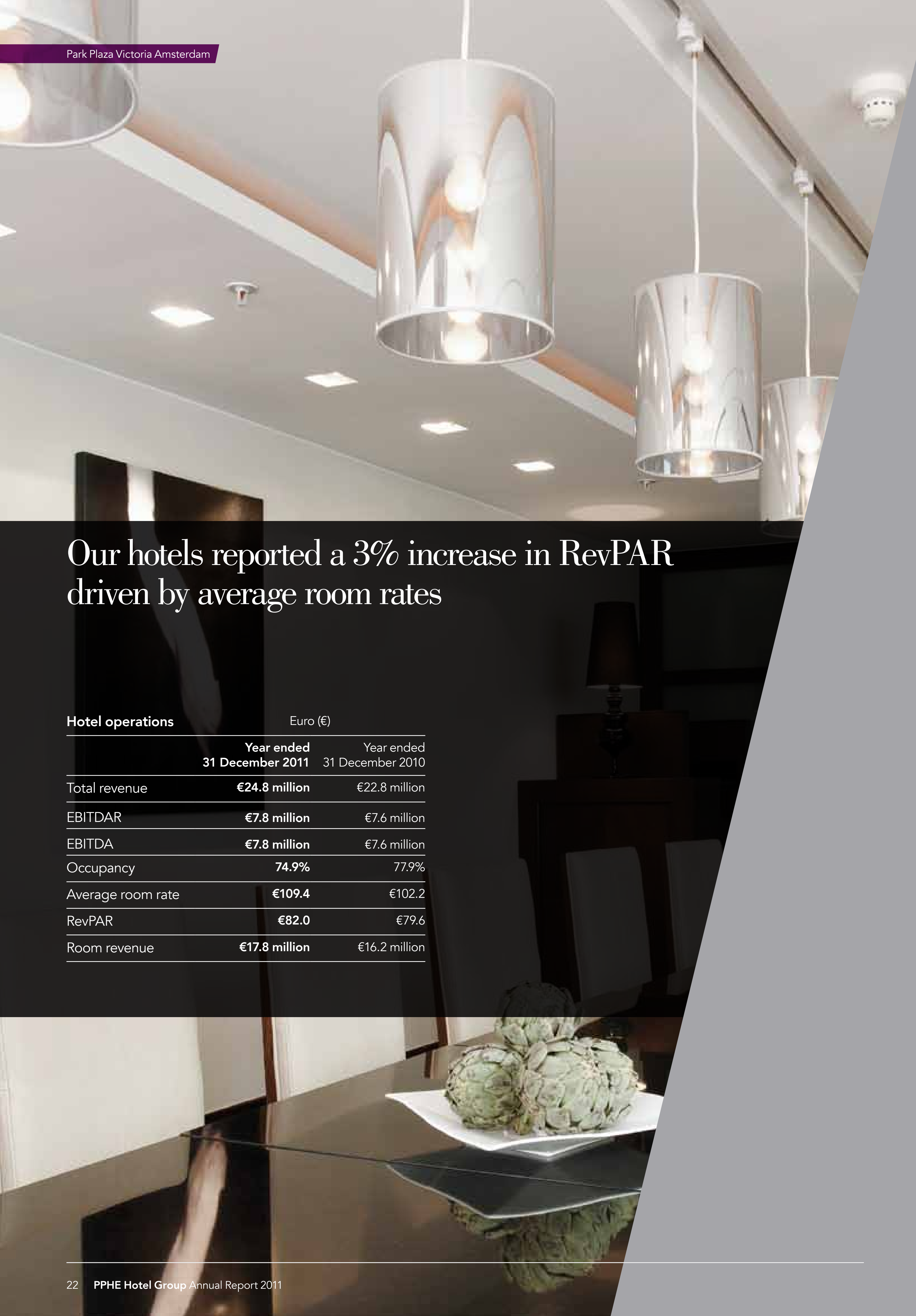
On 12 July 2011, we exchanged contracts to acquire a two-acre site in west London. This high profile, gateway site has prime frontage onto the A40, a major arterial route into central London and the Company has submitted a planning request for a mixed-use development, including a hotel component. Planning is expected to be obtained in 2012 and the transaction is due to be completed by June 2012.

Following our acquisition of Park Plaza Leeds and Park Plaza Nottingham in August 2010, we approved a refurbishment plan for these properties. In 2011 we completed the first phase of extensive renovations at Park Plaza Leeds. During this phase half of the rooms were fully renovated and several of the public areas. The second phase of this renovation is due to be completed by the second quarter of 2012.

At Park Plaza Nottingham we have renovated several public areas during the year and further renovations are planned for 2012.

In early February 2010, we received planning consent for the United Kingdom's first art'otel®, to be located in London's Hoxton area. The approval followed over two years of design work, undertaken in close collaboration with Hackney Council's Design Review Panel, the Greater London Authority and several local community groups in Shoreditch. We are currently in the process of further optimising the plans for this development to include a lifestyle art'otel®, as well as an art gallery, restaurants, bars and possibly a number of loft style apartments.

Park Plaza Leeds



Park Plaza Victoria Amsterdam

Our hotels reported a 3% increase in RevPAR driven by average room rates

Hotel operations Euro (€)

	Year ended 31 December 2011	Year ended 31 December 2010
Total revenue	**€24.8 million**	€22.8 million
EBITDAR	**€7.8 million**	€7.6 million
EBITDA	**€7.8 million**	€7.6 million
Occupancy	**74.9%**	77.9%
Average room rate	**€109.4**	€102.2
RevPAR	**€82.0**	€79.6
Room revenue	**€17.8 million**	€16.2 million

The Netherlands

Total revenue and EBITDA increased for the region with Park Plaza Victoria Amsterdam our star performer

Our performance

The Dutch market was one of several Euro-zone countries reporting a recovery from the economic crisis in 2011. For the hospitality sector, Amsterdam showed one of the strongest rebounds which is in stark contrast with the provincial cities which showed limited signs of recovery.

Against this background, our hotels in The Netherlands delivered a good overall performance, with a total RevPAR increase of 3.0% to €82.0 (2010: €79.6). Our overall occupancy decreased, but the average room rates increased at a faster rate than our competitor sets leading to an increased RevPAR. It is worth mentioning that key performance indicators such as occupancy, average room rates and RevPAR have been negatively impacted since our 2010 acquisition of Park Plaza Amsterdam Airport. Demand for this airport location is much more volatile, and rates are generally lower than those for our hotels in city centre locations, which impacts the overall key performance indicators for this region.

On a like for like basis (excluding Park Plaza Amsterdam Airport for the first four months of 2010), our RevPAR growth was therefore much more significant at 11.6%, with RevPAR increasing from €79.6 in 2010 to €88.8 in 2011.

With two of our hotels located in the city centre of Amsterdam, and one located near Schiphol Airport, Amsterdam is a key market for us. All three hotels delivered a strong performance with double digit growth in average room rates and RevPAR.

Park Plaza Amsterdam Airport delivered a double digit growth in occupancy. The city centre hotels outperformed their competitor sets in RevPAR (STR Global, December 2011).

Park Plaza Amsterdam Airport was acquired from administrators in 2010 and it is encouraging to see such significant growth across key performance indicators such as occupancy, average room rate and RevPAR.

However, our top performer in this region was Park Plaza Victoria Amsterdam which, despite having half of its room inventory closed for renovation during the first quarter in 2011, generated nearly the same revenue in the full year as it did in 2010.

The provincial hotels, Utrecht and Eindhoven, outperformed their competitor sets in occupancy and RevPAR (STR Global and MKG Hospitality, December 2011), although these markets proved to be more challenging than the Amsterdam market.

Reported total revenue increased by 8.6% to €24.8 million (2010: €22.8 million) and EBITDA increased by 2.1% to €7.8 million (2010: €7.6 million). On a like for like basis, EBITDA increased by 1.5% to €7.7 million (2010: €7.6 million).

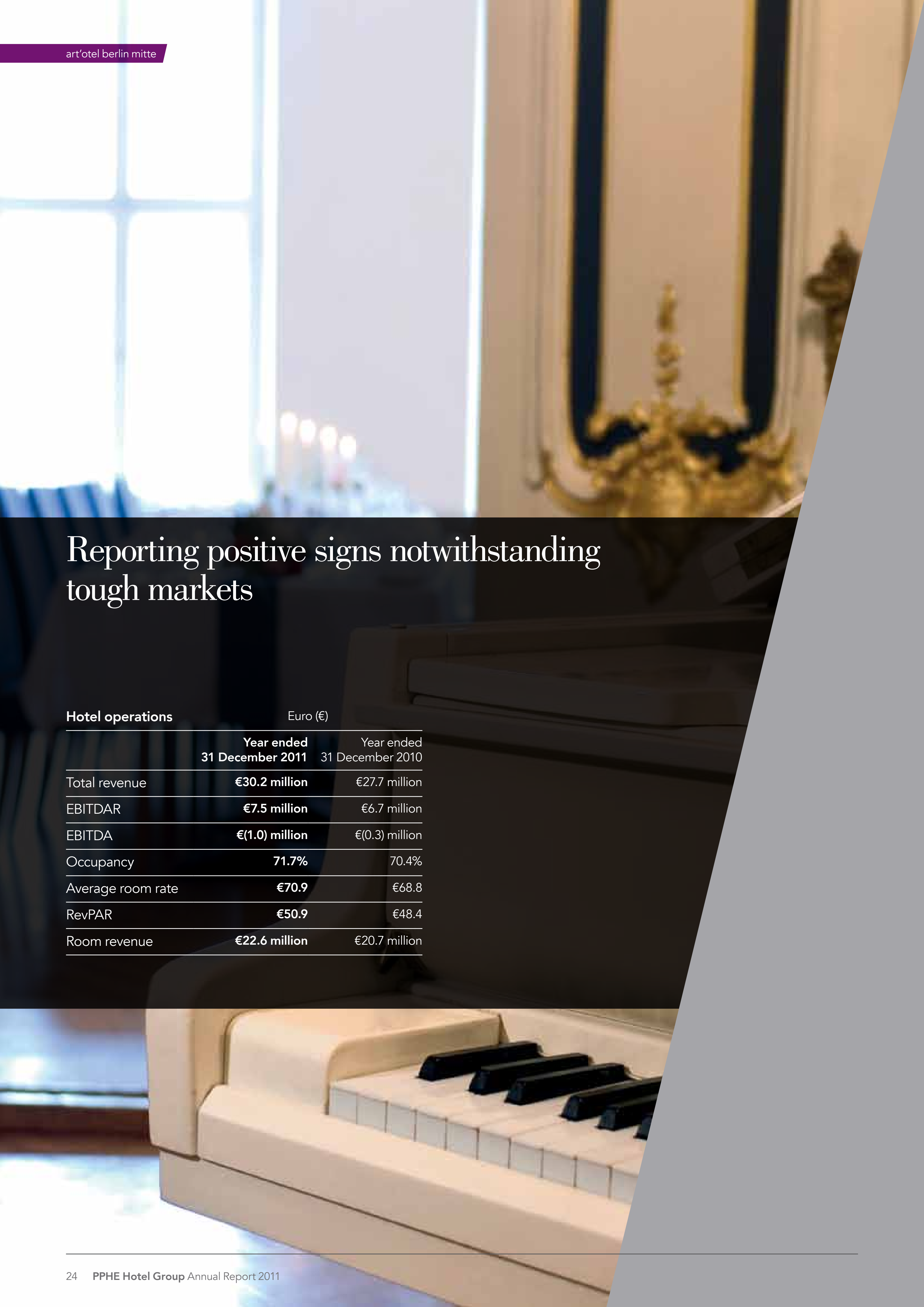
Developments

During the year we focused on the repositioning of Park Plaza Amsterdam Airport and several soft refurbishments were completed. Under the leadership of a new management team a significant renovation programme commenced in February 2012. As part of this programme, all public areas on the ground floor will be redesigned creating different environments for the different customer audiences. This repositioning will enable us to better market this hotel as a premier conference destination, providing easy access to many European destinations given its proximity to Schiphol Airport.

Extensive renovations were also undertaken and completed in the year at Park Plaza Victoria Amsterdam (164 guestrooms) and Park Plaza Eindhoven (47 guestrooms, including the creation of two additional rooms). Both hotels have experienced a year on year uplift in overall guest satisfaction, mainly as a result of improved product ratings.

The construction of art'otel amsterdam, located adjacent to Park Plaza Victoria Amsterdam in the heart of the city, is now well underway and this hotel is scheduled to open in 2013.

Park Plaza Eindhoven



Reporting positive signs notwithstanding tough markets

Hotel operations Euro (€)

	Year ended 31 December 2011	Year ended 31 December 2010
Total revenue	**€30.2 million**	€27.7 million
EBITDAR	**€7.5 million**	€6.7 million
EBITDA	**€(1.0) million**	€(0.3) million
Occupancy	**71.7%**	70.4%
Average room rate	**€70.9**	€68.8
RevPAR	**€50.9**	€48.4
Room revenue	**€22.6 million**	€20.7 million

Germany and Hungary

The region positively contributes to the Group's cash flow

Our performance

In Germany and Hungary, the impact from a recovering economy on our hotel performance was not as strong as experienced by the other regions in which we operate and historically these markets have not been as buoyant as the United Kingdom or The Netherlands.

RevPAR increased by 5.0% to €50.9 (2010: €48.4) as a result of a modest growth in average room rates and occupancy. On a like for like basis, RevPAR increased by 4.6% to €50.7 (2010: €48.4).

In its first fully operational year, art'otel cologne delivered a good performance with a reported double digit RevPAR growth driven by a combination of increased occupancy and average room rate. art'otel budapest, which was arguably our hotel most affected by the economic downturn, reported a similar positive trend.

Total revenue for the region increased by 9.0% to €30.2 million (2010: €27.7 million). On a like for like basis, total revenue increased by 5.3% to €29.2 million (2010: €27.7 million).

EBITDAR in 2011 was € 7.5 million (2010: € 6.7 million).

The EBITDA loss in Germany and Hungary increased to a €1.0 million loss (2010: loss of €0.3 million). The 2010 EBITDA loss was however positively impacted by a one-off rent discount in one of the leased hotels.

Our business model in this region is primarily based on operational leases. We have reported negative EBITDA in recent years, and 2011 is no exception. However, the contribution of this region is still positive in the form of management fees which are included in the segment Management and Holdings Operations.

Developments

Throughout the year work continued on the 61-room extension at art'otel berlin city center west. This hotel, which has Andy Warhol and Christopher Makos as its signature artists, opened these extra rooms in November 2011. The new bar and lounge, two meeting rooms and a fitness room were opened early 2012. It is expected that this extension and new facilities will help to improve the hotel's market position and overall performance.

An extensive renovation programme of all rooms and the public areas at art'otel budapest started at the end of 2011 and will continue throughout 2012.

We also made good progress with the project planning for Park Plaza Nuremberg and construction is expected to start in 2012 with the hotel opening in 2013.

art'otel berlin kudamm

art'otel budapest

Management and Holdings Operations
Increased revenue and EBITDA

Management and Holdings Operations:

	Euro (€)	
	Year ended 31 December 2011	Year ended 31 December 2010
Total revenue before elimination	**€28.5 million**	€20.7 million
Revenue within the consolidated group	**€21.1 million**	€13.0 million
External and reported revenue	**€7.4 million**	€7.7 million
EBITDA	**€10.8 million**	€5.8 million

Our performance
Total revenue before elimination for our Management and Holdings increased by 37.7% to €28.5 million (2010: €20.7 million). Revenue within the consolidated group increased by 62.3% to €21.1 million (2010: €13.0 million) and external and reported revenue slightly decreased by 3.8% to €7.4 million (2010: €7.7 million).

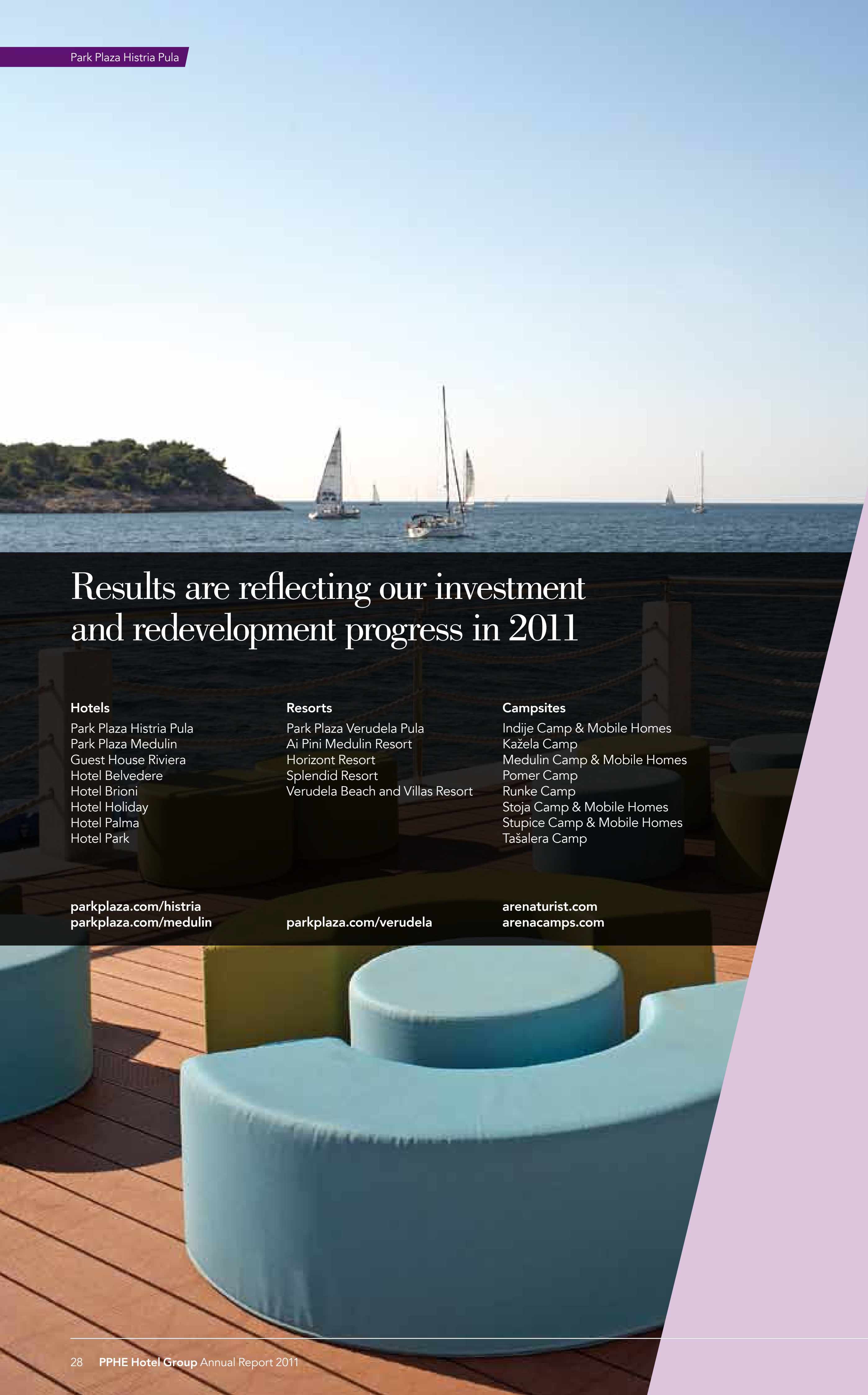
This resulted in an overall EBITDA increase of 86.2% to €10.8 million (2010: €5.8 million). The main drivers of the reported EBITDA growth are the increased contributions from our newly acquired and opened hotels during 2010 and a one-off fee which relates to previous years.

Reported revenue and EBITDA in Management and Holdings Operations are derived from the Group's different contract arrangements. Below table outlines the primary responsibilities and revenue streams per contract type.

	Owned and leased	Managed	Franchised
Brand provided under licence by	PPHE Hotel Group	PPHE Hotel Group	PPHE Hotel Group
Employees	PPHE Hotel Group	PPHE Hotel Group supplies General Manager and Financial Controller	Third party
Sales, Marketing, Distribution and Revenue Support	PPHE Hotel Group	PPHE Hotel Group	PPHE Hotel Group
Day to day Sales, Marketing, Distribution and Revenue Management	PPHE Hotel Group	PPHE Hotel Group	Third party
Ownership	PPHE Hotel Group	Third party	Third party
Capital for PPHE Hotel Group	High	Low / none	None
Revenue for PPHE Hotel Group	All operating revenues and profits	Base management fee as percentage of total revenue Incentive fee as percentage of gross operating profit Franchise fee as percentage of total room revenue Marketing fee as percentage of total room revenue Reservation fees and loyalty marketing fees	Franchise fee as percentage of total room revenue Marketing fee as percentage of total room revenue Reservation fees and loyalty marketing fees


Park Plaza Trier


Park Plaza Cardiff



Results are reflecting our investment and redevelopment progress in 2011

Hotels

Park Plaza Histria Pula
Park Plaza Medulin
Guest House Riviera
Hotel Belvedere
Hotel Brioni
Hotel Holiday
Hotel Palma
Hotel Park

parkplaza.com/histria
parkplaza.com/medulin

Resorts

Park Plaza Verudela Pula
Ai Pini Medulin Resort
Horizont Resort
Splendid Resort
Verudela Beach and Villas Resort

parkplaza.com/verudela

Campsites

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

arenaturist.com
arenacamps.com

Renovations at three hotels are expected to be completed for the 2012 summer season and they will reopen as the world's first Park Plaza® Resorts

Our relationship

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

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

In 2008, we acquired a 20% stake in Arenaturist, the holding company of the Arenaturist group, and we were awarded the management agreement for Arenaturist. Arenaturist d.d. is listed on the Zagreb Stock Exchange. The Arenaturist group is accounted for as an associate in the Consolidated financial statements.

Our progress

Since we started operating Arenaturist, we have mainly focused on improving the operational results. We appointed a new board and senior management and initiated several staff training programmes focusing on improving overall guest experiences.

We launched new websites and invested in those facilities that would provide an immediate return, whilst continuing to develop our longer term renovation plans. Several planning applications have since been submitted and granted.

In time for the 2011 season, we implemented a new multi-property management system, which now serves as this group's technology backbone. This management system has not only led to efficiency but it also provides the team with greater visibility and reporting and forecasting tools.

After the close of the 2011 summer season, we started extensive renovations at Hotel Histria, Punta Verudela and Hotel Medulin. This project includes 816 rooms and apartments as well as a shopping area, children's playground, spa and leisure centre, tennis courts, conference centre, landscaping and several restaurants and bars.

Renovations at these hotels are planned to be completed in May/June 2012 and they reopen as Park Plaza Histria Pula, Park Plaza Verudela Pula and Park Plaza Medulin.

For more information, visit arenaturist.com or the hotel websites parkplaza.com/histria, parkplaza.com/verudela and parkplaza.com/medulin

Park Plaza Verudela Pula

Park Plaza Histria Pula

Our CSR policy is a genuine, active and responsible commitment to our environment and society.

Vision | Mission | Values | Context | Strategy

↕

Corporate Social Responsibility

↕

General Managers and Regional Managers

Managing CSR at PPHE Hotel Group

Our Corporate Social Responsibility policy forms an integral part of our values and context and is pro-actively lived by the hotels and its employees.

Certification

It is important for us to know if we are on the right track with our activities and we therefore highly value external accreditation. Several of our hotels have worked with the respective authorities in this area and have received the relevant accreditation. We will be reviewing similar initiatives for our other hotels.

Park Plaza County Hall London	Gold Award	The Green Tourism Business Scheme, UK
Park Plaza Westminster Bridge London	Gold Award	The Green Tourism Business Scheme, UK
Park Plaza Victoria London	Bronze Award	The Green Tourism Business Scheme, UK
Park Plaza Nottingham	Silver Award	The Green Tourism Business Scheme, UK
Park Plaza Victoria Amsterdam	Silver Award	The Green Key
Park Plaza Eindhoven	Gold Award	The Green Key
Park Plaza Utrecht	Silver Award	The Green Key

Considerate Hotels Association – United Kingdom

Park Plaza Riverbank London

Plaza on the River London

Park Plaza County Hall London

Sustainable Restaurants Association – United Kingdom

Spectrum Restaurant London – two gold stars

Corporate social responsibility

At PPHE Hotel Group corporate social responsibility (CSR) is part of our everyday operations. With 38 hotels in operation across six countries we are fully aware that we play a significant role and that our activities in this area can make a real difference.

In our sector people will always need to travel and it is important for the hotel, hospitality and tourism industry to take the lead in finding alternate ways of mitigating their environmental impact. We understand that sustainable environmental practices reflect the expectations and desires of our guests, suppliers, partners and stakeholders and choose achievable realistic goals to support our CSR objectives.

During 2011, taking into account all our hotels, under all types of contract, over 2,500 employees were working for PPHE Hotel Group. Alongside the several million guests that stay at or visit our hotels each year we can make a real difference by making sure that our employees as well as our guests are familiar with our CSR policy and their contribution to our success in this area. Our CSR policy is a genuine, active and responsible commitment to our environment and society. We thrive on making a positive contribution to local communities, being a good employer and minimising our environmental impact.

Our company culture is based around delivering excellent customer value and we encourage our employees to be pro-active in delivering great guest service. As an employer in a highly competitive market we ensure that our staff can work in an environment where there is trust, openness, support and room for personal development. Part of our service delivery to guests also means that we take responsibility towards the environment and the local communities in which we operate.

Engaging our workforce

To ensure our teams are fully familiar with our CSR policy and procedures, and embrace the supporting initiatives, these have now been fully included in our mandatory staff induction programmes. The policy and best practice examples are also made available on our newly launched you:niverse intranet and e-learning portal and the policy document is available on our company website pphe.com.

Our annual employee satisfaction survey, which is conducted each November by an independent third party, also includes several questions relating to our CSR activities and policy. Our 2011 overall survey participation rate was at its highest ever at 96%, and 80% of participants indicated that they are familiar with our CSR policy, representing an 11.1% per increase on last year.

The area of Ethical Standards was in fact the best performing area across the entire survey, with an overall increase of 2.4% to 84.8. Topics addressed as part of Ethical Standards include environmental matters, honesty and ethical management, tolerance and openness to diversity, safety and honesty and transparency. We are proud to report high marks all round. Overall working conditions were rated 80.9, which represents a year on year increase of 2.2%. The growth reported is a real testament to the success of our hotels' hard work in these areas.

Green teams at work

In the United Kingdom our hotels have created dedicated 'green teams' whose aim is to increase the positive impact each hotel has on the environment and the local community.

For example, the green team of Park Plaza County Hall London consists of a cross section from all the hotels' departments to ensure maximum benefit to the hotel and enhancement of the guest experience. The team meets regularly and their joint efforts have led to notable successes such as industry recognition and various types of certification.

Key environmental initiatives

Our activities to operate more efficiently and environmentally are wide ranging and we constantly look for ways to improve our performance and minimise our environmental impact. Some of the activities we constantly review and have implemented include:

- Switching to energy saving LED lighting;
- Reducing waste by minimising packaging for breakfast and operating a waste separation policy;
- Treating hotel renovations as an opportunity for installing more efficient equipment and using more sustainable materials;
- Installation of water saving devices and valves in the rooms;
- Installation of motion detectors for lighting in the lobby, bar and lounge areas;
- Installation of osmosis systems in kitchens to reduce the amount of water and cleaning supplies used;
- Ride2Work cycle scheme;
- Encouraging our staff to use public transport or to share cars when attending meetings or training;
- Recycling;
- Advising our guests on how they can have a more environmentally sustainable stay;
- Introducing new initiatives such as e-folio (eliminating the need to print invoices) and offering guest services directories through the television system (eliminating the need for printing directories).

Charities and communities

Charitable initiatives and local community work play a significant role in our business. The Company actively endorses and supports the Willow Foundation. All hotels are encouraged to actively support and contribute to their local initiatives. During 2011, we supported:

- Deutsche Kinderhilfe in Germany, a charity which helps children with leukemia and their family members, through fundraising and providing assistance with renovating a guest house for family members;
- Csodalámpa in Hungary, a charity which aims to fulfill wishes from very ill children;
- Movember and Sleepsmart/Streetsmart in the United Kingdom. Our hotels raised more than £60,000 for Movember, the charity which is dedicated to testicular health and Sleepsmart/Streetsmart which is aimed at helping the homeless back into accommodation.

The Springboard Charity

A particular highlight is our work with The Springboard Charity which is a charity helping young, unemployed and disadvantaged people improve their prospects for economic well being. The charity provides opportunities for permanent employment, or exciting careers in hospitality, leisure and tourism.

In 2011 Park Plaza County Hall London was awarded with the Springboard Award for Excellence, for 'Best Student Placement Provider', having already won the award for 'Best Employer' in 2010.

Board of Directors

Eli Papouchado (74)
Non-Executive Chairman

Mr. Papouchado is the founder of the Red Sea Group and has previously acted as the Chairman of its board for ten years. He has been involved in the construction, design, development, financing, acquisition and management of leading hotels, including Park Plaza Westminster Bridge London, Park Plaza Riverbank London, Park Plaza Victoria London, Park Plaza Leeds, Park Plaza Nottingham, Park Plaza Victoria Amsterdam, the milestone Taba Hotel and many others. Mr. Papouchado was involved in the development of hundreds of thousands of square metres of retail space in shopping malls and large residential projects in the United States, Eastern Europe and the Middle East. He also served as Chairman of the Israel Hotel Association.

Boris Ivesha (66)
President and Chief Executive Officer

Mr. Ivesha has been the President of PPHE Hotel Group since 1991. In 1972, he was appointed General Manager of the Royal Horseguards Hotel in London, a position he held until 1979, when he became a Managing Director for the Carlton Hotel in Israel. Mr. Ivesha established the Yamit Hotel in 1984, served as the hotel's President and brought the Park Plaza® Hotels & Resorts brand to the Group in 1994 in collaboration with the Red Sea Group. He has been one of the major drivers behind the expansion of the Group's portfolio.

Chen Moravsky (41)
Chief Financial Officer

Mr. Moravsky has been the Chief Financial Officer of PPHE Hotel Group since 2005. He was previously the Financial Director of the Red Sea Group which he joined in 2001. It was at the Red Sea Group where he gained his expertise in the hotel/leisure business and real estate investment market. Mr. Moravsky was previously employed as an Audit Manager at Deloitte. Mr. Moravsky is a Certified Public Accountant (ISR) and holds an MBA from The University of Manchester as well as a Bachelor of Business from the Tel Aviv College of Management.

Kevin McAuliffe (54)
Non-Executive Director
Senior Independent Director

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

Elisha Flax (50)
Non-Executive Director

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

Nigel Jones (50)
Non-Executive Director

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

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2011.

Principal activities

The Company is a Guernsey registered company and through its subsidiaries, jointly-controlled entities and associates, owns, leases, operates, franchises and develops full service upscale and lifestyle hotels in major gateway cities and regional centres predominantly in Europe.

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

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

We have a minority ownership interest in the Arenaturist group, one of Croatia's leading hospitality companies.

Our portfolio of owned, leased, managed and franchised hotels comprises 38 hotels offering a total of 8,376 rooms.

Our development pipeline includes three new hotels and two mixed-use developments, which together are expected to add approximately a further 900 rooms to the portfolio by the end of 2014.

Business review

A review of the business during the year is contained in the Chairman's statement, Chief Executive Officer's statement, strategy and performance overview, Chief Financial Officer's statement and review of 2011.

Results and 2011 dividend

The results for the year are set out in the attached Consolidated financial statements. Basic and diluted earnings per share for the year was €0.37 (2010: €1.52). The Board recommends to the AGM to declare the payment of a final dividend of 6.0 pence per share for the year ended 31 December 2011.

As a matter of Guernsey law, any payment of dividends must be made in accordance with the provisions of the Companies (Guernsey) Law, 2008 (as amended). Prior to declaring any dividends, the Directors are required to carry out a liquidity or cash flow test and a balance sheet solvency test and must satisfy themselves on reasonable grounds that the Company will, immediately after the payment of the dividend remain solvent i.e. be able to pay its debts as they fall due and the value of its assets will continue to exceed the value of its liabilities. The test requires the Directors to make a future assessment by making reference to the solvency test being satisfied immediately after a distribution or dividend payment is made. If at the time a dividend or distribution payment is to be made, the Directors believe that the solvency test cannot be passed, then no payment may be made to the holders of shares.

Principal risks and uncertainties

Internal controls and an effective risk management regime are integral to the Group's continued operation. Overall responsibility for the risk management processes adopted by the Group lies with the Board. On behalf of the Board, the Audit Committee reviews the effectiveness of the Group's internal control policies and procedures for the identification, assessment and reporting of risks. In order to maintain oversight and seek comfort as to Group policies and procedures, an independent internal auditor was appointed to act as a tool to rigorously and continuously test Group procedures. For further details in respect of the Group's internal control processes, please refer to the Corporate Governance section of this report.

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

Number of issued shares	42,677,292
Held in treasury by PPHE Hotel Group	1,662,000
Number of issued shares (excluding treasury)	41,015,292

Shareholders with holdings of 3% or more of the Company's issued share capital (excluding treasury) as at 23 February 2012	Number of shares	Percentage of issued share capital (excluding treasury)
Red Sea Group	18,552,714	45.2%
Molteno Limited	7,990,027	19.5%
Aroundtown Property Holdings Limited	3,762,000	9.2%
Morgan Stanley Securities Limited	1,709,768	4.17%

Risk and impact	Mitigation	Grading	Change
Risk name			
Information technology and systems The Group is reliant on certain technologies and systems for the operation of its business. Any material disruption or slowdown of the Group's information systems, especially any failures relating to its reservation system, could cause valuable information to be lost or operations to be delayed. In addition, the Group and its hotels maintain personal customer data, which is shared with and retained by the Group's partner. Such information may be misused by employees of the Group or its partner or other outsiders if there is an inappropriate or unauthorised access to the relevant information systems.	The Group invests in appropriate IT systems so as to obtain as much operational resilience as possible. Further, a variety of security measures is implemented in order to maintain the safety of personal customer information.	High	↔
Market and hotel industry risks The Group's operations and their results are subject to a number of factors that could adversely affect the Group's business, many of which are common to the hotel industry and beyond the Group's control, such as the global economic downturn, changes in travel patterns or in the structure of the travel industry and the increase of acts of terrorism. The impact of any of these factors (or a combination of them) may adversely affect sustained levels of occupancy, room rates and/or hotel values.	Although management continually seeks to identify risks at the earliest opportunity, many of these risks are beyond the control of the Group. The Group has in place contingency and recovery plans to enable it to respond to major incidents or crises and takes steps to minimise these exposures to the greatest extent possible.	High	↔
The Group's borrowings The Group is exposed to a variety of risks associated with the Group's existing bank borrowings and its ability to satisfy debt covenants. Failure to satisfy obligations under any current or future financing arrangements could give rise to default risk and require the Group to refinance its borrowings.	The Board monitors funding needs regularly. Financial covenant ratios are monitored and sensitised as part of normal financial planning procedures. For details of the Company's hedging arrangements, please refer to Note 31 to the Consolidated financial statements.	Medium	↑
Fixed operating expenses The Group's operating expenses, such as personnel costs, operating leases, information technology and telecommunications, are to a large extent fixed. As such, the Group's operating results may be vulnerable to short-term changes in its revenues.	The Group has appropriate management systems in place (such as staff outsourcing) designed to create flexibility in the operating cost base so as to optimise operating profits in volatile trading conditions.	Medium	↔

Risk and impact	Mitigation	Grading	Change
Risk name			
Foreign exchange rate fluctuations The exchange rates between the functional currency of the Group's subsidiaries operating outside the Eurozone, and the Euro (the reporting currency for the purposes of the Consolidated financial statements) may fluctuate significantly, affecting the Group's financial results. In addition, the Group may incur currency transaction risk in the event that one of the Group companies enters into a transaction using a different currency from its functional currency.	The Group eliminates currency transaction risk by matching commitments, cash flows and debt in the same currency.	Low	↔
The Park Plaza® Hotels & Resorts brand and reservation system The Group's rights to the Park Plaza® Hotels & Resorts brand stem from a territorial licence agreement with Carlson℠, pursuant to which the Group has the exclusive right to use (and to sub-license others to use) the Park Plaza® Hotels & Resorts trademark in 56 countries within the EMEA region. This agreement also allows the Group to use Carlson℠'s highly cost-effective central reservation system. Failure to maintain these rights could adversely affect the Group's brand recognition and its profitability.	The Group's rights to use the Park Plaza® Hotels & Resorts brand and Carlson℠'s central reservation system are in perpetuity. This unique and exclusive partnership is reinforced by the Group's continued focus on operational efficiency and portfolio growth through its intensified cooperation with Carlson℠.	Low	↔
Guaranteed return of investment to Park Plaza Westminster Bridge London unit holders Marlbray Limited, the freehold owner of Park Plaza Westminster Bridge London, and the Company have guaranteed (directly or indirectly) to all (but four) of the purchasers of units in Park Plaza Westminster Bridge London a 5% or 6% return on their investment (with the exception of two units in respect of which the guaranteed annual return is less than 5%) for a period of five years from the second month of completion. To the extent that net income is less than the guaranteed return, Marlbray and the Company will be obliged to make up any shortfall.	Marlbray is entitled to receive and retain all net income generated by the units sold during the term of the guarantees and if such income exceeds guaranteed return, Marlbray benefits from the surplus. This arrangement, combined with a regular monitoring of revenues, allows management to effectively control costs and to minimise the impact of any shortfalls.	Low	↔
Key senior personnel and management The success of the Group's business is partially attributable to the efforts and abilities of its senior managers and key executives. Failure to retain its executive management team or other key personnel may threaten the success of the Group's operations.	The Group has appropriate systems in place for recruitment, reward and compensation and performance management. Development and maintenance of a Group culture also plays a leading role in minimising this risk. The Group has further enhanced its management structure by appointing a Chief Operating Officer, a Vice President of Restaurants and Bars and a Vice President of Asset Management	Low	↓

↔ Unchanged during the year
↑ Increased during the year
↓ Reduced during the year

Directors

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

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

In accordance with good corporate governance practice, the entire Board will stand for re-election at the forthcoming AGM. Details of the Directors' remuneration are included within the Remuneration Report.

Employees

During 2011, taking into account all our hotels, under all types of contract, over 2,500 employees were working for PPHE Hotel Group.

Share capital

The issued share capital of the Company together with the details of the movements in the Company's share capital during the year are shown in Note 15 of the Consolidated financial statements.

Largest shareholders

The table provided on page 34 contains shareholders holding 3% or more of the Ordinary Shares as at 23 February 2012, of which the Company has been notified by its Registrar.

Auditors

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

Going concern

The Board believes it is taking all appropriate steps to support the sustainability and growth of the Group's activities. Detailed budgets and cash flow projections have been prepared for 2012 and 2013 which show that the Group's hotel operations will be cash generative during the period. This, taken together with their conclusions on the matters referred to below and in Note 1(d) to the Consolidated financial statements, have led the Directors to conclude that it is appropriate to prepare the 2011 Consolidated financial statements on a going concern basis.

Directors' responsibilities

The Directors are required to prepare the Directors' Report and the Consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that year.

In preparing those Consolidated financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Consolidated financial statements; and
- prepare the Consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Consolidated financial statements have been properly prepared in accordance with the Companies (Guernsey) Law, 2008 (as amended). The Directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors declaration

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware and each has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' responsibility statement

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

The business review, which is incorporated into this report, the Chairman's Statement, the Chief Executive Officer's statement and the Chief Financial Officer's Statement include a fair view of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Boris Ivesha
President and Chief Executive Officer

Chen Moravsky
Chief Financial Officer

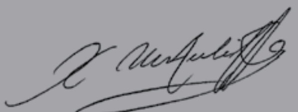
7 March 2012

Corporate governance

Introduction

As a company, whose shares are admitted to the standard listing segment of the Official List of the UK Listing Authority, the Company is not required to comply or explain against the requirements of the UK Corporate Governance Code published by the Financial Reporting Council ('FRC') in 2010 (the 'Corporate Governance Code') and available from the FRC website www.frc.org.uk. The Board recognises the value of high standards and has put in place a framework for corporate governance which enables the Company to voluntarily comply with the main requirements of the Corporate Governance Code.

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



Kevin McAuliffe
Senior Independent Director

Board composition, roles and independence

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

The Corporate Governance Code recommends that the Board of Directors of a listed company includes a balance of Executive and Non-Executive Directors such that no individual or group of individuals can dominate the Board's decision making. The Corporate Governance Code further recommends that the Chairman, on appointment, be independent.

The Company's Chairman, Eli Papouchado, is the founder of the Red Sea Group (of which Euro Sea, the Company's largest shareholder, is a part) and was not therefore on appointment, and is not, independent of the Company. However the Board believes that Mr. Papouchado's extensive experience and knowledge of the Group's business as well as the hotel business generally justify this departure from the recommendations of the Corporate Governance Code.

As recommended by the Corporate Governance Code, three of the Directors (being more than half of the Board excluding the Chairman), namely Elisha Flax, Kevin McAuliffe and Nigel Jones are regarded by the Company as being independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. Kevin McAuliffe has an indirect 1% interest in C.L. Secretaries Limited, the Company's Secretary. The Board does not, however, consider this interest to be sufficiently material to affect Mr. McAuliffe's independence.

As recommended by the Corporate Governance Code, the Board has appointed Kevin McAuliffe as the Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary. During the year there have been meetings between the Non-Executive Directors without the Executive Directors present.

The Board has responsibility for the Group's strategic and financial policies and meets regularly. All the Directors have access to the advice and services of the Group's General Counsel and Company Secretary and are able to gain access to external independent advice at the Company's expense should they wish to do so in the furtherance of their duties.

An appropriate balance of Executive and Non-Executive members of the Board is maintained and the Board is supplied with regular and timely information concerning the activities of the Group in order to enable it to exercise its responsibilities and control functions in a proper and effective manner.

The Board has a breadth of experience relevant to the Company, and the Directors believe that any changes to the Board's composition can be managed without undue disruption. With any new Director appointment to the Board, an appropriate induction will be set up.

The Board considers agenda items laid out in the notice of board meeting and agenda which are formally circulated to the Board in advance of the Board meetings as part of the Board papers and therefore Directors may request any agenda items to be added that they consider appropriate for Board discussion. Additionally, each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussion.

The primary focus at Board meetings is a review of operating performance, potential investments and joint ventures and matters such as financing arrangements, as well as marketing/investor relations, risk management, general administration and compliance, peer group information and industry issues.

The Board evaluates its performance and considers the tenure of each Director on an annual basis, and believes that the mix of skills, experience, ages and length of service is appropriate to the requirements of the Company. The entire Board retire and stands for re-election annually at the Annual General Meeting.

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

Composition of Board

Executive Directors	2
Non-Executive Directors	4

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

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

Directors' duties

The Directors have adopted a set of reserved powers, which establish the key purpose of the Board and detail its major duties.

These duties cover the following areas of responsibility:

- statutory obligations and public disclosure;
- strategic matters and financial reporting;
- oversight of management and personnel matters;
- risk assessment and management, including reporting;
- monitoring, governance and control; and
- other matters having material effects on the Company.

These reserved powers of the Board have been adopted by the Directors to clearly demonstrate the seriousness with which the Board takes its fiduciary responsibilities and as an ongoing means of measuring and monitoring the effectiveness of its actions.

External appointments

Directors may hold directorships or other significant interests with companies outside of the Group which may have business relationships with the Group. Executive directors may not accept external directorships and retain any fees earned from those directorships without prior discussion with the Chief Executive Officer and always provided this does not lead to any conflicts of interest and that they do not hold more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such company. In the case of the Chief Executive Officer, prior discussion will need to be held with the Chairman.

Directors' indemnities and protections

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

Board Committees

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

Audit Committee

An Audit Committee has been established and comprises Kevin McAuliffe (Chairman), Elisha Flax and Nigel Jones and meets at least three times a year. The Audit Committee assists the Board in observing its responsibility for ensuring that the Group's financial systems provide accurate and up-to-date information on its financial position and that the published Consolidated financial statements represent a true and fair reflection of this position. It also assists the Board in ensuring that appropriate accounting policies, internal financial controls and compliance procedures are in place. The Audit Committee receives information from the Chief Financial Officer, the Company Secretary, the internal auditor and the external auditors.

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

Audit Committee Report for 2011

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

Meeting and Committee attendance

Name	Role	Board meetings*	Audit Committee	Remuneration Committee	Nominations Committee
Eli Papouchado	Non-Executive Chairman	2	NA	NA	NA
Boris Ivesha	President and Chief Executive Officer	6	NA	1†	NA
Chen Moravsky	Chief Financial Officer	4	4†	NA	NA
Kevin McAuliffe	Non-Executive Director and Senior Independent Director	6	5	1	1
Elisha Flax	Non-Executive Director	5	5	1	1
Nigel Jones	Non-Executive Director	7	5	NA	1
Total meetings held		**7**	**5**	**1**	**1**

* Includes one ad hoc Board Committee meeting.
† Attended as a non-member at the request of the respective Committee.

During these meetings the Audit Committee considered the following:

- the integrity of the financial statements and other formal announcements relating to the Group's financial performance and, in particular, reviewed the judgements that are contained within the financial statements;
- refinancing transactions;
- third party related transactions;
- renovation plans and the growth of the property/asset portfolio;
- the Group's internal control and risk management policies and systems, and their effectiveness;
- recoverability of receivables and impairment of assets;
- determination of fair values in the context of acquisitions;
- corporate restructuring and consequential potential tax issues;
- a review of arrangements reached with related parties;
- the appointment of a dedicated asset manager for the Group's property portfolio; and
- the auditors' performance during the year.

The Audit Committee recommends that the Board presents the resolution to the shareholders at the AGM to re-appoint Ernst & Young LLP as external auditors.

Objectives achieved following recommendations by the Audit Committee:

1 The appointment of a dedicated internal auditor with effect from 1 July 2011;

2 Construction of a comprehensive internal audit programme and detailed risk management matrix across the Group;

3 A complete review of all aspects of the procedures and controls surrounding the Group's bank borrowings;

4 The launch of an in depth review of the procedures and controls in place regarding the Group's property portfolio; and

5 The appointment of a dedicated asset manager for the Group's property portfolio.

Remuneration Committee

A Remuneration Committee has been established and comprises Kevin McAuliffe (Chairman) and Elisha Flax. The Remuneration Committee advises the Board on an overall remuneration policy and meets as and when required. The Remuneration Committee also determines, on behalf of the Board, and with the benefit of advice from external consultants, the remuneration packages of the Executive Directors. The Board determines the remuneration of the Non-Executive Directors.

There has been one Remuneration Committee meeting during 2011.

Nominations Committee

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

There have been no new candidates to the Board during 2011. There has been one meeting of the Nomination Committee during 2011 to review and consider Lord Davies' Report on 'Women on Boards' and it was resolved that should a vacancy on the Board arise, equal opportunities would be given to both male and female candidates.

Communications with shareholders

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

The Board reports to the shareholders on its stewardship of the Company through the publication of interim and final results each year. Press releases are issued throughout the year and the Company maintains a website (parkplazahotels.net; pphe.com) on which press releases and the annual report and accounts are available to view. Additionally, this annual report contains extensive information about the Company's activities. Enquiries from individual shareholders on matters relating to the business of the Company are welcomed. The Executive Directors and Non-Executive Directors also meet with major shareholders to discuss and review the progress of the Company and to understand their issues and concerns, as well as discussing governance and strategy.

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

The Annual General Meeting provides an opportunity for communication with all shareholders and the Board encourages the shareholders to attend and welcomes their participation. The Directors attend the Annual General Meeting and are available to answer questions. Details of resolutions to be proposed at the Annual General Meeting of the Company to be held on 25 April 2012 2012 are included in the Notice of Annual General Meeting which has been posted to shareholders and can be found on the Company's website (parkplazahotels.net; pphe.com).

Internal controls

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

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

The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the Group's process for preparing consolidated accounts. These systems include policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of Consolidated financial statements in accordance with IFRS. The Audit Committee reviews draft annual and interim reports before recommending their publication to the Board. The Audit Committee discusses with the Chief Executive Officer, Chief Financial Officer and external auditors the significant accounting policies, estimates and judgments applied in preparing these reports.

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

Share dealing code

The Company has adopted a share dealing code for Directors and relevant employees, which is in accordance with the requirements of the Model Code for Securities Dealings (as set out in the Listing Rules of the UK Listing Authority).

Shareholder enquiries

For information about the management of shareholdings please contact our registrar:

Shareholder Services
Capita Registrars
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

E: ssd@capitaregistrars.com

T: UK 0871 664 0300

Calls cost 10p per minute plus network extras.

T: Overseas +44 208 639 3399

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

Investor relations enquiries

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

T: +31 (0)20 717 8602

F: +31 (0)20 717 8699

E: cmoravsky@pphe.com

pphe.com

Website

Annual reports, half year reports and shared information are all available on our websites pphe.com and parkplazahotels.net

Financial calendar

Financial year:
1 January to 31 December

Interim:
Six months ending 30 June

Results
Interims: August 2012
Final: 8 March 2013

Annual General Meeting:
25 April 2012

London stock exchange trading code

LSE: PPH

Report of the Remuneration Committee and Directors' Remuneration Report

Remuneration policy

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

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

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

Service contracts and letters of appointment

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

Each Non-Executive Director has specific terms of reference. Their letters of appointment provide for a fixed term expiring on the 6th anniversary of each Director's appointment and are subject to termination by either side on three months' notice. The letters of appointment contain no entitlement of compensation for early termination. Details of the contract dates and notice periods are set out in the table below.

Non-performance related remuneration

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

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

Pensions

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

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

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

Performance related remuneration

The Company did not grant performance related remuneration in the years ended 31 December 2011 and 2010.

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

Directors' remuneration €'000

Chairman and Executive Directors	Eli Papouchado	Boris Ivesha	Chen Moravsky	Total
Salary and fees	115	389	275	779
Other taxable benefits	–	188	113	301
Total remuneration for the year ended 31 December 2011	115	577	388	1,080
Total remuneration for the year ended 31 December 2010	117	586	380	1,083

Non-Executive Directors	Kevin McAuliffe	Nigel Jones	Elisha Flax	Total
Salary and fees	46	40	46	132
Total remuneration for the year ended 31 December 2011	46	40	46	132
Total remuneration for the year ended 31 December 2010	46	41	47	134

On behalf of the Board

Kevin McAuliffe
Chairman of the Remuneration Committee

Consolidated financial statements

Contents

Consolidated statement of financial position

	Note	As at 31 December 2011 €'000	2010 €'000
Assets			
Non-current assets:			
Intangible assets	4	**40,748**	42,313
Property, plant and equipment	5	**610,881**	605,242
Apart-hotel units under management	6	**168,607**	160,586
Prepaid leasehold payments	7	**234**	244
Investment in associate	8	**21,508**	22,140
Other non-current financial assets	9	**30,311**	27,389
Restricted deposits and cash	17b	**12,620**	–
		884,909	857,914
Current assets:			
Inventories under construction	10	**7,851**	–
Restricted deposits and cash	17b	**3,563**	21,999
Inventories		**1,265**	1,351
Other current financial assets	11	**1,499**	1,671
Trade receivables	12	**16,939**	17,176
Other receivables and prepayments	13	**9,057**	9,557
Cash and cash equivalents	14	**29,506**	25,637
		69,680	77,391
Total assets		**954,589**	935,305
Equity and liabilities			
Equity:	15		
Issued capital		**–**	–
Share premium		**237,729**	237,729
Other reserves		**(36,544)**	(36,445)
Treasury shares		**(3,181)**	(1,083)
Foreign currency translation reserve		**(35,565)**	(36,507)
Hedging reserve		**(17,072)**	(1,087)
Accumulated earnings		**55,864**	40,611
Total equity		**201,231**	203,218
Non-current liabilities:			
Bank borrowings	18	**411,215**	261,570
Advance payments from Apart-hotel unit holders	6	**182,060**	176,503
Deposits received from Apart-hotel unit holders	17b	**12,279**	–
Other financial liabilities	19	**86,502**	65,299
Deferred income taxes	26	**4,121**	8,770
		696,177	512,142
Current liabilities:			
Trade payables	29	**14,249**	24,998
Deposits received from Apart-hotel unit holders	17b	**–**	18,234
Other payables and accruals	20	**36,019**	37,419
Bank borrowings	18	**6,913**	139,294
		57,181	219,945
Total liabilities		**753,358**	732,087
Total equity and liabilities		**954,589**	935,305

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

Date of approval of the financial statements 7 March 2012.

Boris Ivesha, President and Chief Executive Officer

Chen Moravsky, Chief Financial Officer

Consolidated income statement

	Note	Year ended 31 December 2011 €'000	2010 €'000
Revenues	21	**202,380**	139,829
Operating expenses	22	**(127,351)**	(93,382)
EBITDAR		**75,029**	46,447
Rental expenses		**(9,979)**	(8,814)
EBITDA		**65,050**	37,633
Depreciation and amortisation		**(18,492)**	(12,409)
EBIT		**46,558**	25,224
Financial expenses	23	**(28,227)**	(28,873)
Financial income	24	**3,511**	10,421
Other income and expenses	25	**1,720**	60,351
Interest expenses guaranteed to Apart-hotel unit holders	17b	**(10,426)**	(4,279)
Share in loss of associate	8	**(2,502)**	(2,362)
Profit before tax		**10,634**	60,482
Income tax benefit	26	**4,619**	1,421
Profit for the year		**15,253**	61,903

Profit (loss) attributable to:			
Owners of the parent		**15,253**	61,903
Non-controlling interests		**–**	–

Basic and diluted earnings per share in Euro			
Basic and diluted earnings per share attributable to the equity holders of the Company during the year	27	**0.37**	1.52

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

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2011 €'000	2010 €'000
Profit for the year		**15,253**	61,903
Other comprehensive income (loss):			
Fair value gain (loss) on available-for-sale financial assets[1]		**(107)**	289
Reclassification adjustment for (profit) loss from available-for-sale financial assets recorded in income statement[1]		**–**	(346)
Loss from cash flow hedges[2]		**(15,985)**	(911)
Cash flow hedges recycled through profit or loss[2]		**–**	8,920
Reclassification adjustment in respect of foreign currency translation reserve[3]	3c	**–**	(9,390)
Foreign currency translation adjustments of foreign operations[3]		**1,360**	1,205
Foreign currency translation adjustment of associate[3]		**(418)**	54
Other comprehensive income (loss)		**(15,150)**	(179)
Total comprehensive income		**103**	61,724
Attributable to:			
Owners of the parent		**103**	61,724
Non-controlling interests		**–**	–

1 Included in other reserves.
2 Included in hedging reserve.
3 Included in foreign currency translation reserve.

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

Consolidated statement of changes in equity

	Issued capital*	Share premium	Other reserves	Treasury shares	Foreign currency translation reserve	Hedging reserve	Accumulated earnings (accumulative deficit)	Total	Non controlling interests	**Total equity**
Balance as at 1 January 2010	–	236,000	(36,418)	(1,083)	(28,376)	(9,096)	(21,292)	139,735	–	**139,735**
Profit for the year	–	–	–	–	–	–	61,903	61,903	–	**61,903**
Other comprehensive loss for the year	–	–	(57)	–	(8,131)	8,009	–	(179)	–	**(179)**
Total comprehensive income	–	–	(57)	–	(8,131)	8,009	61,903	61,724	–	**61,724**
Issue of shares	–	1,729	–	–	–	–	–	1,729	–	**1,729**
Share-based payments	–	–	30	–	–	–	–	30	–	**30**
Balance as at 31 December 2010	–	237,729	(36,445)	(1,083)	(36,507)	(1,087)	40,611	203,218	–	**203,218**
Profit for the year	–	–	–	–	–	–	15,253	**15,253**	**–**	**15,253**
Other comprehensive loss for the year	–	–	(107)	–	942	(15,985)	–	**(15,150)**	**–**	**(15,150)**
Total comprehensive loss	–	–	(107)	–	942	(15,985)	15,253	**103**	**–**	**103**
Purchase of treasury shares	–	–	–	(2,098)	–	–	–	**(2,098)**	**–**	**(2,098)**
Share-based payments	–	–	8	–	–	–	–	**8**	**–**	**8**
Balance as at 31 December 2011	–	237,729	(36,544)	(3,181)	(35,565)	(17,072)	55,864	**201,231**	**–**	**201,231**

* No par value.

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

Consolidated statement of cash flows

	Note	Year ended 31 December 2011 €'000	2010 €'000
Cash flows from operating activities:			
Profit for the year		**15,253**	61,903
Adjustment to reconcile profit to cash provided by operating activities:			
Financial expenses and interest expenses guaranteed to Apart-hotel unit holders		**38,653**	33,151
Financial income		**(3,511)**	(10,421)
Income tax benefit		**(4,619)**	(1,421)
Negative goodwill on acquisition of Schiphol Victoria Hotel C.V.		**–**	(308)
Negative goodwill on acquisition of Park Plaza Leeds and Park Plaza Nottingham		**–**	(1,756)
Negative goodwill on acquisition of Park Plaza Riverbank London (including Plaza on the River), Park Plaza Victoria London, Park Plaza Sherlock Holmes London		**–**	(7,933)
Capital gain from obtaining control in a former jointly controlled entity		**–**	(50,825)
Share in loss of associates		**2,502**	2,362
Depreciation and amortisation		**18,492**	12,409
Share-based payments		**8**	30
		51,525	(24,712)
Changes in operating assets and liabilities:			
Increase in inventories under construction		**(6,487)**	(5,013)
(Increase) decrease in inventories		**100**	(663)
Increase in trade and other receivables		**55**	(5,658)
Increase (decrease) in trade and other payables		**(12,373)**	11,112
		(18,705)	(222)
Cash paid and received during the period for:			
Interest paid		**(30,521)**	(22,880)
Interest received		**146**	1,011
Taxes paid		**(114)**	170
Taxes received		**–**	(119)
		(30,489)	(21,818)
Net cash provided by operating activities		**17,584**	15,151
Cash flows from investing activities:			
Investments in property, plant, equipment and Apart-hotel units	5, 6	**(10,973)**	(23,101)
Investments in intangible fixed assets	4	**(1,003)**	
Net change in cash upon acquisition of Schiphol Victoria Hotel C.V.	3	**–**	(739)
Net change in cash upon acquisition of Park Plaza Leeds and Park Plaza Nottingham	3	**–**	(9,619)
Net change in cash upon acquisition of Park Plaza Riverbank London (including Plaza on the River), Park Plaza Victoria London, Park Plaza Sherlock Holmes London	3	**–**	2,945
Loans to jointly controlled entities and to partners in jointly controlled entities		**(82)**	(8,396)
Decrease (increase) in restricted deposits		**8,551**	45,127
Purchase of available-for-sale investment in bonds and securities		**–**	(693)
Purchase of available-for-sale investment in shares		**–**	(390)
Proceeds from sale of available-for-sale investment in shares		**–**	14,723
Advance payments from unit holders		**–**	130,538
(Increase) decrease in restricted cash		**(2,173)**	28
Loans to unit holders		**–**	(2,180)
Net cash (used in) provided by investing activities		**(5,680)**	148,243

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

Consolidated statement of cash flows

	Year ended 31 December	
	2011 €'000	2010 €'000
Cash flows from financing activities:		
Purchase of treasury shares	**(2,098)**	–
Increase in deposits from Apart-hotel unit holders	**–**	1,757
Proceeds from long-term loans	**10,484**	100,358
Repayment of long-term loans	**(17,052)**	(114,441)
Increase in short-term loans		(169,012)
(Repayment) loans from jointly controlled entities and from partners in jointly controlled entities	**44**	8,635
Net cash used in financing activities	**(8,622)**	(172,703)
Increase (decrease) in cash and cash equivalents	**3,282**	(9,309)
Net foreign exchange differences	**587**	528
Cash and cash equivalents at beginning of year	**25,637**	34,418
Cash and cash equivalents at end of year	**29,506**	25,637

	Year ended 31 December	
	2011 €'000	2010 €'000
Significant non-cash transactions:		
Purchase of inventories under construction and fixed assets	**–**	14,081
Issue shares	**–**	1,729
Total non-cash transactions	**–**	15,810

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

Notes to Consolidated financial statements

Note 1 General

a. The Consolidated financial statements of PPHE Hotel Group Limited ("the Company") for the year ended 31 December 2011 were authorised for issuance in accordance with a resolution of the Directors on 7 March 2012.

b. On 29 February 2012, the Company changed its name from Park Plaza Hotels Limited to PPHE Hotel Group Limited.

c. Description of business and formation of the Company:

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

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

d. Assessment of going concern:

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

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

Note 2 Summary of significant accounting policies

a. **Basis of preparation:**

Statement of compliance

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

The Consolidated financial statements of the Company and all its subsidiaries, jointly controlled entities and associates (together "the Group") have been prepared in accordance with International Financial Reporting Standards (IFRS) which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards Committee interpretations as issued by the International Accounting Standards Board (IASB) as adopted by the European Union.

The accounting policies used in preparing the Consolidated financial statements for the years ended 31 December 2011 and 2010 are set out below. These accounting policies have been consistently applied to the periods presented unless otherwise stated.

b. **Presentation currency:**

The financial statements are presented in Euro.

c. **Basis of consolidation:**

The financial statements of the subsidiaries and joint ventures are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, income and expenses, and profits and losses resulting from intra-Group transactions are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date on which such control ceases.

The Group has interests in hotels in The Netherlands, the United Kingdom, Germany, Hungary and Croatia. Furthermore the Group has an interest in a mixed-use development project in Thailand. For details on the Group's subsidiaries and investments as at 31 December 2011, see Appendix A.

For details on the Company's interests in jointly controlled entities (proportionately consolidated as at 31 December 2011), see Appendix B.

d. **Changes in accounting policy and disclosures:**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective 1 January 2011:

IAS 24 *Related Party disclosures*

Improvements to IFRS (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Disclosures

The revision of the standard on related party disclosures clarifies the current definition, removes inconsistencies and partially exempts disclosures concerning transactions between enterprises which are fully or jointly controlled or under significant influence by the same "state". The Group has concluded that this change has no impact on the disclosures of the Group.

Improvements to IFRS

In May 2010, the IASB issued several amendments to its standards, primarily with a view to remove inconsistencies and clarifying wording. These are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group, but mainly on the level of disclosures. The following standards were amended:

IFRS 3 *Business combinations*

IFRS 7 *Financial instruments*

IAS 1 *Presentation of financial statements (including IAS 1.106A)*

IAS 27 *Consolidated and separate financial statements*

IFRIC 13 *Customer loyalty programmes*

Note 2 Summary of significant accounting policies continued

d. Changes in accounting policy and disclosures continued:

Other new standards effective in 2011 without any effect on the Company

IFRS 1 *First adoption of IFRS*

IFRIC 14 *Prepayments of a minimum funding requirement*

IFRIC 19 *Extinguishing financial liabilities with equity instruments*

Judgments

In the process of applying the Group's accounting policies, Management has made the following judgments, which have the most significant effect on the amounts recognised in the Consolidated financial statements:

Acquisition of subsidiaries that are not business combinations

At the acquisition date of subsidiaries and operations, the Company determines whether the transaction constitutes an acquisition of a business in a business combination transaction pursuant to IFRS 3. If the acquisition does not constitute a business as defined in IFRS 3, the cost of purchase is allocated only to the identifiable assets and liabilities of the acquired company on the basis of their relative fair values at the date of purchase without allocating any amount to goodwill or deferred taxes, and including any minority interest according to its share of the fair value of net identifiable assets at the acquisition date.

In determining whether a business was acquired, the Company evaluates whether the entity which was acquired is an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return to investors. The following criteria which indicate acquisition of a business are considered: the number of assets acquired, the extent to which ancillary services to operate the property are provided and the complexity of the management of the property.

Finance lease commitments – Group as lessee

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

Estimates and assumptions

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group for which there is a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets:

The Group's impairment test for tangible and intangible assets is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Determination of fair values in the context of business combinations:

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

Deferred tax assets:

Deferred tax assets are recognised for unused carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Additional information is provided in Note 26.

e. Business combinations and goodwill

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

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

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

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

Note 2 Summary of significant accounting policies continued

e. Business combinations and goodwill continued

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

Business combinations involving entities under common control

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

f. Investment in an associate:

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

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

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

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

g. Jointly controlled entities:

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

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

h. Foreign currency translation:

The functional currency of the Company is the Great British Pound. The Consolidated financial statements are presented in Euro as a significant portion of the Group's operations are conducted in Euro. Each entity of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at the rates prevailing on the reporting date. Profits and losses arising from exchange differences are included in the income statement.

The assets and liabilities of the entities whose functional currency is other than Euro are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Equity items are translated at the historic exchange rates. Exchange differences arising on the translation are classified as a separate component of equity (foreign currency translation reserve). Such translation differences are recognised in the income statement in the period in which the entity is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

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

	As at 31 December	
	2011 In Euro	2010 In Euro
Great British Pound	**1.197**	1.161
Thai Baht	**0.025**	0.025
Hungarian Forint	**0.003**	0.004

Note 2 Summary of significant accounting policies continued

h. Foreign currency translation continued:

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

	As at 31 December	
	2011 %	2010 %
Great British Pound	**3.1**	3.0
Thai Baht	**–**	–
Hungarian Forint	**(12.8)**	–

i. Intangible assets:

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair valued at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised using the straight-line method over their estimated useful life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense for intangible assets is recognised in the income statement.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and recognised in the income statement when the asset is derecognised.

j. Property, plant and equipment:

Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method, over the shorter of the estimated useful life of the assets or the lease term as follows:

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

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

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

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

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

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

Significant judgments applied in determining accounting policy:

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

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

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

Note 2 Summary of significant accounting policies continued

k. Impairment of non-financial assets:

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the asset is considered impaired and the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been determined had no impairment loss been previously recognised for the asset (cash-generating unit). A reversal of an impairment loss is recognised as income immediately.

l. Financial instruments:

Financial assets within the scope of IAS 39 are initially recognised at fair value plus directly attributable transaction costs, except for investments at fair value through profit or loss in respect of which transaction costs are carried to the income statement.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following categories:

1. **Loans and receivables:**

   The Group has loans and receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method taking into account transaction costs and less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the systematic amortisation process. Except for available for sale financial assets, all financial assets of the Company are classified as "loans and receivables".

2. **Available-for-sale financial assets:**

   The Group has available-for-sale financial assets (presented in the financial statements under "other current financial assets") that are financial assets (non-derivative) that are designated as available-for-sale or are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments are recognised directly in other comprehensive income in the net unrealised gains reserve. When the investment is disposed of or in case of impairment, the cumulative gain or loss previously recorded in equity is recognised in the statement of income. Interest income on investments in debt instruments is recognised in the income statement using the effective interest method. Dividends earned on investments are recognised in the income statement when the right of payment has been established.

3. **Fair value:**

   The fair value of investments that are actively traded in organised financial markets is determined by reference to market prices on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow or other valuation models.

4. **Financial liabilities:**

   Interest-bearing loans and borrowings are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method which also accounts for directly attributable transaction costs. Gains and losses are recognised in the income statement when the loan is derecognised as well as through the systematic amortisation process.

5. **Derecognition of financial instruments:**

   Financial assets

   A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

   Financial liabilities

   A financial liability is derecognised when it is extinguished, i.e. when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

   Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the income statement.

Note 2 Summary of significant accounting policies continued

l. **Financial instruments** continued:

6. **Impairment of financial assets:**

The Group assesses at each reporting date whether the following financial asset or group of financial assets is impaired as follows:

- Assets carried at amortised cost:

  Evidence of impairment may include indications that the debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments or other observable data of a measurable decrease in the estimated future cash flows. If there is objective evidence that an impairment loss on loans and receivables and held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss carried to the income statement is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognised. The amount of the reversal, as above, is credited to the income statement up to the amount of any previous impairment.

- Available-for-sale financial assets:

  In the case of equity investments classified as available-for-sale, evidence of impairment would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost (less any previous impairment losses) and the current fair value, is removed from equity and recognised in the income statement. In subsequent periods, any reversal of impairment loss is not carried to the income statement but recognised as other comprehensive income.

m. **Inventories:**

Inventories include food and beverages and are valued at the lower of cost and net realisable value. Cost includes purchase cost on a first in-first out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

n. **Inventories under construction:**

Inventories under construction are measured at the lower of cost and net realisable value. Cost of inventories includes direct identifiable construction costs, indirect costs and capitalised borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to sell.

o. **Cash and cash equivalents:**

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

p. **Derivative financial instruments and hedge accounting:**

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of interest rate swap contracts is determined using valuation techniques, including the discounted cash flow model.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in profit or loss. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised.

q. **Trade receivables:**

Trade receivables recognised under current assets are stated at amortised cost (which in most cases is equal to their nominal amount) as reduced by appropriate allowances for estimated uncollectible amounts.

Note 2 Summary of significant accounting policies continued

r. Revenue recognition:

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

Owned and leased hotels

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

Sale of apart-hotel units

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

Management fees

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

Franchise fees

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

Marketing fees

Received in connection with the sales and marketing services offered by the Group, under long-term contracts with the hotel owner. The Group charges marketing fees as a percentage of hotel revenue. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

Customer loyalty programme

The Company participates in the Club Carlson℠ customer loyalty programme (formerly Gold Points® Plus) to provide customers with incentives to buy room nights. This customer loyalty programme is owned and operated by Carlson℠ and therefore the entity retains no obligations in respect of the award credits other than to pay the programme operator for the granted award credits. The customers are entitled to utilise the awards as soon as they are granted.

The Company purchases these award credits from Carlson℠ and issues these to its customers in order to enhance its customer relationships rather than to earn a margin from the sale of these award credits. The Group concluded that it is acting as principle in this transaction and, in substance, is earning revenue from supplying these awards to its customers. The Group measures these revenues at fair value and recognises these gross from the costs of participating in the programme.

s. Non GAAP measures

EBITDAR

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

EBITDA

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

EBIT

Earnings before interest exceptional items presented as other income and tax (EBIT) correspond to gross operating profit after the operating costs of holding both leased and owned assets.

t. Leases:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

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

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

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

Prepaid leasehold payments

Prepaid leasehold payments are up-front payments to acquire a long-term leasehold interest in land and building. These payments are stated at cost and are amortised on a straight-line basis over the respective period of the leases (50 years).

Note 2 Summary of significant accounting policies continued

u. Employee benefits:

Share-based payments

The Board has adopted a "Share Option Plan", under which employees and Directors of the Company and its subsidiaries receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in Note 16.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

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

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

Pension

The Group has a defined contribution pension plan where the employer is liable only for the employer's part of the contribution towards the individual's pension plans.

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

v. Borrowing costs for qualifying assets:

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

w. Taxation:

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

where the deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised except:

where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Note 2 Summary of significant accounting policies continued

w. Taxation continued:

Deferred income tax continued

Deferred tax assets and liabilities and changes in them relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

x. Treasury shares:

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

y. Earnings (loss) per share:

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

Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of Ordinary shares outstanding during the year plus the weighted average number of Ordinary shares that would be issued on the conversion of all the dilutive potential Ordinary shares into Ordinary shares.

z. Standards issued but not yet applied:

The following standards have been issued by the IASB and are not yet effective and are subject to adoption by the European Union.

IFRS 9 – Financial instruments

The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

IFRS 10 – Consolidated financial statements'

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group has yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013. As a consequence of this change IAS 27 consolidated and separate financial statements has been amended.

IFRS 11 – Joint arrangements

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group has yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013. As a consequence of this change IAS 28 accounting for associates has been amended to reflect the accounting for joint ventures under the equity method.

IFRS 12 – Disclosures of interests in other entities

Includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group has yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

Together with IFRS 10 and 11, IAS 27 and IAS 28 have been revised. In conjunction with the assessment of IFRS 10 and 11, the Group will assess the effect of these two amendments.

IFRS 13 – Fair value measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group has yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment is effective as per 1 July 2012 and is not expected to have an effect on performance or the financial position.

Note 2 Summary of significant accounting policies continued

z. Standards issued but not yet applied continued:

Amendments to IFRS 7 Financial Instruments

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

The following other IFRSs or IFRIC interpretations are not yet effective and it would be expected to have no material impact on the Group:

Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12)

Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendments to IFRS 1)

Amendments to IAS 19 Employee Benefits (issued 16 June 2011)

IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine

Note 3 Business combinations in 2010

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

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

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

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

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

A discount rate of and terminal rate of 8%

Cash flow forecast based on the Group's budgets and based on rebranding the hotel as Park Plaza®

A reinvestment of 3.5% of total revenue of the hotel

From the date of acquisition to 31 December 2010, the Schiphol Hotel contributed €2.4 million of revenue and a loss of €0.1 million to the net profit before tax of the Group. If the combination had taken place at the beginning of 2010, the Schiphol Hotel would have contributed €4.1 million of revenue and a loss of €0.8 million to the net profit before tax of the Group during the year ended 31 December 2010.

Transaction costs arising from this transaction were not material.

The negative goodwill results from the benefit that the Company sees from adding the Schiphol Hotel to the Group's portfolio as a result of a bargain purchase.

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

Note 3 Business combinations in 2010 continued

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 Business combinations in 2010 continued

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

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

A discount rate and a terminal value of 8%

Cash flow forecast based on the Group's budgets

A reinvestment of 3.5% of total revenue of the hotels and have additional future refurbishment of total £1.5 million (€1.7 million) in 2012

From the date of acquisition to 31 December 2010, the Leeds and Nottingham hotels have contributed €4.7 million revenue and a loss of €0.5 million to the net profit before tax of the Group for the financial year 2010. If the combination had taken place at the beginning of 2010, Leeds Hotel and Nottingham Hotel would have contributed €10.9 million of revenue and a loss of €2.1 million to the net profit before tax of the Group during the year ended 31 December 2010.

Transaction costs due to this transaction were not material.

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

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

The Euro equivalent of £8.0 million (€9.3 million) as at completion, to be paid by the Group in seven equal quarterly instalments with interest of 7% per annum payable quarterly. The first instalment was payable at completion of the acquisition;

The Euro equivalent of £8.0 million (€9.3 million) as at completion, to be paid by the Group in December 2013 with interest of 7% per annum payable quarterly;

£1.5 million (€1.7 million) by the issue of 1,000,000 of the Company's shares ("the consideration shares"). Elbit was subject to a lock-up until the first anniversary of completion, following which the Company had a right of first refusal in respect of the consideration shares; and

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

a) If at the settlement date, the average share price of the Company (over the last 60 business days) is higher than £5.0, the remaining cash payment is cancelled.

b) If at the settlement date, the average share price of the Company (over the last 60 business days) is lower than £5.0 but higher than £1.50, the remaining cash payment will be reduced by the difference between the share price and £1.5 multiplied by the amount of shares issued to Elbit (€1.0 million).

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

The Company has been granted the option to buy back all of the consideration shares which Elbit may own from time to time at a price of £5.0 per share. If this option were exercised, the balance of the £3.5 million (€4.1 million) (under (c) above) will be reduced by an amount equal to £3.5 multiplied by the number of shares actually purchased. Any such exercise would require shareholders' approval under Guernsey law.

All amounts payable under transaction to Elbit are fully guaranteed by the Company.

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

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

Note 3 Business combinations in 2010 continued

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

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

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

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

A discount rate of 10.75% for Sherlock Holmes Hotel and 8.75% for Victoria London Hotel and Riverbank Hotel

A terminal value of 8.23% for Sherlock Holmes Hotel and 6.25% for Victoria London Hotel and Riverbank Hotel calculated based on long-term sustainable growth rates for the industry ranging from 2.5%-4% which has been used to determine income in the future years

Cash flow forecast based on the Group's budgets

A reinvestment of 3.5% of total revenue of the hotels

From the date of acquisition to 31 December 2010, Sherlock Holmes Hotel, Victoria London Hotel and Riverbank Hotel have no contribution to the Group's results for the financial year 2010. If the combination had taken place at the beginning of 2010, Sherlock Holmes Hotel, Victoria London Hotel and Riverbank Hotel would have contributed €26.5 million and a loss of €18.5 million to the net profit before tax of the Group during the year ended 31 December 2010.

Transaction costs arising from this transaction were not material.

Note 4 Intangible assets

	Park Plaza® Hotels & Resorts management rights (a)[1] €'000	Park Plaza® Hotels & Resorts franchise rights (a)[2] €'000	art'otel® franchise rights (b) €'000	Other intangible assets (d) €'000	Total €'000
Cost:					
Balance as at 1 January 2010	23,936	24,468	4,000	–	52,404
Additions during the year	–	–	–	–	–
Balance as at 31 December 2010	23,936	24,468	4,000	–	52,404
Accumulated amortisation:					
Balance as at 1 January 2010	2,839	3,212	1,471	–	7,522
Amortisation	1,205	1,215	149	–	2,569
Balance as at 31 December 2010	4,044	4,427	1,620	–	10,091
Amortised cost as at 31 December 2010	19,892	20,041	2,380	–	42,313
Cost:					
Balance as at 1 January 2011	23,936	24,468	4,000	–	52,404
Additions during the year	–	–	–	1,003	1,003
Balance as at 31 December 2011	23,936	24,468	4,000	1,003	53,407
Accumulated amortisation:					
Balance as at 1 January 2011	4,044	4,427	1,620	–	10,091
Amortisation	1,206	1,214	148	–	2,568
Balance as at 31 December 2011	5,250	5,641	1,768	–	12,659
Amortised cost as at 31 December 2011	18,686	18,827	2,232	1,003	40,748

a. Acquisition of Park Plaza® Hotels & Resorts management and franchise rights and lease rights:

1. Management rights – rights held by the Group relating to the management of Park Plaza® Hotels & Resorts in Europe, the Middle East and Africa. The management rights are included in the Consolidated financial statements at their fair value as at the date of acquisition and are being amortised over a period of 20 years, based on the terms of the existing contracts and Management estimation of their useful life. The remaining amortisation period is 15.5 years.
2. Franchise rights – relating to the brand "Park Plaza® Hotels & Resorts", are included in the Consolidated financial statements at their fair value as at the date of acquisition and are being amortised over 20 years, based on Management's estimation of their useful life. The remaining amortisation period is 15.5 years.

b. Acquisition of art'otel® rights:

The Company acquired in July 2007, the worldwide rights to use the art'otel® brand name for an unlimited period of time. The rights are being amortised over 20 years based on Management's estimation of their useful life. The remaining amortisation period is 15.5 years.

c. Impairment:

In 2011, there were no indicators of impairment. In 2010, based on internal value in use calculation, the Company determined that the carrying amounts of the intangible assets did not exceed their recoverable amount.

d. Other intangible assets:

These include development costs incurred in connection with a new concept which is currently being developed by the Group using modular construction to minimise the construction period as well as the construction costs.

Note 5 Property, plant and equipment

	Land €'000	Hotel buildings €'000	Furniture and equipment €'000	Total €'000
Cost:				
Balance as at 1 January 2010	64,437	116,801	44,951	226,189
Acquisition of a subsidiary	92,617	132,131	4,604	229,352
Additions during the year	715	15,417	21,050	37,182
Reclassification from inventories under construction	22,395	132,727	5,338	160,460
Disposals	–	–	(45)	(45)
Adjustment for exchange rate differences	(101)	(484)	708	123
Balance as at 31 December 2010	180,063	396,592	76,606	653,261
Accumulated depreciation:				
Balance as at 1 January 2010	1,542	12,138	23,884	37,564
Disposals			(30)	(30)
Provision for depreciation	253	3,474	6,104	9,831
Adjustment for exchange rate differences	41	101	512	654
Balance as at 31 December 2010	1,836	15,713	30,470	48,019
Depreciated cost as at 31 December 2010	178,227	380,879	46,136	605,242
Cost:				
Balance as at 1 January 2011	180,063	396,592	76,606	653,261
Additions during the year	67	1,730	6,651	8,448
Disposals	–	–	(134)	(134)
Adjustment for exchange rate differences	3,805	8,651	2,225	14,681
Balance as at 31 December 2011	183,935	406,973	85,348	676,256
Accumulated depreciation:				
Balance as at 1 January 2011	1,836	15,713	30,470	48,019
Disposals	–	–	(134)	(134)
Provision for depreciation	354	6,328	9,232	15,914
Adjustment for exchange rate differences	67	470	1,039	1,576
Balance as at 31 December 2011	2,257	22,511	40,607	65,375
Depreciated cost as at 31 December 2011	181,678	384,462	44,741	610,881

	31 December	
	2011 €'000	2010 €'000
(1) Cumulative expenditures for hotels under construction included in cost balances	**3,829**	3,387

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

b. The amount of borrowing costs capitalised during the year ended 31 December 2011 was €320,000 (2010: €234,000). The rate used to determine the amount of borrowing costs eligible for capitalisation was 4.9% (2010: 3.3%), which is the average effective interest rate of the specific borrowing.

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

Land includes the following amounts where the Group is a lessee under a finance lease:

	2011 €'000	2010 €'000
Cost – capitalised finance leases	**11,200**	10,862
Accumulated depreciation	**(958)**	(861)
Net book value	**10,242**	10,001

The Group leases certain land in London under lease agreements longer than 100 years.

Note 6 Apart-hotel units under management

	Land €'000	Hotel buildings €'000	Furniture and equipment €'000	Total €'000
Cost:				
Balance as at 1 January 2010	–	–	–	–
Reclassification from inventories under construction	19,296	135,787	5,503	160,586
Balance as at 31 December 2010	19,296	135,787	5,503	160,586
Additions during the year	–	1,238	1,287	2,525
Exchange rate differences	623	4,504	369	5,496
Balance as at 31 December 2011	19,919	141,529	7,159	168,607
Accumulated depreciation:				
Balance as at 31 December 2010	–	–	–	–
Balance as at 31 December 2011	–	–	–	–

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

1. The completion date of the sale of the last of the units forming part of the Westminster Bridge hotel; and
2. The expiry of the period of guaranteed returns to purchasers (i.e. five years from the last completion),

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

As long as control over 1WB, and therefore the indirect control over the Apart-hotel units, stays within the Group, all of the conditions for revenue recognition from the sale of Apart-hotel units are not met. Hence, in these Consolidated financial statements the assets have not been derecognised and the proceeds received from the purchasers (€182.1 million) have been accounted for as an advance payment until such time as they can be recognised as revenue (see Note 2j). For information regarding commitments and contingent liabilities reference is made to Note 17.

Note 7 Prepaid leasehold payments

	Year ended 31 December 2011 €'000	2010 €'000
Cost:		
Balance as at 1 January	**448**	448
Additions	**–**	–
Balance as at 31 December	**448**	448
Accumulated amortisation:		
Balance as at 1 January	**204**	194
Provision for amortisation	**10**	10
Balance as at 31 December	**214**	204
Amortised cost as at 31 December	**234**	244

In 1988, Utrecht Victoria Hotel B.V., a jointly controlled company, has entered into a land lease agreement for a period of 50 years ending in 2038, for a lump sum payment of €448,000 at commencement of the lease.

Note 8 Investment in associate

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

In April 2008, Euro Sea, a wholly-owned subsidiary of the Company, acquired 20% of the shares of WH/DMREF Bora B.V. ("Bora") from a group of real estate investment funds. Bora currently owns approximately 74% of Arenaturist d.d., a public company listed on the Zagreb (Croatia) Stock Exchange, and 100% of three related private companies. These companies together own eight hotels and five apartment complexes in or around Pula on the Istrian coast of Croatia. As part of the transaction, the Company also acquired 20% of the debt currently owed by Bora to its shareholders. The total consideration of the acquisition, including the debt acquired, was €22.4 million, which was funded by the Company from its existing cash resources. The investment in Bora is accounted for under the equity method in accordance with IAS 28.

The interest rate on the shareholders' loan is a fixed rate of 8.9% per annum and the denomination of the loan is Kuna. The repayment date of the loan is 31 August 2020.

b. Investment in associate:

	31 December	
	2011 €'000	2010 €'000
Loan to associate	**27,453**	25,695
Foreign currency translation adjustment	**287**	175
Share of associate's net assets under equity method	**(6,232)**	(3,730)
Loan to associate (adjusted for losses recognised under the equity method)	**21,508**	22,140

c. Share of the associate's balance sheet:

	31 December	
	2011 €'000	2010 €'000
Current assets	**1,635**	1,636
Non-current assets	**29,221**	30,749
Current liabilities	**(2,515)**	(1,827)
Non-current liabilities	**(30,595)**	(34,113)
Net liabilities	**(2,254)**	(3,555)
Loan to associate:		
Opening balance	**25,695**	23,715
Interest on loans	**2,288**	2,206
Foreign translation reserve	**(530)**	(226)
Closing balance	**27,453**	25,695
Share of the associate's revenue and loss:		
Revenue	**7,316**	6,486
Loss	**(2,502)**	(2,362)

Note 9 Other non-current financial assets

	As at 31 December	
	2011 €'000	2010 €'000
Loans to jointly controlled entities (see Note 29)	**19,829**	18,795
Loans to partners in jointly controlled entities	**8,555**	7,783
Trade receivables related parties (see Note 24)	**1,113**	–
Rent security deposits[1]	**814**	811
	30,311	27,389

[1] Relates to leases described in Note 17c(2).

Note 10 Inventories under construction
In August 2011, the Company acquired indirectly a majority stake in a Thai company holding a site in Pattaya Bay, Thailand. The site will be used by the Group for a mixed-use development project. It is the intention of the Group to sell the majority of the apartments constructed to third parties.

Note 11 Other current financial assets

	As at 31 December	
	2011 €'000	2010 €'000
Available-for-sale investment shares[1, 2]	**1,499**	1,671

[1] The fair value of the available-for-sale investment in shares and bonds is based on quoted market prices.
[2] Gains (losses) from unrealised available-for-sale investment in shares and bonds for an amount of €(107,000) (2010: €289,000) were recorded in other comprehensive income.

	31 December	
Currency	2011 €'000	2010 €'000
ILS	**135**	144
EUR	**1,267**	1,409
USD	**97**	118
	1,499	1,671

Note 12 Trade receivables

a. Composition:

	As at 31 December	
	2011 €'000	2010 €'000
Trade receivables	**13,673**	13,619
Related parties (see Note 29)	**3,743**	3,985
Less – allowance for doubtful debts	**(477)**	(428)
	16,939	17,176

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

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

	€'000
As at 1 January 2010	246
Additions	176
Exchange rate differences	6
As at 31 December 2010	428
Additions	37
Exchange rate differences	12
As at 31 December 2011	477

Note 12 Trade receivables continued

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

			Past due but not impaired			
	Total €'000	Neither past due nor impaired €'000	< 30 days €'000	30-60 days €'000	60-90 days €'000	> 90 days €'000
2011	**16,939**	**5,640**	**5,516**	**2,465**	**1,067**	**2,251**
2010	17,176	2,189	6,602	3,631	1,183	3,571

Note 13 Other receivables and prepayments

	As at 31 December	
	2011 €'000	2010 €'000
Prepaid expenses	**5,639**	4,082
VAT	**553**	1,506
Related parties*	**1,527**	1,252
Receivables from jointly controlled entities (see Note 29)	**546**	–
VAT Loan to Apart-hotel unit holders	**–**	2,160
Others	**792**	557
	9,057	9,557

* The amount owed by related parties bears no interest and has no repayment date see Note 29.

Note 14 Cash and cash equivalents

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Note 15 Equity

a. Share capital:

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

As at 31 December 2011, the number of Ordinary shares issued was 42,677,292 (2010: 42,677,292), 1,662,000 of which were held as treasury shares (2010: 862,000).

As of 30 June 2011, the Company's shares, previously traded on AIM, were admitted to the standard listing segment of the Official List of the UK Listing Authority and to trading on the Main Market for listed securities of the London Stock Exchange.

b. Treasury shares:

On 29 September 2009, the Company purchased 862,000 of its Ordinary shares at a price per share of 111 pence. On 26 October 2011 the Company purchased 800,000 of its shares at an ordinary price of 227 pence.

c. Nature and purpose of reserves:

Hedging reserve

This reserve is comprised of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Foreign currency translation reserve

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

Other reserves

The other reserves mainly consist of results of transactions that affected the equity of the Group before and during the listing on the stock exchange in 2007, the change in fair value of the available for sale financial assets and share based payments.

Note 16 Share-based payments

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

a. The Plan has two types of options: Option A and Option B. The exercise price of both options will not be less than the closing price of a share on the dealing day immediately preceding the date of grant (as published in the Financial Times on the date of grant). Option A vests over a period of three years from date of grant and Option B vests at the end of three years from grant date. Unexercised options expire ten years after the date of grant. The plan does not include any performance conditions.

b. At any time, the total number of shares issued and/or available for grant (in a ten-year period) under the Share Option Plan or under any other employee share scheme which the Company may establish in the future may not exceed 5% of the Company's issued share capital at that time. For the purpose of this calculation, any option granted under the Share Option Plan immediately following Admission to the AIM in July 2007 is disregarded.

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

Note 16 Share-based payments continued

The following lists the inputs to the binomial model used in 2009 for the fair value measurement of the granted share options (2010 and 2011 there were no new grants):

Dividend yield (%)	–
Expected volatility of the share prices (%)	**55.0**
Risk-free interest rate (%)	**3.04**
Expected life of share options (years)	**3.0**
Share price at the grant date	**0.95**
Weighted average fair value (GBP)	**£0.35**

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

The expense arising from equity-settled share-based payment transactions during 2011 is €8,000 (2010: €30,000). As at 31 December 2011, 62,269 options became exercisable (2010: 93,473). Total exercisable options at 31 December 2011 amounts to 249,404 (2010: 187,135).

Movements during the year

The following table illustrates the number (No.) and exercise prices (EP) of, and movements in, share options during 2011 and 2010.

	No. of options A	No. of options B	EP
Outstanding as at 1 January 2011	189,550	239,050	£1.00 (€1.16)
Options forfeited during the year	11,000	37,000	£1.00 (€1.16)
Outstanding as at 31 December 2011	178,550	202,050	£1.00 (€1.16)
Outstanding as at 31 December 2010	189,550	239,050	

The weighted average remaining contractual life for the share options outstanding as at 31 December 2011 is seven years (2010: eight years).

Note 17 Pledges, contingent liabilities and commitments

a. **Pledges, collateral and securities:**

Substantially all of the Group's assets and all of the rights connected or related to the ownership of the assets (including shares of subsidiaries and restricted deposits) are pledged in favour of banks and financial institutions as security for loans received. For most of the loans, specific assets are pledged as the sole security provided. For certain loans, the Group companies are required to comply with certain financial and operating covenants as described below:

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

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

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

   Exit fees in an outstanding amount of £3.4 million (€3.9 million) (attributable to the Group £1.6 million (€1.9 million)) were waived by Goldman Sachs and recorded in 2010 income statement as a deduction from the finance expenses.

   The termination of the interest rate swap that had been entered into in connection with the Goldman Sachs facility resulted in costs of £14.4 million (€16.7 million) (the "Close-Out Costs"), which, as part of the overall financing, were settled by Aareal. The Borrowers have undertaken to pay to Aareal the value of the Close-Out Costs plus interest over the three years following the refinance by way of additional margin (the Close-Out Margin) on the fixed rate of interest under the new interest rate swap with Aareal referred to below. The Close-Out Margin amounts to 3.265%. The Company has severally guaranteed the Borrowers' obligations in respect of the Close-Out Costs plus interest.

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

   Facility B had a nominal amount of £11.4 million (€13.2 million), is allocated to Grandis Hotel Holding B.V. ("Grandis") (Facility B) and initially bears an interest of 5.0% per annum over LIBOR reduced in 2011 to 2.95% per annum over Libor on the grant of security over the Sherlock Holmes Hotel. The Company has also severally guaranteed principal, interest and costs under Facility B (but not Facility A).

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

Note 17 Pledges, contingent liabilities and commitments continued

The facility agreement provides that the Borrowers must ensure that the aggregate amount of the outstanding Facilities does not exceed 68% of the value of the hotels as set out in the most recent valuation. In addition, the Borrowers must ensure that, on each interest payment date, the Debt Service Cover Ratio (the Net Operating Income of the hotels for each of the four preceding financial quarters relative to the principal, interest and other costs payable by the Borrowers for the next four financial quarters) is not less than 120%. As at 31 December 2011, the Borrowers are in compliance with the covenants.

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

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

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

   The facility agreement provides that the Borrowers must ensure that the aggregate amount of the outstanding facilities do not exceed 65% of the value of the hotels as set out in the most recent valuation. In addition, the Borrowers must ensure that, on each interest payment date, the Debt Service Cover Ratio (the Net Operating Income of the hotels for each of the four preceding financial quarters relative to the principal, interest and other costs payable by the Borrowers for the next four financial quarters) is not less than 120%. For the first two years following 28 April 2010, the €28.0 million borrowed to fund the acquisition of the Schiphol Hotel and the results of this hotel are excluded from the covenant calculation. As at 31 December 2011, the Borrowers are in compliance with the covenants.

   In the event of cash distributions deriving from the sale, disposal or refinancing of Schiphol Hotel or upon repayment of the loan, the Borrowers shall pay to the lender an amount ("exit fee") equivalent to 15% of the difference between the market value of the hotels at the transaction date and €30.0 million plus such proven renovation cost and equity injections as proved by the lender. The estimation on the exit fees as of 31 December 2011 is €196,000 (the share of the group is €98,000).

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

3. On 14 September 2008 three wholly-owned subsidiaries, Parkvondel Hotel Real Estate B.V. ("PHRE"), as borrower, and Parkvondel Hotel Holding B.V. ("PHH") and Parkvondel Hotel Management B.V. ("PHM"), as guarantors, entered into a €21.0 million secured term facility agreement with Aareal as lender. The maturity date of this facility is 3 September 2013. For further details, see Note 31h(2).

   The facility agreement provides that the Borrowers must ensure that the aggregate amount of the outstanding facilities does not exceed 70% of the value of the hotels as set out in the most recent valuation. In addition, the Borrowers must ensure that, on each interest payment date, the Debt Service Cover Ratio ("DSCR" Test) (the Net Operating Income of the hotels for each of the four preceding financial quarters relative to the principal, interest and other costs payable by the Borrowers for the next four financial quarters) is not less than 120%. As at 31 December 2011, the Borrowers are in compliance with these covenants.

4. On 14 December 2006, a jointly controlled company, Victoria Monument B.V., as borrower, and Bank Hapoalim, as lender, entered into a €14.0 million (attributable to the Group €7.0 million) facility agreement (the Original Facility). The facility was made available to finance the purchase of a building located adjacent to the Park Plaza Victoria Amsterdam hotel.

   In September 2011, Victoria Monument B.V. refinanced its Original Facility by entering into a new facility with Bank Hapoalim as lender. The new facility is for an amount of €26.0 million of which €14.0 million was used to settle amounts owed under the Original Facility, while the additional amount is available, subject to satisfaction of certain conditions, to fund the development of a new art'otel®. The facility is secured by a first priority right of mortgage on the property, share security over the shares in Victoria Monument B.V. and various other security typical with a financing of this kind. The facility agreement provides that Victoria Monument B.V. must ensure that the aggregate amount of the outstanding loans do not exceed 75% of the value of the property. As at 31 December 2011, Victoria Monument B.V. was in compliance with this covenant.

   Bank Hapoalim also benefits from guarantees granted by the Company and Elbit Imaging Limited in relation to the completion of the development of the new art'otel®. The Company has also guaranteed 65% of the amounts owed by Victoria Monument B.V. to Bank Hapoalim in relation to this financing. The Company and Elbit's subsidiary have entered into arrangements to the effect that if Bank Hapoalim makes a demand under a guarantee, they each share liability under the guarantees in equal proportions.

   In addition to the LTV covenant mentioned above, Victoria Monument B.V. agreed upon events at shareholder level that could constitute an event of cross default. As at 31 December 2011 no such event took place. For further specification see Note 17c 4 (c).

Note 17 Pledges, contingent liabilities and commitments continued

a. Pledges, collateral and securities continued**:**

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

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

   On 1 June 2011, Marlbray signed an agreement to refinance the existing facility of the Westminster Bridge hotel with Bank Hapoalim for a further seven years until 1 June 2018. As at 1 June 2011, the outstanding amount of the facility was £93.9 million (€104.0 million).

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

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

   The facilities bear an interest of 2.65% per annum over three-month Sterling LIBOR (which will increase by 2% on any part of the facilities that causes the loan to value ratio (as set out below) to exceed 70%).

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

   On 22 June 2011, Marlbray entered into an interest rate swap agreement pursuant to which Marlbray swapped the variable interest rate of three-month Sterling LIBOR plus 2.65% on an amount of £58.0 million to a fixed interest rate of 5.29% per annum until the maturity of the facility in June 2018. On 18 July 2011, Marlbray entered into an interest rate swap agreement pursuant to which Marlbray swapped the variable interest rate of three-month Sterling LIBOR plus 2.65% on an amount of £54.7 million with a fixed interest rate of 5.83% per annum until the maturity of the facility in June 2018.

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

b. Restricted Cash:

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

During 2010, Marlbray paid the purchasers on completion of their purchase a total sum of £5.7 million (€6.6 million) on account of accrued interest on the deposits. An amount of £0.6 million (€0.7 million) was written off and recognised as income due to certain purchasers' failure to complete (2010: £3 million).

During 2010, deposits in the amount of £38.6 million (€44.8 million), including accrued interest, were released from stakeholder account. The deposits released, off-set the amount due from purchasers on completion of their purchase. Marlbray has also rescinded contracts of defaulting purchasers and forfeited their deposits in the amount of £2.1 million (€2.4 million), of which £1.9 million (€2.1 million) recognised as other income in 2010. These funds were applied by Marlbray towards repayment of the amount outstanding on the Marlbray Facilities.

As at 31 December 2011, a balance of £10.5 million (€12.6 million), being forfeited deposits, held in respect of the rescinded contracts of purchasers who failed to complete. Certain of these prospective purchasers have instigated proceedings seeking recovery of the forfeited deposits.The Company believes that a final court ruling in connection with these legal proceedings is not expected within the coming 12 months and accordingly these balances are being classified as non-current.

Under the facility agreement of Marlbray with Bank Hapoalim (see Note 17(a)(5)), sufficient funds are required to be deposited in the DSCR account until the sum deposited is equal to twice the amount of interest payable on the next interest payment date.

c. Commitments:

1. Management and franchise agreements:

   (i)The Group entered into a Territorial Licence Agreement (the "Master Agreement") with Carlson Hotels Worldwide, Inc. ("Carlson℠"). Under the Master Agreement, the Group, amongst other rights, is granted an exclusive license to use the brand, "Park Plaza® Hotels & Resorts" in 56 territories throughout Europe, the Middle East and Africa in perpetuity (the "Territory").

   The Master Agreement also allows the Group to use, and licence others to use, the Carlson℠ Systems within the Territory which right includes the right to utilise the System's international marketing and reservations facilities and to receive other promotional assistance. The Group pays Carlson℠ a fee based on a percentage of the hotels' gross room revenue.

   (ii) The Group entered into several management agreements with operated hotels and developed hotels located in The Netherlands, the United Kingdom, Germany, Hungary and Croatia in consideration for an annual fee of 2% to 3% of the Hotels' gross room or total revenues, as applicable, as well as 7% to 10% of the gross operating profit. The Group is also charging marketing fees as a percentage of room revenue, as well as partially reimbursed for certain portions of the expenses incurred. The management agreements are for periods of 15 to 25 years.

   (iii) Within the terms of the management agreements, the hotels were granted by the Group a sub-franchise license allowing them the utilisation, throughout the term of the management agreements, of the "Park Plaza® Hotels & Resorts or art'otel®" name, in consideration for royalties of a certain percentage of the gross room revenues.

Note 17 Pledges, contingent liabilities and commitments continued

2. Lease agreements:

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

	2011 €'000	2010 €'000
Within one year	**1,080**	1,045
After one year but not more than five years	**4,320**	4,178
More than five years	**103,320**	112,591
	108,720	117,814
Less amounts representing finance charges	**(97,520)**	(106,956)
Present value of minimum lease payments	**11,200**	10,858

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

	2011 €'000	2010 €'000
Within one year	**–**	–
After one year but not more than five years	**1**	1
More than five years	**11,199**	10,857
	11,200	10,858

Following are details regarding the finance lease agreements:

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

Grandis has an option to extend the lease to a total of 125 years, expiring in 2121. The Company also has an option to terminate the lease in 2059.

The current rent review date is 29 September 2006 and the landlord is seeking to increase the passing rent. An arbitrator has been appointed to determine the reviewed rent. If an increased rent becomes payable, Grandis will be required to pay the balance of rent due from 29 September 2006 plus interest, plus the increased rent going forward in accordance with the terms of the lease, subject to the further review as at 29 September 2011. Depending on the outcome of the review, Grandis could be liable to pay a proportion of the landlord's legal costs.

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

(ii) The Group operates hotels under various lease agreements in which the building, fixtures, furniture and equipment are leased. These tend to be long-term arrangements under which the Group leases a hotel from a third party property owner for periods of 20 to 25 years and often include options to extend for varying periods. Monthly rental payments are based on a percentage of the operating revenues or gross operating profit of that hotel subject, in most cases, to a minimum amount which is independent of the operating revenue or gross operating profit. The rental expenses presented in the income statement mainly consist of minimum lease payments.

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

	2011 €'000	2010 €'000
Within one year	**9,366**	9,197
After one year but not more than five years	**36,401**	36,787
More than five years	**103,460**	111,209
	149,227	157,193

3. Construction contract commitment:

In March 2007, Marlbray entered into a construction contract with WW Gear Construction Limited ("Gear"). The contract work comprises the design and construction on a "turnkey" basis of the Westminster Bridge hotel 1,019 units (see Note 11). The remaining balance of the construction cost commitment as at 31 December 2011 is £3.7 million (€4.4 million).

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

As at the reporting date, Victoria Monument B.V., a jointly controlled company of the Group, entered into capital commitments amounting to €4.6 million (attributable to the Group €2.3 million) for converting a building into a hotel.

Note 17 Pledges, contingent liabilities and commitments continued

c. Commitments continued**:**

4. Guarantees:

a) In June 2005, Euro Sea acquired a 33.33% interest in Marlbray. In February 2008, Euro Sea acquired the remaining 67% of the shares in Marlbray.

On completion of each sale of the 535 sold units, Marlbray entered into income swap agreements with all (but four) of the unit holders. The income swap agreements includes an obligation on the unit holder to assign the right to receive the net income derived from the unit to Marlbray and an undertaking by Marlbray to pay unit holders a rent guarantee of 5% or 6% p.a. yield (with the exception of two units in respect of which the guaranteed annual return is less than 5%) on the purchase price for the five year period commencing on the second month following the date of completion of the sale.

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

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

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

d) The Company has also guaranteed 65% of the amounts owed by Victoria Monument B.V. to Bank Hapoalim in relation to this financing. The Company and Elbit's subsidiary have entered into arrangements to the effect that if Bank Hapoalim makes a demand under a guarantee, they each share liability under the guarantees in equal proportions.

5. Acquisition commitment

The Company exchanged contracts to acquire 628 Western Avenue, Park Royal, London W3 for £6 million. A 10% deposit has been paid and the balance is payable in cash upon completion which is due to take place by no later than June 2012.

6. Lease guarantees

The Group provided guarantees for commitments under certain hotel lease agreements. The totalof these guarantees do not exceed €12.2 million.

Note 18 Bank borrowings

Composed as follows:

Current

	Average interest rate %	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Bank loan in €	LIBOR + 2.25%	–	7,000
Bank loan in €	EURIBOR + 1.65%	–	20,159
Bank loan in £	LIBOR + 2.15%	–	108,407
Current maturities of long-term bank loans		**6,913**	3,728
		6,913	139,294

Non-current

	Average interest rate* %	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Loans in €	5.12% -5.42%	**82,479**	55,538
Loans in £[1]	4.90% -7.72%	**335,649**	209,760
		418,128	265,298
Less – current maturities		**(6,913)**	(3,728)
		411,215	261,570

1 See Note 17a.

* For details of interest rate swap (see Note 31(h)).

Note 18 Bank borrowings continued

The loans are payable in future years, as follows:

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
1. Loan in €:		
First year – current maturities	1,495	860
Second year	27,254	1,075
Third year	480	1,075
Fourth year	–	807
Fifth year	–	–
Thereafter	53,250	51,721
	82,479	55,538
2. Loan in £:		
First year – current maturities	5,418	2,868
Second year	9,951	2,702
Third year	6,594	7,302
Fourth year	113,229	4,434
Fifth year	77,805	173,977
Thereafter	122,652	18,477
	335,649	209,760

For securities and pledges, see Note 17.

Note 19 Other financial liabilities

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Derivative financial instruments (see Note 31h)	**28,603**	12,950
Lease liability (see Note 17c2)	**11,200**	10,858
Loans from jointly controlled entities (see Note 29)	**19,232**	18,287
Other loans from third parties (see Note 3c)	**12,860**	14,876
Loans from partners in jointly controlled entities	**8,383**	8,133
Other	**6,224**	195
	86,502	65,299

Note 20 Other payables and accruals

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Employees	**1,225**	1,434
VAT and taxes[1]	**5,315**	3,923
Accrued interest	**449**	1,314
Corporate income taxes	**304**	292
Accrued expenses	**15,929**	12,819
Other loans from third parties (see Note 3c)	**2,674**	5,349
Accrued rent	**3,808**	3,663
Derivative financial instruments (see Note 31h)	**6,253**	6,062
Related parties	**62**	2,563
	36,019	37,419

[1] The amount owed to related parties bears no interest and has no repayment date.

Note 21 Revenues

	As at 31 December 2011 €'000	2010 €'000
Rooms	**139,030**	93,357
Food and beverage	**52,408**	36,018
Minor operating	**3,516**	2,504
Management fee (see Note 17c(1))	**3,214**	4,602
Franchise fee (see Note 17c(1))	**1,575**	2,297
Marketing	**2,184**	813
Other	**453**	238
	202,380	139,829

Note 22 Operating expenses

	As at 31 December 2011 €'000	2010 €'000
Salaries and related expenses	**57,124**	42,369
IT expenses	**1,887**	1,188
Utilities	**6,089**	4,800
Supplies	**2,838**	2,080
Laundry, linen and cleaning	**3,716**	2,780
Administration costs	**5,488**	4,281
Communication, travel and transport	**1,935**	1,368
Maintenance	**3,715**	2,279
Marketing expenses	**1,771**	1,950
Food and beverage	**10,365**	7,791
Franchise fees, reservation and commissions	**14,389**	9,970
Leases	**1,336**	954
Insurance	**9,071**	5,752
Other expenses	**7,627**	5,820
	127,351	93,382

Note 23 Financial expenses

	As at 31 December 2011 €'000	2010 €'000
Interest and other finance expenses on bank loans	**20,472**	27,510
Interest and other finance expenses to jointly controlled entities (see Note 29b)	**–**	836
Interest and other finance expenses to related parties (see Note 29b)	**902**	826
Interest on other loans from third parties	**1,076**	–
Interest on restricted deposits	**–**	1,126
Interest on finance lease liability	**1,035**	578
Cash flow hedges recycled through profit or loss	**–**	8,920
Fair value loss derivative financial instruments (see Note 31h)	**4,693**	–
Refinance expenses	**–**	314
Other	**374**	44
	28,552	40,154
Less – borrowing costs capitalised	**(325)**	(11,281)
	28,227	28,873

Note 24 Financial income

	As at 31 December	
	2011 €'000	2010 €'000
Interest on restricted deposit	**78**	76
Profit on sale of available for sale investments	**–**	346
Interest on bank deposits	**84**	321
Interest from related parties (see Note 29(b))	**2,288**	2,206
Interest on VAT loans to unit holders	**56**	252
Adjustment to fair value on derivative financial instruments	**–**	1,403
Interest revenue penalty on late completion	**–**	339
Foreign exchange differences	**75**	321
Interest from forfeited deposits	**–**	3,512
Interest and other finance income from jointly controlled entities (see Note 29b)	**757**	682
Interest and other finance income from partners in jointly controlled entities	**167**	939
Other	**6**	24
	3,511	10,421

Note 25 Other income and expenses

	As at 31 December	
	2011 €'000	2010 €'000
Negative goodwill upon acquisitions	**–**	9,997
Pre opening expenses of the Westminster Bridge hotel	**–**	(2,637)
Capital gain from obtaining control in a former jointly controlled entity	**–**	41,435
Reclassification adjustment in respect of foreign currency translation reserve	**–**	9,390
Release of liabilities (see Note 29(b))	**2,515**	–
Income from forfeited deposits	**687**	2,166
Listing expenses	**(1,482)**	–
	1,720	60,351

Note 26 Income tax benefit

a. Tax benefit included in the income statement:

	As at 31 December	
	2011 €'000	2010 €'000
Current taxes	**41**	(265)
Deferred taxes	**(4,660)**	(1,156)
	(4,619)	(1,421)

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

b. The following are the major deferred tax (liabilities) and assets recognised by the Group and changes therein during the period:

	Tax loss carry forward €'000	Property, plant and equipment and intangible assets €'000	Inventories under construction €'000	Total €'000
Balance as at 31 December 2009	3,423	(4,202)	(8,876)	(9,655)
Amounts charged to income statement	(654)	1,481	329	1,156
Adjustments for exchange rate differences	–	–	(271)	(271)
Balance as at 31 December 2010	2,769	(2,721)	(8,818)	(8,770)
Reclassification	–	(8.818)	8.818	–
Amounts charged to income statement		4,660	–	4,660
Adjustments for exchange rate differences		(11)	–	(11)
Balance as at 31 December 2011	2,769	(6,890)	–	(4,121)

Note 26 Income tax benefit continued

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

	As at 31 December	
	2011 €'000	2010 €'000
Profit before income taxes	10,634	60,482
Expected tax at the tax rate of The Netherlands 25%[1] (2010: 25.5%)	(2,659)	(15,423)
Adjustments in respect of:		
Effects of other tax rates	378	329
Non-deductible expenses	(2,813)	(1,599)
Utilisation of previously unrecorded tax losses	6,755	–
Non-taxable income	74	19,819
Unrecognised current year tax losses	(2,860)	(4,964)
Other timing unrecognised timing differences	1,255	2,847
Release of deferred tax liability related to changes in the expected manner of recovery	4,660	–
Under (over) provision of tax liability in previous years	(125)	338
Other	(46)	74
Income tax benefit reported in the income statement	4,619	1,421

[1] The tax rate that was used is the tax rate of The Netherlands, since the majority of the tax exposure is in this tax jurisdiction.

d. Tax laws applicable to the Group companies:

1. The Company is subject to taxation under the law of Guernsey. The Company is therefore taxed at the standard rate of 0%.
2. Foreign subsidiaries are subject to income taxes in their country of domicile in respect of their income, as follows:
   a. Taxation in The Netherlands: corporate income tax rate is 25% (2010: 25.5%).
   b. Taxation in the United Kingdom: corporate income tax rate for domiciled companies is 26% and for non-domiciled 20%. The Government in the United Kingdom has decided to reduce the tax rate of 2012 to 25%. The impact of the reduction of the tax rate to 25% would not impact the tax position significantly.
   c. Taxation in Germany: corporate income tax rate and business rates is 30.2%.
   d. Taxation in Hungary: corporate income tax rate is 18.0%.
   e. Taxation in Thailand: corporate income tax rate is 30%.

e. Losses carried forward for tax purposes:

The Company and its subsidiaries have carry forward losses for tax purposes estimated at approximately €206.4 million (2010: €225.2 million). The Group did not establish deferred tax assets in respect of losses amounting to €195.4 million (2010: €214.2 million) of which tax losses amounting to €48.8 million may be utilised for a period up to eight years. The remaining tax losses may be carried forward indefinitely.

Note 27 Earnings per share

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

	As at 31 December	
	2011 €'000	2010 €'000
Profit	**15,253**	61,903
Weighted average number of Ordinary shares outstanding	**41,682**	40,815

Potentially dilutive instruments (share options – see Note 16) have not been included in the 2010 calculation of diluted earnings per share because they are anti-dilutive for all periods presented. The potentially dilutive instruments (195,000) in 2011 have an immaterial effect on the basic earnings per share.

Note 28 Segments

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

	As at 31 December 2011					
	The Netherlands €'000	Germany and Hungary €'000	United Kingdom €'000	Management €'000	Holding companies and adjustments[2] €'000	Consolidated €'000
Revenue						
Third party	24,820	30,205	139,981	7,374	–	202,380
Inter-segment	–	–	–	21,146	(21,146)	–
Total revenue	24,820	30,205	139,981	28,520	(21,146)	202,380
Segment EBITDA	7,766	(966)	47,487	10,596	167	65,050
Depreciation and amortisation						(18,492)
Financial expenses						(28,227)
Financial income						3,511
Interest expenses guaranteed to Apart-hotel unit holders						(10,426)
Other income, net						1,720
Share in loss of associate						(2,502)
Profit before tax						10,634

	The Netherlands	Germany and Hungary	United Kingdom	Holding companies and adjustments	Consolidated
Geographical information					
Non-current assets[1]	75,958	7,499	695,861	41,152	820,470

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

	As at 31 December 2010					
	The Netherlands €'000	Germany and Hungary €'000	United Kingdom €'000	Management €'000	Holding companies and Adjustments[1] €'000	Consolidated €'000
Revenue						
Third party	22,847	27,700	81,179	8,103	–	139,829
Inter-segment	–	–	389	12,618	(13,007)	–
Total revenue	22,847	27,700	81,568	20,721	(13,007)	139,829
Segment EBITDA	7,607	(286)	24,512	10,438	(4,638)	37,633
Depreciation and amortisation						(12,409)
Financial expenses						(28,873)
Financial income						10,421
Interest expenses guaranteed to Apart-hotel unit holders						(4,279)
Other income, net						60,351
Share in loss of associate						(2,362)
Profit before tax						60,482

	The Netherlands	Germany and Hungary	United Kingdom	Holding companies and adjustments	Consolidated
Geographical information					
Non-current assets[2]	75,166	7,620	682,523	43,076	808,385

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

Note 29 Related parties

a. Balances with related parties*:

	31 December 2011 €'000	2010 €'000
Loans to jointly controlled entities[2]	**19,829**	18,795
Loan to associate – WH/DMREF Bora B.V.[1]	**27,453**	25,695
Short-term receivables	**2,073**	1,252
Loans from jointly controlled entities[3]	**19,232**	18,287
Trade receivables – the Arenaturist group[1]	**4,856**	3,985
Trade payables – WW Gear Construction Limited (see Note 17c3)	**4,431**	14,002
Short-term payables – WW Gear Construction Limited	**51**	2,208
Short-term payables – other	**11**	355

b. Transactions with related parties*:

	As at 31 December 2011 €'000	2010 €'000
Management fees income – the Arenaturist Group[1]	**1,366**	1,225
Reimbursement of expenses – the Arenaturist Group[1]	**298**	347
Sales and marketing fees – the Arenaturist Group[1]	**1,472**	–
Development management fees – the Arenaturist Group[1]	**358**	–
Expenses related to jointly controlled entities		
– Conference	**–**	454
– Salaries	**–**	164
– Legal	**–**	427
Release of liabilities from Gear Construction Management Limited	**2,515**	
Interest from associate – WH/DMREF Bora B.V.[1]	**2,288**	2,206
Interest and other financial expenses to jointly controlled entities	**–**	836
Interest income from jointly controlled entities	**757**	682
Construction costs incurred and capitalised to inventories	**–**	31,206

* Balances and transactions are with shareholders and companies controlled by shareholders, unless otherwise stated.
[1] The Group holds 20% of the equity in WH/DMREF Bora B.V. (see Note 8).
[2] Includes loans to jointly controlled entities in the amount of €19.1 million (2010: €18.3 million) bearing fixed interest of 4% per annum.
[3] Includes loans from jointly controlled entities in the amount of €10.6 million (2009: €10.3 million) bearing an interest of LIBOR+2% per annum.

Significant other transactions with related parties

a. On 10 April 2008, the Group acquired 20% interest in WH/DMREF Bora B.V. ("Bora"), the owner of 74% of Arenaturist d.d., a public company listed on the Zagreb (Croatia) Stock Exchange, and 100% of three related private companies (together "the Arenaturist Group").

Under the shareholder's agreement dated 10 April 2008 in respect of Bora, Park Plaza Hotels Europe B.V. ("PPHE"), a wholly-owned subsidiary of the Company, has been appointed as the operator of the Bora hotels, resorts and campsites with a view to entering into an operating agreement, reflecting the principal commercial terms and conditions set forth in such shareholder's agreement.

In early 2011, PPHE entered into operating agreements with the Arenaturist Group, which included agreement on sales and marketing fees. Sales and marketing fees for 2009 and 2010 of €1.0 million were recorded in the income statement for the year ended 31 December 2011 as part of the total revenues.

b. In June 2011, Riverbank entered into a settlement agreement with Gear Construction Management Limited ("Gear") regarding liquidated damages payable to Riverbank under the project management agreement due to the delayed practical completion of the project which had been planned for 2007. The settlement amount is £1.9 million (€2.2 million).

The agreement was signed on 13 July 2011. The settlement amount was set off against a liability of Riverbank to Gear in connection with the construction of the hotel by Gear and was recorded as other income in the income statement.

c. In January 2012 , Park Plaza Hotels (Services) UK Limited, a wholly-owned subsidiary of the Company, entered into a framework agreement with GC Project Management Limited ("GC") for the provision of project management services by GC to the Group for a fixed monthly fee of £45,000 (plus VAT) for a period of 36 months with effect from September 2011. GC is also entitled to reimbursement of properly incurred expenses in connection with the provision of the services.

Note 29 Related parties continued

c. Compensation to key management personnel (Executive and Non-Executive Board members) for the year ended 31 December 2011:

	Position	Base salary and fees	Pension contributions	Other benefits	Total
		€'000	€'000	€'000	€'000
Boris Ivesha	President & CEO	389	115	73	577
Chen Moravsky	CFO	275	41	72	388
Eli Papouchado	Non-Executive Chairman of the Board	115	–	–	115
Kevin McAuliffe	Non-Executive Director & Senior Independent Director	46	–	–	46
Nigel Jones	Non-Executive Director	40	–	–	40
Elisha Flax	Non-Executive Director	46	–	–	46
		911	156	145	1,212

Director's interests in employee share incentive plan

As at 31 December 2011, the CFO holds share options to purchase 95,000 Ordinary shares. The Options are fully exercisable with an exercise price of £1.00 (€1.12). The options will expire in 2017. No share options have been granted to Non-Executive members of the Board.

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

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

Director's interests in employee share incentive plan

As at 31 December 2010, the CFO holds share options to purchase 95,000 Ordinary shares. The Options are fully exercisable with an exercise price of £1.00 (€1.12). The options will expire in 2017. No share options have been granted to Non-Executive members of the Board.

Note 30 Jointly controlled entities

The Group has an interest in jointly controlled entities (Appendix B) which are engaged in the development, management and operation of hotels. For further information regarding the terms of loans with jointly controlled entities see Note 29. The share of the assets, liabilities income and expenses of the jointly controlled entities, which are included in the Consolidated financial statements are as follows:

	As at 31 December	
	2011 €'000	2010 €'000
Non-current assets	85,951	91,500
Current assets	3,921	3,380
	89,872	94,880
Non-current liabilities	62,024	61,506
Current liabilities	4,699	12,003
	66,723	73,509
	23,149	21,371

Note 30 Jointly controlled entities continued

	As at 31 December	
	2011 €'000	2010 €'000
Revenues	**16,457**	45,032
Operating expenses	**(11,392)**	(29,378)
EBITDAR	**5,065**	15,654
Rental expenses	**(43)**	(1,008)
EBITDA	**5,022**	14,646
Depreciation and amortisation	**(1,484)**	(4,032)
EBIT	**3,538**	10,614
Financial expenses, net	**(1,598)**	(18,434)
Profit (loss) before income taxes	**1,940**	(7,820)
Income tax benefit (expense)	**–**	629
Profit (loss) for the year	**1,940**	(7,191)

Note 31 Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank borrowings, cash and cash equivalents, restricted deposits and investment in shares and bonds. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swap contracts. The purpose is to manage the interest rate risk arising from the Group's operations and its sources of finance. It is, and has been throughout the years under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, credit risk and liquidity risk. The Board of Directors reviews and agrees on policies for managing each of these risks which are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 2.

a. **Foreign currency risk:**
The Group is exposed to minimal foreign currency risk, due to transactions in foreign currency, as most of the transactions of each of the entities in the Group are denominated in the functional currency of the relevant entity.

b. **Interest rate risk:**
The Group's exposure to the risk for changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group has one variable interest rate debt relating to a loan for the renovation of a hotel building. The interest expense on this loan is capitalised during the construction period. Based on this sensitivity analysis calculation, the Management expects that with an increase/decrease of the three-month market (Libor) interest rate by 50bps the results of the Group would be changed by €35,000.

The Group's policy is to manage its interest cost using fixed rate debt. To manage its interest costs, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. Furthermore, the Group uses fixed interest rate debts. For this reason the Group's cash flow is not sensitive to possible changes in market interest rates. Possible changes in interest rates do, however, affect the Group's equity or results as the fair value of the swap agreements changes with interest rate changes. These swaps are designated to hedge underlying debt obligations.

The fair value of the swaps of the Group as at 31 December 2011 amounts to a liability of €34.9 million (2010: liability of €15 million). The movements in the value have been accounted for in equity and profit or loss respectively. The Group performed a sensitivity analysis for the effect of market interest rate changes on the fair value of the swaps which was calculated by an external valuator. Based on this sensitivity analysis calculation, the Management expects that with an increase/decrease of the three-month market interest rate by 50 bps, the fair value of the swaps, and the hedge reserve in equity would increase/decrease by €6.3 million (2010: €0.2 million) and the results would increase/decrease by €0 million respectively (2010: €2.2 million).

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

Restricted deposits that were received from unit holders (see Note 17b) were held in bank accounts in the United Kingdom bearing interest at an average annual rate of 0.2% (2010: 0.2%).If the interest rate increase/decrease is an average of 50bps, the profit of the Group would change with €50,000.

c. **Credit risk:**
The Group trades only with recognised, credit worthy third parties. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Company's policies ensure that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Since the Group trades only with recognised third parties, there is no requirement for collateral for debts with third parties. Furthermore, the Group has no dependency on any of its customers. The receivable balances are monitored on an ongoing basis. Management monitors the collection of receivables through credit meetings and weekly reports on individual balances of receivables. Impairment of trade receivables is recorded when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The maximum credit exposure equals the carrying amount of the trade receivables and other receivables since the amount of all trade and other receivables have been written down to their recoverable amount. The result of these actions is that the Group's exposure to bad debts is not significant.

Note 31 Financial risk management objectives and policies continued

c. **Credit risk** continued:

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and investment in securities. the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group, as at 31 December 2011, has a balance of €4.8 million (2010: €4.0 million) from associates. The Group has agreed that most of the outstanding amount will be settled in the course of 2012 and 2013.

d. **Market risk:**

As at 31 December 2011, the Group has an available-for-sale investment in securities, in the amount of €1.5 million (2010: €1.7 million). The securities are presented at their quoted market price and changes in market price are recorded in equity. If the market prices of the securities increase/decrease by an average of 1%, the equity of the Group would increase/decrease by €15,000 (2010: €17,000).

e. **Liquidity risk:**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The Group's policy is to arrange medium-term bank facilities to finance its construction operation and then to convert them into long-term borrowings when required.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2011 and 2010 based on contractual undiscounted payments.

	As at 31 December 2011					
	Less than 3 months €'000	3 to 12 months €'000	1 to 2 years €'000	3 to 5 years €'000	> 5 years €'000	Total €'000
Interest bearing loans and borrowings[1]	**7,501**	**22,623**	**60,774**	**248,589**	**193,596**	**533,083**
Deposits received from unit holders	**–**	**–**	**–**	**–**	**12,279**	**12,279**
Derivative financial instruments	**1,993**	**5,979**	**7,479**	**9,653**	**8,362**	**33,466**
Loans to jointly controlled entities and partners in jointly controlled entities	**–**	**–**	**–**	**–**	**(28,385)**	**(28,385)**
Loans from jointly controlled entities and partners in jointly controlled entities	**–**	**–**	**–**	**–**	**27,615**	**27,615**
Loans to Elbit	**1,546**	**1,854**	**10,015**	**2,000**	**1,500**	**16,915**
Lease liability[2]	**270**	**810**	**1,080**	**3,241**	**115,304**	**120,705**
Trade payables	**9,818**	**4,431**	**–**	**–**	**–**	**14,249**
Other liabilities	**17,088**	**10,030**	**–**	**–**	**10,345**	**37,463**
	38,216	**45,727**	**79,348**	**263,483**	**340,616**	**767,390**

	As at 31 December 2010					
	Less than 3 months €'000	3 to 12 months €'000	1 to 2 years €'000	3 to 5 years €'000	> 5 years €'000	Total €'000
Interest bearing loans and borrowings[1]	4,401	130,907	62,974	208,025	74,628	480,935
Deposits received from unit holders	–	(21,999)	–	–	–	(21,999)
Deposits hold in banks	–	18,234	–	–	–	18,234
Derivative financial instruments	1,515	4,546	10,669	–	–	16,730
Loans to jointly controlled entities and partners in jointly controlled entities	–	–	12,480	–	22,676	35,156
Loans from jointly controlled entities and partners in jointly controlled entities	–	–	(12,080)	–	(23,306)	(35,386)
Other financial liabilities	–	–	–	123	72	195
Loans to Elbit	1,637	4,787	13,416	3,047	1,016	23,903
Lease liability[2]	261	783	2,089	3,133	111,546	117,812
Trade payables	6,250	18,748	–	–	–	24,998
Other liabilities	9,047	12,830	–	–	–	21,877
	23,111	168,836	89,548	214,328	186,632	682,455

1 See Note 17(a) for further information.

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

Note 31 Financial risk management objectives and policies continued

f. Capital management:

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 60% and 70%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents. Capital includes equity less the hedging reserve.

	2011 €'000	2010 €'000
Interest bearing loans and borrowings	**418,128**	400,864
Less – cash and cash equivalents	**(29,506)**	(25,637)
Less – other liquid assets	**(1,499)**	(5,298)
Net debt	**387,123**	369,929
Equity	**201,231**	203,218
Hedging reserve	**17,072**	1,087
Total capital	**218,303**	204,305
Capital and net debt	**605,426**	574,234
Gearing ratio	**63.9%**	64.4%

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

Cash and cash equivalents, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables.

The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair value of available-for-sale financial assets is derived from quoted market prices in active markets. The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives are valued using valuation techniques, for swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, and interest rate curves.

g. Fair value of financial instruments:

Fair value hierarchy

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

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

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

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

As at 31 December 2011, the Group held the following financial instruments measured at fair value:

Assets

	31 December 2011 €000	Level 1 €000	Level 2 €000	Level 3 €000
Available-for-sale financial assets:				
Equity shares	1,491	1,491	–	–

Liabilities

	31 December 2011 €000	Level 1 €000	Level 2 €000	Level 3 €000
Financial liabilities:				
Interest rate swaps	34,856		34,856	–

During the year as at 31 December 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Note 31 Financial risk management objectives and policies continued

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

Assets

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

Liabilities

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

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

The following table specifies the companies' estimation of the fair value of its' financial assets:

	Carrying amount		Fair value	
	31 December		31 December	
	2011 €'000	2010 €'000	2011 €'000	2010 €'000
Financial assets				
Other non-current financial assets	**30,311**	27,389	**30,917**	27,254
Restricted deposits	**16,183**	21,999	**16,183**	21,999
Other current financial assets	**1,499**	1,671	**1,499**	1,671
Trade receivables	**17,416**	17,176	**17,416**	17,176
Other receivables	**2,865**	8,051	**2,865**	8,051
Cash and cash equivalents	**29,506**	25,637	**29,506**	25,637
Total assets	**97,780**	101,923	**98,386**	101,788

	Carrying amount		Fair value	
	31 December		31 December	
	2011 €'000	2010 €'000	2011 €'000	2010 €'000
Financial liabilities				
Floating rate borrowings	362,759	326,891	**362,759**	326,891
Fixed rate borrowings	55,369	73,974	**59,409**	76,603
Derivative financial instruments	34,856	19,012	**34,856**	19,012
Other financial liabilities	41,151	46,840	**43,303**	46,571
Lease liability	11,200	10,858	**11,200**	10,858
Trade payables	14,249	24,998	**14,249**	24,998
Deposits received from unit holders	12,279	18,234	**12,279**	18,234
Other payables and accruals	13,010	21,676	**13,010**	21,676
Total	544,873	542,483	**551,065**	544,842

Note 31 Financial risk management objectives and policies continued

h. Derivative financial instruments:

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

1. In 2006, three jointly controlled companies of the Company entered into an interest rate swap hedge transaction, according to which the companies swapped the variable interest rate of three months LIBOR +3% on a loan in the amount of £185.0 million (attributed to the Group £99.0 million) received from Goldman Sachs International Bank with fixed interest rate of 7.72% for the period until 2011. On 26 November 2010, the Group had refinanced the loan with Aareal (see Note 17a(1)). A separate arrangement with Aareal has been made to meet the costs of terminating the existing interest rate swap (the Close-Out Costs) amounting to £14.4 million which, as part of the overall financing, were settled by Aareal. The Borrowers have undertaken to pay to Aareal the value of the Close-Out Costs plus interest over the next three years by way of additional margin (the Close-Out Margin) on the fixed rate of interest under the new interest rate swap with Aareal referred to below.

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

   As at 31 December 2011, the fair value of the swap is estimated at a liability of £13.6 million (€16.3 million) (2010: liability of £12.0 million (€13.0 million).

   Under IAS 39 certain requirements should be fulfilled to apply hedge accounting on the fair value changes of derivatives, amongst which showing that the hedge is highly effective in achieving offset in changes in fair value of the future cash flows being hedged. In 2010, the Company did not meet the requirements of hedge accounting under IFRS and consequently fair value changes were reported in the income statement. As at 1 July 2011, the Company meets the relevant criteria in IAS 39 to apply hedge accounting and as of that date the fair value changes of swaps in the hedge relationship that are determined to be effective are recorded in the other comprehensive income. All fair value movements that are determined to be ineffective are recorded in the income statement immediately. Up to 1 July 2011, the Company recorded the fair value changes on these swaps in the income statement.

   The amount recorded in the other comprehensive income amounts to €5.2 million. The total amount of ineffectiveness recorded in the income statement amounts to €(87,000). The total amount recorded in the income statement prior to 1 July 2011 amounts to €4.8 million.

2. In 2008, PHRE, PHH and PHM entered into an interest rate swap according to which PHRE, PHH and PHM swapped the Variable interest rate of three months EURIBOR on a loan in the amount of €21.0 million received from Aareal, bearing fixed quarterly interest payments, at the rate of 3.77% per annum, for the period until September 2013. As at 31 December 2011, the fair value of the swap is estimated at a liability of €0.9 million (2010: liability of €1.1 million). The swap of the expected future interest was assessed to be very effective and the change in fair value is recorded in the other comprehensive income. The amount recorded in the other comprehensive income was immaterial for both 2011 and 2010.

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

   Laguna swapped the variable interest rate of three month LIBOR on a loan of £15.0 million (€17.4 million) received from The Royal Bank of Scotland plc., bearing fixed quarterly interest payments, at the rate of 5.13% for the period until January 2019. As at 31 December 2011, the fair value of the swap is estimated at a liability of £3.5 million (€4.2 million). Katmandu swapped the variable interest rate of three month LIBOR on a loan of £6.0 million (€6.9 million) received from The Royal Bank of Scotland plc., bearing fixed quarterly interest payments, at the rate of 5.54% for the period until 31 May 2027. As at December 2011 the fair value of the swap is estimated at a liability of £2.2 million (€2.6 million).

   Under IAS 39 certain requirements should be fulfilled to apply hedge accounting on the fair value changes of derivatives, amongst which showing that the hedge is highly effective in achieving offset in changes in fair value of the future cash flows being hedged. In 2010, the Company did not meet the IFRS requirements of hedge accounting under IFRS and consequently fair value changes were reported in the income statement. As at 1 July 2011, the Company meets the relevant criteria in IAS 39 to apply hedge accounting and as of that date the fair value changes of swaps in the hedge relationship that are determined to be effective are recorded in the other comprehensive income. All fair value movements that are determined to be ineffective are recorded in the income statement immediately. Up to 1 July 2011, the Company recorded the fair value changes on these SWAPS in the income statement.

   The amount recorded in the other comprehensive income amounts to €2.3 million. The total amount of ineffectiveness recorded in the profit and loss account amounts to €47,000. The total amount recorded in the profit and loss prior to 1 July 2011 amounts to €0.1 million.

4. In 2011, Marlbray entered into several interest rate swap transactions pursuant to which Marlbray swapped the variable interest rate of three months LIBOR on a loan from Bank Hapoalim. The swap nominal amounts are £111.0 million, with an amortising nominal amounts. The swap bears a fixed quarterly interest payment, at a rate of 2.64%-3.18% per annum, for the period until June 2018. As at 31 December 2011, the fair value of the swap is estimated at a liability of £7.4 million (€8.9 million). The swap of the expected future interest of was assessed to be effective and the change in fair value is recorded in the other comprehensive income. The amount recorded in the other comprehensive income amounts to €8.9 million.

Note 32 Subsequent events

1. Start of residential sales at our Pattaya Bay project in Thailand, with 85 of the 301 apartments contracted for sale.
2. The Directors are proposing a final dividend of 6.0 pence per share (2010: None), which will absorb £2,460,918 of equity.
3. The Company name changed to PPHE Hotel Group Limited on 29 February 2012.

Appendices to Consolidated financial statements

Appendix A: Subsidiaries included in the group

	Principal activity	Country of incorporation	Direct and indirect holdings %
Euro Sea Hotels N.V.[2]	Holding company	The Netherlands	100
The Mandarin Hotel B.V.[2]	Hotel operation	The Netherlands	100
Suf Holding B.V.[2]	Holding company	The Netherlands	100
Victory Enterprises I B.V.[2]	Holding company	The Netherlands	100
Riverbank Hotel Operator Limited[2]	Hotel operation	United Kingdom	100
Riverbank Hotel Holding B.V.[2]	Holding company	The Netherlands	100
Victoria London Hotel Holding B.V.[2]	Holding company	The Netherlands	100
Victoria Park Plaza Operator Limited[2]	Hotel operation	United Kingdom	100
Victoria Pub Holding B.V.[2]	Holding company	The Netherlands	100
Sherlock Holmes Park Plaza Limited[2]	Hotel operation	United Kingdom	100
Grandis Netherlands Holding B.V.[2]	Holding company	The Netherlands	100
Marlbray Limited[2]	Holding company	United Kingdom	100
1 Westminster Bridge Plaza Management Company Limited[2]	Hotel operation	United Kingdom	100
Park Plaza Hospitality Services (UK) Limited[2]	Hotel operation	United Kingdom	100
Waterford Investments Limited[1]	Holding company	Guernsey	100
Leno Investments Limited [1]	Holding company	Guernsey	100
Laguna Estates (Leeds) Limited[2]	Holding company	United Kingdom	100
Katmandu Limited[2]	Holding company	British Virgin Islands	100
Sandbach Investments Limited[2]	Holding company	British Virgin Islands	100
Hotel Leeds Holding B.V.[2]	Holding company	The Netherlands	100
Hotel Nottingham Holding B.V.[2]	Holding company	The Netherlands	100
Nottingham Park Plaza Operator Limited	Hotel operation	United Kingdom	100
Park Plaza Hotels Europe Holdings B.V.[2]	Holding company	The Netherlands	100
Park Plaza Hotels Europe B.V.[2]	Management	The Netherlands	100
Park Plaza Hotels (Germany) Services GmbH[2]	Management	Germany	100
Park Plaza Hotels Europe (Germany) B.V.[2]	Management	The Netherlands	100
Sugarhill Investments B.V.[2]	Holding company	The Netherlands	100
Park Plaza Germany Holdings GmbH[2]	Holding company	Germany	100
Park Plaza Berlin Hotelbetriebsgesellschaft GmbH[2]	Hotel operation	Germany	100
Park Plaza Hotels Berlin Wallstrasse GmbH[2]	Hotel operation	Germany	100
art'otel berlin mitte/Park Plaza Betriebsgesellschaft GmbH[2]	Hotel operation	Germany	100
art'otel berlin city center west GmbH[2]	Hotel operation	Germany	100
art'otel dresden/Park Plaza Betriebsgesellschaft GmbH[2]	Hotel operation	Germany	100
sw hotelbetriebs kft[2]	Hotel operation	Hungary	100
art'otel köln betriebsgesellschaft GmbH[2]	Hotel operation	Germany	100
Park Plaza Nürnberg GmbH[2]	Hotel operation	Germany	100
Parkvondel Hotel Holding B.V.[2]	Holding company	The Netherlands	100
Parkvondel Hotel Real Estate B.V.[2]	Holding company	The Netherlands	100
Parkvondel Hotel Management B.V.[2]	Hotel operation	The Netherlands	100
Golden Wall Investments Limited[1]	Finance company	British Virgin Islands	100
Apex Holdings (UK) Limited[1]	Holding company	British Virgin Islands	100
Park Plaza Coöperatief UA[1]	Holding company	The Netherlands	100
Park Plaza Hotels (UK) Services Limited[2]	Management	United Kingdom	100
Leno Finance Limited[1]	Holding company	Guernsey	100
Safireny Limited[2, 4]	Holding company	Cyprus	100

Appendix A: Subsidiaries included in the group continued

	Principal activity	Country of incorporation	Direct and indirect holdings %
Affiliate Members Limited[2]	Holding company	Thailand	49
Keen Tech Limited[2]	Holding company	Thailand	74
Come Global Limited[2]	Holding company	Thailand	87
Bali Hai Co. Limited[2, 5]	Asset company	Thailand	93
Westminster Bridge Holdings B.V.[2]	Holding company	The Netherlands	100
Westminster Bridge Hotel Operator Limited[2]	Hotel operation	United Kingdom	100
Club Euro Hotels B.V.[2]	Holding company	The Netherlands	100
Club A40 Hotel Holding B.V.[2]	Holding company	The Netherlands	100
Maastricht Hotel Holding B.V.[2]	Holding company	The Netherlands	100
Hotel Maastricht B.V.[2]	Holding company	The Netherlands	100
Park Plaza Hotels (UK) Limited[2]	Holding company	United Kingdom	100
PPHE Germany B.V.[2]	Holding company	The Netherlands	100
Park Plaza Betriebsgesellschaft GmbH[2]	Hotel operation	Germany	100

Appendix B: Jointly controlled entities and associates

Name of company	Principal activity	Country of incorporation	Proportion of ownership interest %
WH/DMREF Bora B.V.[2, 3]	Holding company	The Netherlands	20
W2005/Twenty Eight B.V. [2, 3]	Holding company	The Netherlands	20
Bora Finco B.V.[2, 3]	Holding company	The Netherlands	20
Victoria Monument B.V.	Holding company	The Netherlands	50
Victoria Hotel and Restaurant Investment B.V.	Holding company	The Netherlands	50
Victoria Hotel and Restaurant Management Services B.V.	Hotel operation	The Netherlands	50
Utrecht Victoria Hotel C.V.	Hotel operation	The Netherlands	50
Victoria Hotel C.V.	Hotel operation	The Netherlands	50
Melbourne Personeel B.V.	Holding company	The Netherlands	50
Schiphol Victoria Hotel C.V.	Holding company	The Netherlands	50
Victoria Schiphol Holding B.V.	Holding company	The Netherlands	50
Melbourne Holding B.V.	Holding company	The Netherlands	50
Melbourne Onroerende Zaken B.V.	Holding company	The Netherlands	50
Victoria Monument B.V.	Holding company	The Netherlands	50
Aspirations Limited	Holding company	British Virgin Islands	50

1 Direct holdings.
2 Indirect holdings.
3 Investment in an associate.
4 100% voting, 90% profits.
5 93% voting, 89.9% profits.

Independent auditor's report

To the members of PPHE Hotel Group Limited (formerly Park Plaza Hotels Limited)

We have audited the consolidated financial statements of PPHE Hotel Group Limited for the year ended 31 December 2011 which comprise the Consolidated Statement of Financial Position, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and the related Notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 37, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

G. Davies

Geraint Davies
For and on behalf of Ernst & Young LLP
Guernsey, Channel Islands

7 March 2012

The maintenance and integrity of the PPHE Hotel Group Limited web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Glossary

A

App; Application software, also known as an application or an 'app', is computer software designed to help the user to perform specific tasks. The Club Carlson℠ mobile app provides one easy source for Club Carlson℠ members to manage points, book stays, locate attractions and more.

Arenaturist; One of Croatia's best known hospitality groups and consists of eight hotels, five holiday apartment complexes, eight campsites and 52 food and beverage outlets, all of which are located in Istria. PPHE Hotel Group has a minority ownership interest in the Arenaturist group. www.arenaturist.com

art'otel®; A contemporary collection of hotels that fuse exceptional architectural style with art inspired interiors, located in cosmopolitan centres across Europe. PPHE Hotel Group is owner of the art'otel® brand worldwide. See also 'registered mark'. www.artotels.com

artotels.com; Brand website for art'otel®.

ARR; Average Room Rate. Total room revenue divided by number of rooms sold.

B

Board members; Eli Papouchado (Non-Executive Chairman of the Board), Boris Ivesha (President and Chief Executive Officer), Chen Moravsky (Chief Financial Officer), Kevin McAuliffe (Non-Executive Director and Senior Independent Director), Elisha Flax (Non-Executive Director), Nigel Jones (Non-Executive Director).

Brand website; Brand website for Park Plaza® Hotels & Resorts. www.parkplaza.com

C

Carlson℠; A global, privately-owned, hospitality and travel company with its head office based in Minneapolis, Minnesota, USA. www.carlson.com

Carlson Hotels; is the hotel business unit within Carlson℠. Hotel brands owned by Carlson℠ are Radisson®, Country Inns & Suites℠ By Carlson, Park Inn® and Park Plaza® Hotels & Resorts. Other business units are Carlson Restaurants and Carlson Wagonlit Travel.

Carlson Rezidor Hotel Group; Created in early 2012, Carlson Rezidor Hotel Group is one of the world's largest hotel groups. The portfolio of the Carlson Rezidor Hotel Group includes more than 1,300 hotels, located across 80 countries, operating under global hotel brands (Radisson Blu, Radisson®, Country Inns & Suites By Carlson℠, Park Inn by Radisson, Hotel Missoni and Park Plaza®). Carlson℠ is the majority shareholder of the Rezidor Hotel Group.

Chino Latino®; A modern Pan Asian cuisine and Latin cocktail bar concept, owned by PPHE Hotel Group, which is available at Park Plaza® Hotels & Resorts and art'otels® in Cologne, Leeds, London and Nottingham. www.chinolatino.eu

Club Carlson℠; The hotel rewards programme of Park Plaza® Hotels & Resorts and art'otel®. The programme is owned by Carlson℠. Gold Points® is the name of the currency earned through the Club Carlson℠ programme. www.clubcarlson.com

Club Carlson℠ for Business; A hotel rewards programme specifically designed for small and medium-sized businesses. www.clubcarlson.com/business

Club Carlson℠ for Planners; A global programme allowing meeting planners to earn Gold Points® for meetings and events held at Park Plaza® Hotels & Resorts and art'otels and other Carlson℠ hotel brands. www.clubcarlson.com/planners

Connect!; a training programme that is designed to further develop the PPHE Hotel Group staff and the organisation to consistently exceed guest expectations, improve employee performance and create unique service solutions. The programme challenges the traditional service model and investigates the benefits of 'reverse thinking' where the desired guest experience is considered before behaviour.

CSR; Corporate Social Responsibility. PPHE Hotel Group's Corporate Social Responsibility policy is a genuine, active and responsible commitment to our environment and society.

D

Distribution; Encompasses all the electronic channels of distribution, which includes GDS, brand websites and third party intermediaries. These distribution channels can be accessed through the Internet, an intranet or through an interfaced connection.

E

Earnings (loss) per share; Basic earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of Ordinary shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of Ordinary shares outstanding during the year plus the weighted average number of Ordinary shares that would be issued on the conversion of all the dilutive potential Ordinary shares into Ordinary shares.

EBITDA; Earnings Before Interest, Tax, Depreciation and Amortisation.

EBITDA margin; EBITDA divided by total revenue.

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

e-commerce; The entire online process of developing, marketing, selling, delivering, servicing and paying for products and services.

Enrolments; Registering guests as Club Carlson℠ member.

F

Franchise; A form of business organisation in which a company which already has a successful product or service (the franchisor) enters into a continuing contractual relationship with other businesses (franchisees) operating under the franchisor's trade name and usually with the franchisor's guidance, in exchange for a fee.

G

GDS; Global Distribution System. Sabre, Galileo, Amadeus, Worldspan offer a comprehensive travel shopping and reservation platform to travel agents worldwide. Agents use one of these platforms to book flights, car rental, hotels and other travel arrangements for their customers.

Gold Points®; The name of the currency earned through the Club Carlson℠ rewards programme.

GSI; Guest Satisfaction Index.

H – L

Like for like; Results achieved through operations that are comparable to the operations of the previous year. Current years' reported results are adjusted to have an equivalent comparison with previous years' results in the same period, with similar seasonality and the same set of hotels.

Look To Book℠; The travel agent rewards programme of Park Plaza® Hotels & Resorts and art'otel®. The programme is owned by Carlson℠. www.looktobook.com

LPI; Loyalty Performance Index.

LSE; London Stock Exchange. PPHE Hotel Group's shares are traded on the standard listing segment of the Official List of the UK Listing Authority.

M–N

Mandara Spa; Park Plaza Westminster Bridge London has the first Mandara branded spa in the United Kingdom, and the only one in Europe. Mandara Spa is a sister brand of Elemis and Bliss Spa and as such, is able to offer guests not only Mandara products and treatments but also a selection of Elemis and Bliss spa products and treatments. www.mandaraspa.com

Market share; The amount of total sales of an item or group of products by a company in a particular market. It is often shown as a percentage, and is a good indicator of performance compared to competitors in the same market sector.

Medallia; Guest feedback management and analysis system.

MICE; Acronym for the Meetings, Incentives, Conventions and Exhibitions tourism segment. This is therefore a business-oriented segment, involving obligatory (or nondiscretionary) travel.

O

OTA; Online Travel Agency. Same as third party intermediaries, third party website that sells hotel rooms. Within PPHE Hotel Group we refer to TPI's.

Occupancy Rate; total occupied rooms divided by net available rooms or RevPAR divided by ARR.

Opera Reservation System (ORS); Central reservations software for enterprises.

P

PPHE Hotel Group Context; PPHE Hotel Group aims to differentiate itself from its competitors by offering a different experience to guests. This model has been designed to support this and included the desired guest experience, PPHE Hotel Group behaviour, working climate and leadership.

PPHE Hotel Group Limited; an international hotel group that owns, leases, develops, manages and franchises primarily full service contemporary lifestyle hotels primarily in Europe. The majority of the Group's hotels operate under the Park Plaza® Hotels & Resorts brand (part of Carlson℠), over which the group has exclusive rights in 56 countries in Europe, the Middle East and Africa, or art'otel®, a brand which the group fully owns. www.pphe.com

PPHE Hotel Group; PPHE Hotel Group Limited is also referred to as PPHE Hotel Group.

Park Plaza® hotel; One hotel from the Park Plaza® Hotels & Resorts brand.

Park Plaza® Hotels & Resorts; Upscale hotel brand. PPHE Hotel Group is master franchisee of the Park Plaza® Hotels & Resorts brand owned by Carlson Hotels. PPHE Hotel Group has the exclusive right to develop the brand across Europe, the Middle East and Africa. www.parkplaza.com

People Development & HR; Refers to the overseeing department responsible for the People Development and Human Resources function within PPHE Hotel Group.

Plaza on the River™; The luxury all-suite hotel part of PPHE Hotel Group. The hotel is adjacent to the Park Plaza Riverbank London. Plaza on the River™ is the only five star product within the portfolio. www.plazaontheriver.co.uk

PPI; Product Performance Index.

Q – R

RevPAR; Revenue Per Available Room. Total rooms revenue divided by net available rooms or ARR x occupancy %.

S

Social media; The use of web-based and mobile technologies such as Facebook, Foursquare and Twitter to turn communication into interactive dialogue.
www.parkplaza.com/socialmedia
www.artotels.com/socialmedia

SPI; Service Performance Index.

T

TPI's; Third Party Intermediaries. Third party websites that sell hotel rooms. E.g. Booking.com, Expedia, hotels.com. Also referred to as OTAs.

Travel agency; An individual booking agency that makes travel arrangements for guests.

U – Z

you:niversity; The core Learning and Development offering for employees of PPHE Hotel Group.

you:niverse; PPHE Hotel Group's Intranet.

Current and committed projects

Project	Location	Operating structure	No of rooms	Status
Park Plaza Histria Pula*	Pula, Croatia	Co-owned and management contract	241	Expected to open 2012
Park Plaza Verudela Pula*	Pula, Croatia	Co-owned and management contract	385	Expected to open 2012
Park Plaza Medulin*	Medulin, Croatia	Co-owned and management contract	190	Expected to open 2012
art'otel amsterdam	Amsterdam, The Netherlands	Co-owned and management contract	105	Expected to open 2013
Park Plaza Nuremberg	Nuremberg, Germany	Owned	175	Expected to open 2013
Mixed-use development Park Royal	London, United Kingdom	Contracted to acquire	160	Expected to open 2013
art'otel london hoxton	London, United Kingdom	Joint venture and management contract	352	Expected to open 2014
Mixed-use development Pattaya Bay	Pattaya Bay, Thailand	Owned	100**	Expected to open 2015

* Following extensive renovations, Hotel Histria, Punta Verudela Resort and Hotel Medulin (which are all part of the Arenaturist group), will be rebranded to Park Plaza Histria Pula, Park Plaza Verudela Pula and Park Plaza Medulin and they are therefore not additional hotels for the Group.

** The room count excludes 301 residential apartments under construction.

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parkplazahotels.net

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

Strategic partner:
carlson.com
carlsonrezidor.com

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