QUEENCO LEISURE INTERNATIONAL LTD.

(a company incorporated and registered in Israel with registered number 513297648)

2013 ANNUAL REPORT

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INTRODUCTION

Queenco Leisure International Ltd., the emerging markets developer and operator of casinos and entertainment centers (unless the context requires otherwise, together with its subsidiaries and associated companies, "we", the "Company" or the "Group"), is pleased to submit its annual report for the year ended 31 December 2013.

On 1 April, 2014, the Company published its audited consolidated financial statements for the year ended 31 December 2013 (the "Financial Statements"), which were preceded by a description of the Company's operating and financial highlights for the year, as well as reviews by the Company's Executive Chairman and Chief Executive. The Financial Statements are incorporated herein by reference; however, for convenience purposes, the reviews are set forth below in full following the Summary.

Unless otherwise indicated, NIS amounts and USD amounts are translated in this report to Euro using the representative rates of NIS 4.7819 to €1 and USD 1.38 to €1, as of 31 December, 2013, respectively. With respect to industry and market data, we have relied on publicly available information and although we believe our sources are reliable, we have not independently verified the information contained in such publications.

SUMMARY

The Company is an emerging markets developer and operator of casinos and entertainment centers. The Company was incorporated in Israel and operates through various Israeli and foreign subsidiaries and associated companies. The Company's Global Depository Receipts ("GDR"), each representing 10 ordinary shares of the Company, are listed for trading on the London Stock Exchange (Standard Listing). Consequently, both the Israeli Companies Law, 1999 and the listing, prospectus and disclosure rules of the UK Financial Conduct Authority apply to the Company.

The Group currently operates a casino and hotel in the Island of Rhodes, Greece ("Casino Rodos" or "Casino Rhodes"), and a casino and hotel in Sihanoukville, Cambodia (the "Cambodian Project"). The Company views the Cambodian leisure market as its main growth generator in the coming years, and in addition to the development of the Cambodian Project, it would like to develop a new tourist project on a 9 hectare land it owns in Sihanoukville, which is located near the current Cambodian Project. The Company intends to continue to try and locate investors and/or business partners for the development of a tourist project on this land, which may include a hotel, casino, commercial center and a convention center, pursuant to the building permits for this land, which allow for the building of a 5 star hotel, consisting of 3,000 rooms, a

commercial center and a convention center. However, due to the Company's cash flow distress, it may need to sell this land.

The Group utilizes a two-tier management approach under which dedicated local management teams with in-house management and legal capability, are responsible for the development and day-to-day management of each individual project, while a central management team in Israel monitors operations and revenues at both the project and Group level. The central management team also determines the strategy for development of the Group's business, decides upon future investments and is responsible for the appointment of key personnel within the Group. This two-tier management approach is intended to maximize knowledge-sharing within the Group while allowing the Group to remain informed of trends likely to impact the Group's local operations.

In 2013, the Company sold its operations in Prague; and the Company's Bulgarian subsidiary continues its efforts to sell two buildings it owns in Bulgaria.

In addition, the Company indirectly holds the following assets through a chain of Israeli and foreign corporations, which are held by other parties as well in a manner that was meant to reflect and maintain a structure of an indirect joint control by the Company and the group of Club Hotel Investments (C.H.) Ltd. ("Club Hotel"): (a) a hotel and casino in Loutraki, Greece ("Casino Loutraki"); (b) a casino in Belgrade, Serbia ("Casino Belgrade"); (c) a 50 hectare land in Sihanoukville, Cambodia, which book value amount to approximately €9.9 million; (d) cash and cash equivalents of approximately Euro 8 million; and (e) a right to receive money as a result of the exercise of a put option to sell shares in one of the Group's companies in consideration for approximately Euro 49 million, with respect to which there is a dispute (together, the "Vasanta Assets"). At the beginning of the year 2009, certain disagreements arose between the Company and Club Hotel, which, among other things, prevented the Company from exercising its joint control over certain of the Vasanta Assets. Currently, the Company operates in several ways to exercise its rights in the Vasanta Assets, including through the litigation of legal procedures against Club Hotel, examining the possibility of selling the 50 hectare land and so forth.

In connection with the Financial Statements, due to the continued decline in the performance of Casino Loutraki and other information provided to the Company in this regard, the Company wrote an impairment loss of €14.6 million under "impairment of investment in an associated company" for the year ended 31 December 2013, and the carrying value of the investment in Club Hotel Loutraki S.A. ("CHL"), which holds Casino Loutraki and Casino Belgrade, in the Company's Financial Statements is zero.

On 12 August 2013 the Company completed a rights issuance of 488,408,824 ordinary shares for a total consideration of approximately €5.8 million (including approximately €4.4 million received from the Company's controlling shareholders). Following the rights issuance, the Company repaid a portion of its outstanding obligations to (Y.Z.) Queenco Ltd. ("YZ") in the

amount of €4 million. As of 31 December 2013, the Company's major outstanding debt (including to YZ, the previous Dasharta shareholder and a controlling shareholder) amounts to a total of €3.3 million.

Upon completion of the rights issue, YZ and its wholly owned subsidiary, which held prior to the completion of the rights issue approximately 67% of the Company's issued share capital, transferred the entire amount of shares purchased by them in the rights issue to A.S.Y.V Hotels Ltd. ("ASYV"), a company controlled by Mr. Yariv Lerner, a director in the Company and its Chief Executive officer. Consequently, ASYV now holds approximately 33.5% of the issued and outstanding share capital of the Company; and YZ and its wholly owned subsidiary, together with another corporation controlled by Yigal Zilkha (one of the controlling persons of YZ), now hold approximately 42.4% of the issued and outstanding share capital of the Company. On 4 September 2013, YZ and ASYV entered into a shareholders agreement, which limits their ability to sell their shares and governs their voting as shareholders of the Company.

The Company is awaiting the judgment of the Athens Administrative Court of Appeal concerning Casino Rhodes' appeal on tax assessments issued to it with respect to the years 1999-2000, amounting as of the date hereof (including interest and penalty) to €23 million.

The Group’s total gross revenue (i.e., before turnover taxes) amounted to €22.9 million during the year 2013, as compared to €22.4 million during the year 2012 and €102.4 million in 2011 (in 2011 and 2012, the revenue amounts are net of revenues allocated to discontinued operations. Revenues for 2011 include the Company's portion of proportionally consolidated operations, dis-consolidated in 2012 and 2013). During the year 2013, the Company incurred (on a consolidated basis) an operating loss of €19.9 million and a negative cash flow from continued operations of €2.5 million, and had as of 31 December, 2013 a negative working capital of €11.3 million.

Consequently, and due to other factors set forth herein, there are substantial doubts as to the Company's ability to continue as a going concern. In addition, there are substantial doubts as to the Cambodian Project's and the Loutraki Casino's ability to continue as a going concern.

EXECUTIVE CHAIRMAN'S STATEMENT

"We have witnessed some progress in Greece, which in the long term will hopefully allow Greece to turn a corner, but uncertainty remains as to the manner and timeframe of Greece's recovery. This situation adversely affects our Greece's operations.

"Along with the implementation of our cost-saving plans in Rhodes, we have shifted our focus to South East Asia, and have opened Queenco Casino and Hotel in Sihanoukville.

“We have successfully completed our rights issue in August 2013 for a total net consideration of approximately €5.8 million.

"I would like to thank the shareholders and GDR holders who participated in our recent rights issue."

Yigal Zilkha, Chairman
30 March 2014

CHIEF EXECUTIVE’S REVIEW

Introduction

The Group decided to strategically move away from Europe towards South East Asia, in order to decrease the losses we had previously incurred. The strategy to diverse revenue mix remains on course having successfully soft launched Queenco Casino in Sihanoukville, Cambodia, among other things.

Summary of financial performance

Results for the year ended 31 December 2013 (as compared to the year ended 31 December 2012)

Gross revenues were €22.9 million (2012: €22.4 million), an increase of 2.2% whilst net revenues increase by 0.6% to €15.3 million (2012: €15.2 million), an increase of €0.1 million, which is mainly due to the increase in the number of visitors in the year 2013. Revenues continue to be suppressed by the prolonged economic crisis in Greece where the Group generates 94.1% of its net revenue from Casino Rodos. The Group remains a negative EBITDA at €2.6 million (2012: negative €2.8 million). The Company's net loss during the year amounts to €23.5 million (2012: loss €39.4 million). This period's net loss is primarily the result of the impairment loss recorded with respect to Casino Loutraki.

Cash and cash equivalents amounted to €1.7 million as of December 31, 2013. The Company's management is of the opinion that the Company has good chances of executing a major portion of its plans in a timely manner. Accordingly the Company's management is of the opinion that its existing cash and the expected inflow of cash through the successful execution of its plans, will enable the Company to meet the needed cash levels required for the Group's operations and the payment of its obligations when due.

Basic loss per share was 0.24¢ (2012: loss (0.55¢)) and loss per GDR (each GDR representing 10 ordinary shares) were 2.4¢ (2012: loss (5.5¢)).

Operational Review

For detailed results by project for the year ended 31 December 2013 and 2012 see Note 29 of the Financial Statement: segment information.

Casino Rodos - Results for the year ended 31 December 2013 (as compared to the year ended 31 December 2012)

As would be expected, revenues at Casino Rodos, the only casino located on the holiday island of Rhodes, continue to be impacted by the uncertainty in the Eurozone and the pending Greek decision on their bailout conditions. Net revenues amounted to €14.4 million (2012: €14.4 million). The number of visitors has increased while the win per visit had decreased. However, due to our cost reduction and other efforts invested in Casino Rodos, EBITDA generated for the year was €0.7 million compared to EBITDA of €0.1 million for the previous year.

Queenco Casino, Sihanoukville

During the year 2012 Queenco Casino in Sihanoukville has gone through a soft launch and we are encouraged by the revenue generation that the Casino is currently creating for the Group. This further confirms our strategy to move away from the European gaming markets and further explore the opportunities that South East Asia has to offer.

Since inception, the project in Cambodia has suffered significant losses and negative cash flow from operations amounting each, for the year ended 31 December 2013, to € 1.5 million. Such losses and negative cash flow were financed up to date by the Company. However, due to the financial condition of the Company (see note 1.2 to the attached Financial Statements) there is uncertainty as to the ability of the Company to do so, if needed. Accordingly, there are substantial doubts as to the ability of the project in Cambodia to continue its operations as a "going concern". The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Outlook

The sale of our Prague operations and our activities to sell our assets in Bulgaria are in line with our current strategy to move away from Europe and to continue to explore opportunities in South East Asia and online gaming opportunities.

Yariv Lerner, Chief Executive Officer
30 March 2014

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain "forward-looking statements" based on our current expectations, assumptions, estimates and projections about our business and our industry. These forward-looking statements involve risks and uncertainties. Words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may" and other similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of several factors more fully described under "Risk Factors" below, and elsewhere in this report. The forward-looking statements made in this report relate only to events as of the date on which the statements are made. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

INDUSTRY BACKGROUND, COMPETITIVE STRENGTHS, STRATEGY AND CHALLENGES

Industry Background

The gaming industry is significantly affected by global and local economy, as well as by local regulatory environment. A decrease in private consumption resulting in a decrease in leisure expenses adversely affects gaming operations. In addition, regulations can limit competition by limiting the number of casinos' licenses allowed and by setting high barriers to entry, such as high initial set-up costs. However, regulations can also impose cumbersome requirements regarding the operations of the casinos, which could in turn increase the operational expenses of the casinos.

The Group currently operates in Greece and Cambodia.

The Greek Market

Greece is located in south-east Europe and as of 2014 has a population of approximately 11 million. The Greek economy averaged growth of about 4% per year between 2003 and 2007, but the economy went into recession in 2009 as a result of the world financial crisis. By 2013 the economy had contracted 26%, compared with the pre-crisis level of 2007. Although the economy is beginning to slowly stabilize, its expected growth rate in 2014 is still negative (at 0.5%) and is expected to become positive (at 2.3%) only during the years 2015-2018. Greece is a major beneficiary of EU aid, equal to about 3.3% of its annual GDP.

The Greek gaming market has suffered from the economic crisis as reflected by a decrease of 60% in the combined income of all the Greek casinos from 2008 through 2013 (from € 744.5 million in 2008 to € 298.6 million in 2013). Between 2011 and 2012, there was a decrease of 5.6% in the number of visits to the casinos (from 3.38 million in 2011 to 3.19 million in 2012), and between 2012 and 2013, there was a further decrease of 1% in the number of visits to the casino (to 3.16 million visits in 2013); while between 2012 and 2013, there was a decrease of 9.5% in total casino revenues ("win"); and a decrease of 8.8% in the average win per visit (from €103 per visit in 2012 to €94 per visit in 2013).

Notwithstanding the severe economic crisis, Greek tourism has maintained its stability and in 2012 there was a 5.5% decrease in the number of tourists arriving to Greece (more than 15.5 million) as compared to 2011 (approximately 16 million tourists). During the summer (May through October), approximately 2 million tourists arrive to the Island of Rhodes for a minimum stay of 3 nights, and the average number of tourists on the island each day can reach 160,000. During the high season there are approximately 250,000 beds for tourists in the island. The number of tourists arriving to the island in cruise ships could reach 500,000 each season.

Consequently, the businesses on the Rhodes Island, including our casino, are subject to seasonality.

Greek law prohibits any gambling, other than sports bets and lottery, which does not take place at a licensed casino or club in the manner provided in such casino or club's license, or which is not carried out by an authorized entity. Currently there are 9 licensed casinos in Greece, including our casino in Rhodes. Our casino's exclusivity has expired, however, to our knowledge, the government policy is that no more than one casino shall operate in each area (except in Athens). On 22 August, 2011, the Greek government amended some of its gaming regulations, pursuant to which, among other things, it granted OPAP, the local Greek lottery and sports betting operator, a concession for the operation of 35,000 gaming machines. As of the date hereof, OPAP has not yet acted on this concession, but is expected to do so by the third quarter of 2014. Once operated, competition is expected to increase for our casino in the area of gaming machines. In 2013 and 2012, the field of gaming machines throughout Greece produced income of €176 and €193 million, respectively, constituting approximately 59% and 58% of the total income of the Greek casinos from games, respectively. In addition, the Greek government is preparing now regulations to allow on-line gaming, which could also increase competition. Gaming web-sites in the Greek language, which are operated by foreign companies, are already posing direct competition to the traditional casino market.

Casinos in Greece are subject to the terms of the licenses they were granted and are subject to supervision of governmental entities, including the recently established Commission for the Audit and Inspection of Gaming.

The Greek law that prohibits smoking in public areas applies to casinos as well and requires the casinos, among other things, to maintain air filtering systems for the areas where smoking is allowed. The annual cost of operating smoking areas in a casino is €200 per square meter.

The Cambodian Market

Cambodia is located in South East Asia between Thailand and Vietnam, and as of 2014 has a population of approximately 15.5 million. Since 2004, garments, construction, agriculture and tourism have driven Cambodia's growth, and the country is considered one of ten countries in the world developing at the highest rate. GDP climbed more than 7% per year between 2010 and 2013. Cambodia, nevertheless, remains one of the poorest countries in Asia and long-term economic development remains a challenge. The Cambodian government is working with bilateral and multilateral donors, including the Asian Development Bank, the World Bank and the International Monetary Fund, to address the country's needs, and more than 50% of the government budget comes from donor assistance.

The gaming industry in Cambodia has been developing since 1994. Cambodian citizens are forbidden from attending and playing at casinos. The tourism industry is the second largest industry in Cambodia, accommodating more than 4 million tourists in 2013. It is expected that 5

million tourists will visit Cambodia in 2015. Most of the tourists arrive from Vietnam, China, Korea, Lau, Thailand, Japan and the U.S. The only corporation engaged in the gaming industry in Cambodia with respect to which public information is available is Nagacorp, a Hong Kong based public company operating a casino (with 130 gaming tables and 1,470 gaming machines as of December 2012) and a 700-rooms hotel in Phnom Penh. In 2013, Nagacorp's revenues and EBITDA amounted to $345 million, or €249 million, and $172 million, or €124 million, respectively. Nagacorp's net profit in 2013 amounted to $140 million, or €101 million. In Sihanoukville where we operate our hotel and casino, there are 6 small to medium size operating casinos.

As of the date hereof, licensed on-line gambling are allowed in Cambodia and the Company intends to request such a license.

Competitive Strengths

We believe that the Group benefits from the following competitive strengths:

- The operations of a leading casino in Rhodes;
- The development of the existing Cambodian Project and the ownership of an adjacent land in Cambodia, which, the Company believes, has a potential for further development, all in a market (Cambodia) that the Group views as its main growth generator in the coming years;
- Experienced management teams both centrally and at each local level;
- Experience in dealing with governments and regulations;

Strategy

The Group's objective is to become the leading gaming company in its chosen markets by providing superior gaming experiences, products and services. Due to the economic crisis in Europe, the Group plans to diverse its revenue mix, to continue to implement cost savings plans in its existing locations and to realize excess assets (such as the Group's properties in Bulgaria). The Group will pursue the following strategies in order to accomplish its objectives:

- Focus its development activity in the Cambodian market, which the Group views as its main growth generator in the coming years;
- Continue to invest and develop its existing activity in Rhodes and Cambodia, including through the implementation of focused marketing strategies, and to increase the attractiveness of its locations;
- Explore online gaming in areas where the Group already operates;

- Capitalize upon the two-tier management structure and management experience to create a single management model across the Group;
- Continue to focus on the leisure industry; and
- Strengthen its brand.

Challenges

We face several challenges, including:

- Raising the capital required in order to develop our Cambodian activities and materialize our plans;
- Resolving the disagreements concerning the Vasanta Assets (See "Disagreements with Other Shareholders of the Group; Litigation."), which could lead to the receipt of funds by the Company and which could allow the Company to focus on the development of its operations;
- Dealing with the risks associated with a development country such as Cambodia, which could be the result of political changes, regulation changes ,a developing legal system and so forth;
- The current global economic crisis in general and the economic crisis in Greece in particular adversely affect our operations; and in order to improve our results of operations we must succeed in implementing our cost-savings plans until the economic situation betters;
- Internet-based gambling as well as insufficient regulation of the gaming industry, especially in emerging markets, could result in increased competition for our operations.

In addition, the Company is awaiting the judgment of the Athens Administrative Court of Appeal concerning Casino Rhodes' appeal on tax assessments issued to it with respect to the years 1999-2000, amounting as of the date hereof (including interest and penalty) to €23 million. Casino Rhodes and its legal advisors believe that Casino Rhodes has substantial legal arguments supporting its appeal and that it is more likely than not (51%) that the appeal will be accepted; however, if the appeal is rejected, Casino Rhodes will not be able to pay this amount, and consequently will not be able to pay its debt to the banks (amounting as of the date hereof to €6.3 million). The Company and YZ have guaranteed, jointly and severally, Casino Rhodes debt to the banks up to an amount of €8.3 million.

The economic crisis and shareholders disagreements regarding the Vasanta Assets, have brought the Group to operating losses and negative cash flows from continued operations during the past few years. The Group's negative working capital as of 31 December, 2013 amounted to €11.3 million. As of 31 December 2013, the Company owed approximately NIS 12.4 million (€2.6 million) to YZ, of which NIS 6.7 million (€1.4 million) are classified as short term loans, and

approximately NIS 3 million (€0.6 million) to a former shareholder of Dasharta, (a company indirectly jointly controlled by the Company), from whom the Company purchased residual shares in said company in 2008. On 25 December 2013, the Company's board of directors approved the receipt of one or more loans in a total amount of NIS 1.5 million (€0.3 million) from ASYV. As of the date hereof, ASYV has loaned the Company a total of $377,000 (€272 thousand).

Consequently, and although the Company would like to locate investors and/or business partners for the development of a tourist project on its 9 hectare land in Sihanoukville, it may need to sell this land. Indeed, the Company's board of directors resolved in February 2013 to offer for sale the Company's 9 hectare land in Cambodia, if needed to enable the Company to meet its obligations. The Company has contracted a selling agent in Cambodia to help it in realizing the property. The Company also considers raising funds through the issuance of equity or debt, in which event it may re-consider its decision to sell the 9 hectare land.

In view of the above, there are substantial doubts as to the Company's ability to continue as a going concern. In addition, there are substantial doubts as to the Cambodian Project's and the Loutraki Casino's ability to continue as a going concern.

The Company's ability to meet its obligations and execute its plans, and the timing thereof, depend on agreements with third parties and/or is affected by processes and other factors which are not under the Company's control. Nonetheless, the Company's management is of the opinion that the Company has good chances of executing the sale of the land in Cambodia and at least a major portion of its other plans in a timely manner. Accordingly, the Company's management is of the opinion that its existing cash and the expected inflow of cash through the successful execution of the above mentioned plans, will enable the Company to meet the needed cash levels required for its operations and the payment of obligations when due.

For additional information concerning the Company's financial condition, see Note 1.2 to the Financial Statements. For additional challenges, see "Risk Factors" below.

BUSINESS' REVIEW

History

The Company was incorporated in Israel in 2002 and acquired its interests in the Loutraki and Rhodes operations in January 2003. The Loutraki casino commenced operations in 1995, while the Loutraki hotel opened in 2002. The Rhodes casino commenced operations in 1999, while in 2002 a hotel was opened within the building. In 2004, the Group increased its stake in the Rhodes Casino to 91.6%. In 2005, the operations in Loutraki were expanded, with the opening of a new casino hall.

In 2004, the Group purchased real estate assets in Bulgaria, with the intention of developing additional casinos, however, due to the complex regulatory gaming regime in Bulgaria, the Company has decided to sell the assets in Bulgaria.

In December 2005, Grand Casino d.o.o. Belgrade, a Serbian company which owns Casino Belgrade, was granted a ten-year license for the exclusive operation of a casino in Belgrade. Casino Belgrade underwent a soft opening on 30 June 2007 and fully opened during February 2008. In December 2008, CHL entered into an agreement with Casino Austria AG ("CAAG") for the purchase of CAAG's 51% holding in Casino Belgrade for €42 million (which were paid on December 2009), increasing CHL's total stake in the casino to 90%, and QLI's indirect holdings and economic rights to 30.7% and 34.7%, respectively.

In March 2009, we commenced operations of an entertainment centre in Prague, the Czech Republic, under the SaSaZu brand, which included an Asian restaurant and an events hall. The entertainment center is located on a property that was subleased from Delta Center A.S., which leased it from the Municipality of Prague. In October 2013, the Company entered into an agreement with a third party for the sale of the Prague operations. For further details, see "The Sale of the Prague Operations" below.

Since 2007, the Company owned, through a number of holding companies, a casino in Bucharest, Romania, which commenced operations in 1995. Due to ongoing losses, the Group's management decided to dispose of the operating segment in Romania, and on 31 January 2012, the Company's subsidiary entered into a cooperation agreement with an unaffiliated third party wishing to invest in the casino. In March 2012, 51% of the shares of the casino's holding company were issued to the investor and the Group ceased having control over the operations of the Bucharest casino. However, the investor has not completed its obligations under the cooperation agreement to transfer an additional €400 thousand. In late April 2012, we were informed that the casino was closed until further notice and currently, the casino's holding company is undergoing insolvency proceedings. Following consultation with its outside legal advisors and after considering the option to pursue legal action concerning the cooperation agreement noted above, the Company resolved not to take any legal action against the investor. For further details concerning this discontinued operation, see Note 12 to the Financial Statements.

In February 2007, Agastia Holdings Ltd. (as affiliate of the Company, indirectly jointly controlled by it) purchased through a foreign subsidiary a 50 hectare land in Sihanoukville, Cambodia, which book value amounts to €9.9 million.

In January 2008, a wholly owned foreign subsidiary of the Company purchased a 9 hectare land in Sihanoukville, Cambodia.

On 16 September 2010 we entered into a memorandum of understandings with a third party for the formation of a joint venture company to carry out hotel, casino and a restaurant as well as

other associated businesses at the Queenco Casino Hotel in Sihanoukville, Cambodia. The project was soft launched in 2012.

Due to various disagreements with Club Hotel, with which the Company held joint control over certain of the Vasanta Assets, the Company was prevented from exercising its joint control in CHL, which operates the Loutraki Casino and the Belgrade Casino. Consequently, since the first quarter of 2012, the Company has been recoding CHL's financial results in its financial statements based on the equity method, as opposed to a proportional consolidation of such results prior to that date. In view of the continued decline of CHL's activity, the Company has recorded during the past several years a few substantial impairment charges concerning its investment in CHL. In late 2013, CHL has informed the Company that it has filed a petition with the court to allow it to reach a settlement with its creditors and that the court has issued a temporary stay of proceedings; and that the Greek Gaming Committee for the Supervision and Audit and Games claims that Casino Loutraki has breached its license terms. Consequently, and in view of the addition losses incurred by CHL in 2013, the Company decided to reduce to zero the carrying amount of its investment in CHL. For further details see Notes 1.3 and 16 of the Financial Statements.

2013 Equity Developments; Shareholders Agreement

On 8 July 2013, the Company increased its authorized share capital from NIS 800,000,000, consisting of 800,000,000 ordinary shares, each having a nominal value of NIS 1.00, to NIS 1,200,000,000 consisting of 1,200,000,000 ordinary shares, each having a nominal value of NIS 1.00.

On 12 August 2013, the Company completed a rights issuance of 488,408,824 ordinary shares for a total consideration of approximately €5.8 million (including approximately €4.4 million received from the Company's controlling shareholders).

The current issued share capital of the Company is comprised of 1,098,919,854 ordinary shares, par value NIS 1.00 per share.

Upon completion of the rights issue, YZ and its wholly owned subsidiary, which held prior to the completion of the rights issue approximately 67% of the Company's issued share capital, transferred the entire amount of shares purchased by them in the rights issue to ASYV, a company controlled by Mr. Yariv Lerner, a director in the Company and its Chief Executive officer. Consequently, ASYV now holds approximately 33.5% of the issued and outstanding share capital of the Company; and YZ and its wholly owned subsidiary, together with another corporation controlled by Yigal Zilkha (one of the controlling persons of YZ), now hold approximately 42.4% of the issued and outstanding share capital of the Company.

Upon the completion of the rights issue, YZ received from ASYV an irrevocable power of attorney, valid for a period of 3 months, to vote such number of ordinary shares of the Company

that shall equal 4% of the issued and outstanding share capital of the Company following the rights issue.

On 4 September 2013, YZ and ASYV entered into a shareholders agreement, which provides as follows: (a) the parties will not sell or otherwise transfer their shares of the Company such that their aggregate voting rights in the Company shall decrease below 50.01% of the total voting rights of the Company, unless the transferee who receives the shares shall execute, prior to the consummation of the transfer and as a condition thereof, an obligation to comply with the provisions of the shareholders agreement; (b) the parties will coordinate their votes as much as possible prior to the occurrence of each general meeting of the Company's shareholders, such that every matter brought for the approval of the general meeting shall be discussed by the parties at a preliminary meeting and the parties shall vote in every general meeting of the Company's shareholders or every adjourned meeting thereof as agreed in such preliminary meeting. In the event that the parties are unable to agree on the manner of their vote regarding a certain matter, they will vote against its approval; (c) any new appointment, re-election or termination of office of a director of the Company shall be mutually agreed upon by the parties; and (d) upon the execution of the shareholders agreement, the irrevocable power of attorney granted to YZ by ASYV on 12 August 2013 has expired.

Furthermore, upon the completion of the rights issue, certain amendments to the trust agreement governing the terms of the bonds issued to the public by YZ became effective, pursuant to which, among other things, YZ and its subsidiary have pledged their entire holdings in the Company for the benefit of the bondholders and ASYV has pledged shares constituting 15% of the share capital of the Company for the benefit of the bondholders (the "Pledged Shares"); and YZ, its subsidiary and ASYV undertook to use all their current and future voting power in the Company so that the percentage of the Pledged Shares shall constitute at all times at least 45% of the issued share capital of the Company on a fully diluted basis, and to vote their shares at general meetings of shareholders of the Company so as to prevent any impairment to the value of the Pledged Shares, including without limitation the relative right to receive dividends and to participate in the distribution of the Company's assets upon its dissolution or other rights attaching to such shares.

On 21 January 2014 the Company adopted a share option plan for employee, consultants, service providers and office holders of the Company and its related companies (the "Option Plan"). The board of directors may grant up to 54,945,993 options to purchase ordinary shares of the Company under the Option Plan, constituting 5% of the Company's issued and outstanding share capital, at an exercise price per share of €0.024. As of the date hereof, 23,626,777 options have been granted under the Option Plan to employees and officers (who are not directors or controlling persons), constituting 2.3% of the share capital of the Company. For further details, see "Management and Corporate Governance – Executive Officers' and Directors' Compensation."

Our Operations

The Group currently operates a casino and hotel in the Island of Rhodes, Greece, and a casino and hotel in Sihanoukville, Cambodia (the "Cambodian Project"). This report does not include a detailed description of the operations of Casino Loutraki and Casino Belgrade since the Company currently does not attribute any economic value to these casinos, and since the joint venture operating Casino Loutraki is undergoing a legal procedure of debt settlement, was issued a temporary order of protection from debtors, and has allegedly breached the terms of its license (see Note 1.3 of the Financial Statements).

The following table sets forth the operational information regarding Casino Rhodes and the Cambodian Project as of the date hereof:

Operation	Gaming positions	Casino floor area	No. of hotel rooms	Facilities
Rhodes	233 slot machines, 40 tables	3,000m^2	33 suites	Historic building, five star boutique, dining rooms, two restaurants, bar, outdoor swimming pool, 24-hour butler service.
Cambodia	96 slot machines, 16 tables	1,500m^2	58 rooms	58 rooms' hotel; entertainment center with 2 restaurants; and a spa.

The Company's share of the gross gaming revenue of Casino Rhodes and the Cambodian Project is broken down as follows:

	31 December		
	2013 (€, in thousands)	2012^ (€, in thousands)	2011^ (€, in thousands)
Rhodes	17,916	18,302	22,196
Cambodia	948	895	-
Total	**18,864**	**19,197**	**22,196**

^Corrected.

Operational results by casino for the twelve months ended 31 December 2013 as compared to the twelve months ended 31 December 2012, are broken down as follows:

Casino	Gross Gaming Revenue (EUR m)		Net Revenue (EUR m)		EBITDA (EUR m)		Visits (000's)		Gross Win per Visit (EUR)		Company's Economic Interest
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	
Rhodes	19.6	20.0	14.4	14.4	0.7	0.1^	179	156	115	128	91.6%
Cambodia	1.4	1.3	0.7	0.6	(1.4)	(1.0)	n/a	n/a^	n/a	n/a^	70%

^Corrected.

The following table sets out information on the number of people employed or providing services to the Group at Casino Rhodes, Casino Cambodia and the Company's headquarters as at 31 December, 2011, 2012 and 2013, by location:

	2013	2012	2011
Company headquarters, Israel	11	8	8
Rhodes*	246	233	258
Cambodia**	210	200	-
TOTAL	**467**	**441**	**266**

^ Corrected.

* Because of the seasonality of the Rhodes operations, significantly more personnel are employed in the summer than in the winter.

** In order to increase efficiency, the Cambodian Project has reduced its gaming table operations to 12 hours per day, and therefore, as of the date hereof, the number of employees at the Cambodian Project is 128.

Casino Rodos – Rhodes

License and Operations

We hold an indirect 91.6% in the operator of Casino Rodos, Rhodes Casino S.A.

Rhodes Casino S.A. was awarded a license to operate a casino following its participation in an

international tender in 1996. The term of the license is indefinite, and it is the only casino license currently granted on the island of Rhodes. The license provides, among other things, for the payment to the Greek government of an annual amount of €587 thousand and 32% of gaming revenues; for various payments to the Rhodes municipality; and for an undertaking to cause the consummation of beneficial investments in Rhodes in the amount of €59 million (the "Investment Undertaking"). The Company believes, based on the advice of its legal representatives, that the Investment Undertaking is the sole responsibility of Emporiki Bank, a former shareholder of Casino Rhodes, and that although Casino Rhodes may suffer adverse consequences if the Investment Undertaking is not materialized (including fines and termination of the license), the casino will have a right to demand damages from Emporiki Bank if it can prove that it has acted to the best of its ability to affect this undertaking but has failed due to the bank's failure to finance the project. Casino Rhodes' legal advisors are of the opinion, that as of the date hereof, the risk of losing the license in this context is low. In the years 2012 and 2013, Casino Rhodes has paid governmental and local authorities (excluding income tax and entrance tickets) a total of €7,051 thousand and €7,270 thousand, respectively.

During 2012, Casino Rhodes has not complied with its ongoing obligations to pay revenue tax and national security taxes, but has agreed with the tax authorities on a payment plan concerning these amounts (€1.2 million), and has also recently agreed with the tax authorities on a new payment plan concerning on-going payments delayed during the first quarter of 2014 (€1.3 million).

The site of Casino Rodos includes a five-star boutique hotel, which is leased from the municipality of Rhodes until the year 2026 in consideration for 2% of its income. The hotel includes 33 suites, two restaurants, an outdoor swimming pool and a 24-hour butler service. In order to improve efficiency and services, commencing with the year 2012, the casino is purchasing required services from the hotel, such as accommodations, food and beverages and so forth. The hotel continues to serve as the marketing tool for the casino. Casino Rodos offers 233 slot machines, which are upgraded on a regular basis, and 40 gaming tables and includes a private gaming room in addition to the main gaming floor. The casino and hotel are located on a property owned by the Greek government and are leased by the local municipality to Rhodes Casino S.A. until 2026.

Until October 2012, Casino Rodos charged up to € 15 as entrance fees to the casino, of which €12.5 were paid to the Greek Government. Commencing November 2012, the entrance fees were reduced to € 6, of which € 4.8 are paid to the Greek Government.

During 2013, Casino Rhodes has formed a wholly owned subsidiary, which engages in the marketing and operation of flights from Israel to Rhodes and in the management of a customers' club, aiming to increase the number of visitors to the casino, increase the casino's customer base and maintain the customers through various benefits. At this time, this company markets two chartered plans per week from Israel to Rhodes, each containing 172 seats; and it has established

a customers' club which would allow benefits to returning customers. The operation of the flights commenced in October 2013 and has resulted in an increase of 12,600 visits to the casino until March 31, 2014.

Financial Position

Due to the general economic slowdown in Greece and the increase in VAT and tax on private income, which affects consumer spending in Greece, although the number of visits to Casino Rodos during the year 2013 has increased from the year 2012 (179,000 as compared to 156,000), Casino Rhodes's net revenues (after taxes on gaming revenues) in 2013 remained substantially constant as compared to 2012 (€14.4 million). This is due to a decrease of 10% in gross win per visit (€115 in 2013 as compared to €128 in 2012). However, due to our cost reduction and other efforts invested in Casino Rhodes, the EBITDA for the year 2013 amounted to €0.7, as compared to €0.1 for 2012. Casino Rhodes' net loss for the year 2013 amounted to €1.575 million as compared to €2.373 million for the year 2012.

As of the date hereof, Rhodes Casino S.A. owes €6.3 million to a consortium of banks pursuant to a loan extended by the banks in 2000, prior to the acquisition of the project by the Group. The loan is guaranteed, jointly and severally, by the Company and YZ, and is further secured by the shares of Rhodes Casino S.A. Pursuant to an October 2011 agreement with the consortium, the term of the loan has been extended to 2018, bearing an interest at the rate of 3.5% +Euribor (for three months). On 15 November 2013, the Company entered into a memorandum of understanding with the consortium, which provided for the payment of the loan out of the deposit previously deposited as a security for the loan, and provided that as an alternative security for the loan, Casino Rhodes shall undertake to maintain a minimum amount of cash in the casino's cashier. As of December 31, 2013, the casino has not complied with this provision and the Company is acting to update this agreement.

As further detailed in Note 30 to the Financial Statements (under the caption "Rhodes Casino"), in 2005 Casino Rhodes was issued tax assessments in the amount €16 million with respect to the years 1999-2000 due to the rejection of the casino's books. Casino Rhodes has appealed these assessments and is now awaiting the judgment of the Athens Administrative Court of Appeal concerning this matter, which is due to be handed down until September 2014. The current amount of the tax assessments including interest and penalty is €23 million. As required by Greek laws, Casino Rhodes has deposited an amount of €850,000 when it filed the appeal (the "Deposit"). Towards a March 2014 hearing in the case, which was the final hearing before the judgment is handed down, a law professor who specializes in Civil Proceeding Law joined the casino's legal team. Pursuant to the casino's fee agreement with this professor, he will be entitled to approximately 27% of the Deposit (€400,000) should the casino's appeal be accepted. Casino Rhodes and its legal advisors believe that Casino Rhodes has substantial legal arguments supporting its appeal and that it is more likely than not (51%) that the appeal will be accepted. If the appeal is rejected, Casino Rhodes will be required to pay the €23 million assessment shortly

after the judgment is handed down, even if it chooses to appeal the judgment. The Company estimates that Casino Rhodes will not be able to pay this amount, and consequently, will not be able to pay its debt to the consortium of banks (as described above); in which case, the consortium may exercise the guarantee provided by the Company and YZ in connection with this debt.

Casino Rhodes has extended a loan to the Company in the amount of € 400,000, which the Company repaid during 2013.

Please also see "Industry Background" above and the risk factors relating to Casino Rodos under "Risk Factors" below.

Operations in Cambodian

We currently view Southeast Asia in general and Cambodia in particular, as our main growth generator in the coming years. Accordingly, we have taken, and will continue taking, various steps in order to promote our business in this region.

Queenco Casino and Hotel

License and Operations

In November 2011, we entered into an agreement with an unaffiliated third party (the "Cambodian Partner") to develop a joint venture, which shall be engaged in the operation of a hotel, restaurants, casino and other tourist endeavors in the Queenco Casino Hotel, located in Sihanoukville, Cambodia. The agreement was based on a memorandum of understanding from September 2010, and provided, among other things, that:

- the Company will indirectly hold a 70% interest in the joint venture;
- the Cambodian Partner will lease the hotel to the joint venture for an initial period of 25 years, commencing on 1 April 2011, and the joint venture will have an option to extend the lease for an additional period of 25 years.
- commencing with the third year of the lease, the Cambodian Partner shall be entitled to a $30 thousand, or €22 thousand, monthly rent; while the first two years of the lease shall be exempt from rent payments in order to allow the renovation of the hotel. The Company shall be responsible for the renovation of the hotel and shall develop a new wing for the hotel;
- the Company and the joint venture shall enter into a service agreement for the management of the casino and hotel;
- the Company has paid $720 thousand, or €520 thousand, as an advance on account of two years of the lease.

Commencing August 2013, the joint venture has not paid its monthly rent and the Company has not yet developed a new completed the renovation of the hotel. This non-compliance with the provisions of the agreement could lead to the termination thereof and to legal proceedings against the joint venture and the Company.

In December 2011, we soft-launched the joint venture and opened the 58 room hotel, a restaurant and Queenco Casino, which currently includes approximately 96 slot machines and 16 gaming tables. The casino operates 24 hours a day, while the gaming tables operate 12 hours a day. In addition, the Cambodian Project includes a new bar, a poker room, a store, restaurants and a spa. As currently operated, the Cambodian Project is expected to reach at least cash flow balance after regular international flights shall commence arriving to Sihanoukville (which is expected to occur towards October 2014).

The joint venture has entered into an agreement with its supplier of slot machines, valid for a 10 year term (commencing in 2011), pursuant to which the supplier is currently entitled to 30% of the profits from the machines. In addition, the joint venture is entitled to the higher of $10,000 or 40% of the profits from the operations of the project's poker room (containing 4 poker tables), pursuant to a December 2013 agreement, which is valid for a 5 year term.

We intend to continue to expand the first phase of the joint venture operations and to continue with the second phase of the joint venture, which includes the renovation of the hotel, the expansion of the casino and the commencement of additional vacation and entertainment activities. The scope of investment in the second phase has not yet been determined. In addition, the joint venture plans to operate charter flights from Vietnam, a 45 minutes flight, where gambling is not allowed.

The casino is operating under a license granted by the Cambodian government, which does not set forth special terms except the payment of monthly taxes ($50 per each slot machine, $1,600 per each gaming table and 20% companies tax), the submission of annual reports, the payment of $30,000 (€22,000) annual license fee and the deposit of $100,000 (€72,000) as a security. As of the date hereof, the joint venture has not yet deposited the required security and is acting to reach an agreement in this respect.

According to the Cambodian law, a casino license should be registered in the name of the company operating it (in our case, the joint venture). As of the date hereof, the casino license is registered in the name of a company owned by the Cambodian Partner. Therefore, the joint venture is subject to penalties, including the closure of the casino. It should be noted that the Cambodian authorities are conducting regular inspections of the casino and so far no claim has been raised against the joint venture in this respect. The Cambodian Partner is obligated under the joint venture agreement to assign the license and the right to operate the casino to the joint venture. Although the license has not yet been so assigned, the local legal advisors of the Company believe that the Cambodian authorities shall not take any legal actions against the joint

venture in this respect.

Financial Position

The Cambodian Project's net revenues (after taxes on gaming revenues and refunds to players) amounted to €0.7 million in 2013 and €0.6 million in 2012; and its net losses amounted to €1.6 million in 2013 and €1 million in 2012. Its negative cash flow from operations in 2013 amounted to €1.5 million. Due to the financial condition of the Company, it may not be able to continue to finance the operations of the Cambodian Project and accordingly, there are substantial doubts as to the ability of this project to continue as a "going concern."

Please also see "Industry Background" above and the risk factors relating to the Cambodian Project under "Risk Factors" below.

The 9 Hectare Land

In addition to the development of the Cambodian Project, the Company would like to develop a new tourist project on a 9 hectare land it owns in Sihanoukville, which is located near the current Cambodian Project. This land was purchased by a wholly owned foreign subsidiary of the Company in consideration for €7.5 million, and pursuant to the requirements of the Cambodian law, a local trust company holds 51% thereof. However, the Company has effective control over, and owns all the economic rights in, this land.

The Company intends to continue to try and locate investors and/or business partners for the development of a tourist project on this land, which may include a hotel, casino, commercial center and a convention center, pursuant to the building permits for this land, which allow for the building of a 5 star hotel, consisting of 3,000 rooms, a commercial center and a convention center. However, due to the Company's cash flow distress, it may need to sell this land**.** Indeed, the Company's board of directors resolved in February 2013 to offer for sale the Company's 9 hectare land in Cambodia, if needed to enable the Company to meet its obligations. The Company has contracted a selling agent in Cambodia to help it in realizing the property. The Company also considers raising funds through the issuance of equity or debt, in which event it may re-consider its decision to sell the 9 hectare land.

The company holding this land has leased the beach located thereon pursuant to a five-year lease agreement (commencing in 2012), which allows the lessee to operate a restaurant and marine sports facilities on the beach, in consideration for 10% of its revenues. The agreement further sets certain penalties in the event that the lessee is removed from the premises prior to the lapse of the 5 year term of the agreement (which could amount to $100,000 (€72,000) during the first three years).

The Vasanta Assets

The Company indirectly holds the following assets through a chain of Israeli and foreign corporations, which are held by other parties as well in a manner that was meant to reflect and maintain a structure of an indirect joint control by the Company and the group of Club Hotel Investments (C.H.) Ltd. ("Club Hotel"): (a) a hotel and casino in Loutraki, Greece ("Casino Loutraki"); (b) a casino in Belgrade, Serbia ("Casino Belgrade"); (c) a 50 hectare land in Sihanoukville, Cambodia, which book value amount to approximately €9.9 million, and which is currently designated as an agricultural land; (d) cash and cash equivalents of approximately €8 million; and (e) a right to receive money as a result of the exercise of a put option to sell shares in one of the Group's companies in consideration for approximately €49 million, with respect to which there is a dispute (together, the "Vasanta Assets"). At the beginning of the year 2009, certain disagreements arose between the Company and Club Hotel, which, among other things, prevented the Company from exercising its joint control over certain of the Vasanta Assets. Currently, the Company operates in several ways to exercise its rights in the Vasanta Assets, including through the litigation of legal procedures against Club Hotel, examining the possibility of selling the 50 hectare land and so forth.

For further details, see "Disagreements with Other Shareholders of the Group; Litigation." In addition, for further details concerning Casino Loutraki and Casino Belgrade, see Notes 1.3 and 16 of the Financial Statements.

The Sale of the Prague Operations

In March 2009, we commenced operations of an entertainment center in Prague, the Czech Republic, under the SaSaZu brand, which included an Asian restaurant and an events hall. The operations were conducted through foreign subsidiaries incorporated in the Czech Republic. The entertainment center is located on a property that was subleased from Delta Center A.S., which leased it from the Municipality of Prague. In 2012, certain disagreements arose between the Municipality of Prague and Delta, and in January 2013, the municipality informed Delta of the termination of the lease agreement and has filed a claim against Delta. In view of this disagreement, the Company has withheld its rent and management payment to Delta and Delta has raised claims in this regard against the subsidiaries operating the center.

Since the Company does not have a relative advantage in the operation of the center, it has decided during 2012 to sell these operations.

In October 2013, the Company entered into an agreement with a third party (the "Purchaser") for the sale of the Prague operations. Under the agreement, the Company shall assign to the Purchaser its right to the repayment of shareholders loans previously extended by the Company to the Prague operations in the amount of approximately €12.2 million, in consideration for the payment by the Purchaser of €800,000 (scheduled to be paid in several installments until 27 July 2014). Subject to and immediately after the payment by the Purchaser of the entire consideration

as set forth above, the Company shall transfer to the Purchaser the entire share capital of the two Czech corporations holding Nadji Club s.r.o (the Czech company operating the Prague operations), and the entire intellectual property rights in the SaSaZu brand and trademark. It is clarified that the shares of the Czech corporations and the SaSaZu trademark will be held in trust and shall be transferred to the Purchaser only after the payment of the entire consideration.

In order to secure the obligations of the Purchaser, the controlling person of the Purchaser has delivered to the Company a personal guarantee.

The Purchaser is entitled to terminate this Agreement until the earlier to occur of July 27, 2014 or the payment of the entire consideration under the Agreement (the "Interim Period"), in the event that: (a) the Prague operations are vacated from their current premises by virtue of the relations between the Prague Municipality (the owner of the premises) and Delta Center a.s. (the

primary lessee of the premises, from which Nadji Club s.r.o sub-leases the premises); or (b) if a notice for the vacation of the premises is received by Nadji Club s.r.o. from the Prague Municipality and/or from any legal authority. In such event, the Company shall refund the consideration received from the Purchaser until such termination less €200,000.

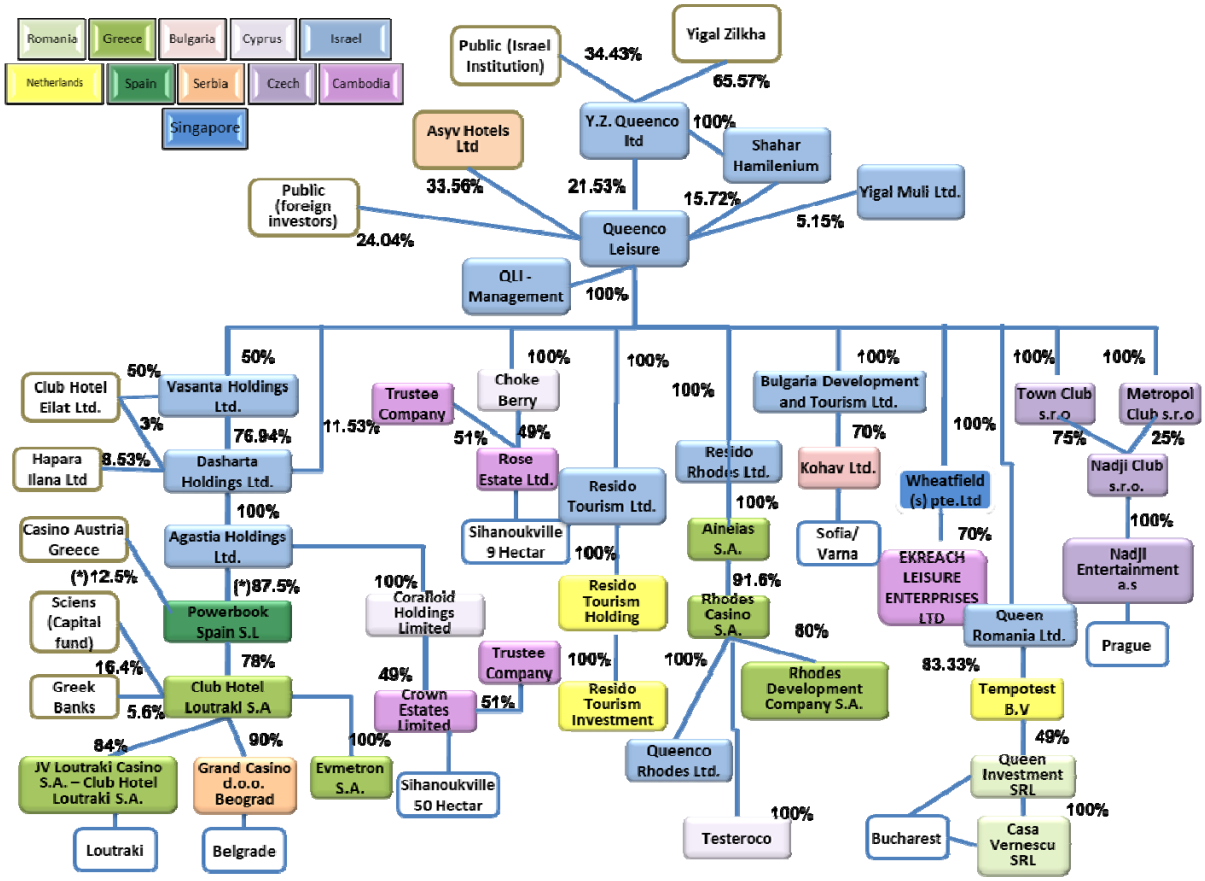
Commencing with the execution of this agreement, the Company shall not be involved in the management of the Prague operations, which will be managed by the Purchaser or on its behalf; however, during the Interim Period, the Purchaser undertakes to update the Company regarding any development and/or negotiations concerning the lease of the premises or the agreement.

Properties in Sofia and Varna, Bulgaria

During 2004, we purchased two assets in Bulgaria: a theatre in the city of Sofia, the capital of Bulgaria, and a cinema in Varna, a popular tourist resort located on the coast of the Black Sea. The properties were purchased with a view to use them in tourist projects, but in 2009 it was resolved to offer them for sale. As of the date hereof, these assets' book value is the same as their fair value as of December 31, 2013.

GROUP STRUCTURE

The following chart sets forth the Group structure as of the date hereof:



Commencing February 2011, YZ has extended short and long term loans to the Company in a total amount of NIS 40 million, or €8.4 million, under terms similar to the terms of bonds issued by YZ to the public in Israel. The loans, payable through 2015, carry an interest rate of 9% and are linked to the CPI increase. During the years, the Company has not fully complied with the terms of the loans and has reached several agreements with YZ concerning their repayment schedule. As of December 31, 2013, the outstanding amount of these loans is NIS 12.4 million, or €2.6 million, of which NIS 6.7 million, or €1.4 million, are classified as short term loans.

The Company and YZ are also parties to a service agreement, dated 28 February 2013, with effect from January 1, 2012, pursuant to which YZ uses the services of the Company's employees, offices and other office services (office supplies, refreshments etc.) for its on-going activities. According to this service agreement, YZ bears 10% of the payroll expenses of the Company's employees and 10% of the costs of the other services granted to it. During 2013, the Company provided YZ services in the amount of NIS 353 thousand, or €74 thousand, including offices' rent, employees' services and different expenses (office supplies, refreshments, etc.). In the Company's remuneration policy for office holders, which was adopted in January 2014, the Company determined that it shall act to amend this service agreement such that it shall provide for the participation of YZ in 10% of the total remuneration terms of the office holders subject to

the compensation policy (including grants but excluding equity-based compensation). The service agreement has not yet been so amended.

On 25 December 2013, the Company's board of directors approved the receipt of one or more loans in a total amount of NIS 1.5 million (€0.3 million) from ASYV (one of our controlling persons, which is controlled by Mr. Yariv Lerner, the Company's CEO). As of the date hereof, ASYV has loaned the Company a total of $377,000 (€272 thousand). The loan does not bear interest.

DISAGREEMENTS WITH OTHER SHAREHOLDERS OF THE GROUP; LITIGATION

Disagreements with Casino Austria Group

Casino Loutraki and Casino Belgrade are held through several holding companies as described in the chart above. One of these companies is Powerbrook Spain S.L. ("PBS"). In 2002 and 2003, Casino Austria Greece GmbH, a company under the control of Casino Austria A.G. ("CAAG") purchased shares in PBS pursuant to agreements with Agastia Holdings Ltd. ("Agastia"). In 2008, Agastia exercised a call option provided for in the above 2002 agreement, which decreased CAAG's holdings in PBS to 12.5%. Consequently, CAAG was entitled to appoint only one representative to PBS board; however, it has not acted to terminate one of its two representatives on PBS board until June 2011, which affected the quorum and decision making at PBS.

In December 2008, Casino Austria International Holding GmbH ("CAIH"), a member of Casino Austria group of companies, extended to Vasanta Holdings Ltd. ("Vasanta") an irrevocable offer pursuant to which CAIH will have a call option to purchase from PBS, and Vasanta will have a put option to cause CAIH to purchase from PBS, certain securities of PBS in consideration for €54.9 million and €49.5 million respectively. Pursuant to a board resolution of Vasanta in April 2009, Vasanta exercised in March 2010 the put option under certain conditions set forth by such board. However, CAIH has later resolved not to comply with the terms of the put option, claiming that the put option agreement is not valid and does not bind CAIH. To the Company's knowledge, PBS and Vasanta consider the exercise of the put option to be valid.

In July 2011, we were informed that CAIH is interested in reconciling the differences between the parties amicably and therefore it has initially offered the following: (i) CAIH shall offer to pay a non-recurring installment in the amount of € 20 million, (ii) CAIH will sell and transfer its shares in Casino Austria Greece GmbH to Vasanta at a price to be negotiated by the parties, and (iii) upon completion of the above mentioned payment and transfer of shares, a full release of any potential claim between any direct and indirect party as it relates to the 2008 irrevocable offer shall apply. Following this offer, CAIH has offered to pay Vasanta a non-recurring amount of € 24 million against the annulment and termination of any asserted claims, rights and duties

under the 2008 irrevocable offer which could exist between PBS, Vasanta and CAIH. This offer expired in May 2012). Although the Company's representative at Vasanta believed that this proposal should be negotiated and considered by Vasanta, this proposition and CAIH's proposal were not approved at Vasanta's board of directors because of the objection of Club Hotel's representatives.

On 15 October 2013, the Company and others filed an interim motion in the framework of a claim litigated in Israeli against Club Hotel and others (the oppression claim described below), for the appointment of a receiver or another official who shall act to exercise Vasanta's rights under the put option agreement, whether through negotiations or litigation. On 4 December 2013, the Israeli district court appointed Adv, Reuven Bachar and granted him the power and authority to exercise such rights in the framework of arbitration proceedings between Vasanta and CAIH. To the Company's knowledge, Adv. Bachar now acts to advance such arbitration with CAIH in order to resolve this matter.

Disagreements with Club Hotel and related Litigation

As noted above, CHL is held through various Israeli and foreign corporations, in which we and certain third parties, primarily Club Hotel Eilat Ltd. (including members of its group of companies, "Club Hotel"), hold direct and indirect interests. The articles of associations of the various holding companies, as well as the structure of their boards and various resolutions adopted thereby reflect a structure of an indirect joint control of CHL by the Company and Club Hotel. Accordingly, all the decisions relating to PBS and CHL are supposed to be jointly adopted by the Company and Club Hotel. Until the end of 2008, the parties have acted in accordance with this principal. However, at the beginning of 2009, certain disagreements arose between the Company and Moshe Bublil, the controlling shareholder of Club Hotel. These disagreements resulted in frequent and lengthy shareholders and board meetings of the various holding companies, non-performance of various resolutions adopted at such meetings and disputes regarding the substance and interpretation of various resolutions adopted at such meetings (some of which affect the decision making process at CHL). In addition, the parties have initiated certain legal proceedings in connection with these disputes, which outcome could affect the holding companies' structure of the boards, decision making process, distribution of dividends and the flow of information to the Company.

As a result of these disputes, we are sometimes unable to effectuate certain actions in these holding companies. For example, PBS has not distributed dividends to its shareholders since 2009 and although we believe that, as of 31 December 2013, it has available cash of approximately €8 million, our representatives on PBS' board have not been able to effectuate a dividend distribution. In fact, since June 2011, PBS does not hold any board meetings due to lack of quorum resulting from the disagreements with Club Hotel.

Other disagreements include the following:

- CHL's board is comprised of 5 directors, of which PBS is entitled to nominate 4. To our knowledge, during the first quarter of 2012, Mr. Bublil has taken control over the board of CHL while breaching the parties' agreements to jointly control CHL, and currently, 3 out of the 5 directors in CHL act, directly or indirectly, on behalf of Club Hotel and/or Mr. Moshe Bublil. In addition, in 2010, CHL's articles have been revised to cancel a provision requiring that certain resolutions be adopted by unanimous consent. The Company believes that such revision was not properly authorized and has received a declaratory ruling in its favor in this regard from a Spanish court, which has since been appealed (see below). As a result of the revisions to the articles and the board's current composition, certain material resolutions in CHL may be adopted without our consent. In addition, we have encountered several difficulties in obtaining on-going information and financial data from CHL's management and do not have direct contact with CHL's senior management. As a result, since the first quarter of 2012 we have revised the manner in which we include CHL's financial results in our financial statements. Although we are acting to regain control of CHL, we believe that we are and will continue to be, aware of material events occurring at CHL through our representative at CHL's board. In March 2012, we were notified that PBS' chairman of the board, who represented B.A.T (Management) 2004 Ltd. (of the Club Hotel Group) at such board, has resigned from his position as a director of PBS. However, in July 2012, a written notice from B.A.T informed that Mr. Sadan has been appointed to represent it on the boards of directors of the Israeli companies and PBS.

- The Company and Club Hotel have an additional dispute regarding the appointment of a representative of Vasanta Holdings to the board of directors of PBS. The Company believes that a resolution actually approving the presence of Vasanta's representative at PBS' board meetings has never been duly adopted and that any such resolution would contradict the joint-decision structure which the parties have agreed upon and according to which they have acted, and would not be in line with previous resolutions of the board of directors of each of Vasanta, Dasharta and Agastia, which have never been cancelled.

The following summary sets forth the outstanding legal proceedings between the Group and Club Hotel:

- Proceedings initiated in Israel in January 2010 by Club Hotel against the Company and another shareholder of Dasharta, seeking a court order that will cancel the resolutions adopted at the adjourned meeting of Dasharta's shareholders with respect to the need to appoint another director in Dasharta in order to resolve deadlock situations, and the manner of such appointment or, alternatively, approving a derivative claim to be filed by Vasanta.

- Proceedings initiated by the Company in Israel in January 2010 against Club Hotel to enforce certain resolutions adopted by the board of directors of Agastia in June 2008, pursuant to

which the board approved the following amendments to PBS's articles of association: (a) the number of directors of PBS shall be reduced from nine to five and the required majority for the adoption of resolutions by the board of directors shall be at least four out of the five directors, (b) immediately following the amendment of the articles, Agastia, Dasharta and Vasanta shall all resign from the board of directors, and (c) all free and remaining cash flow shall be distributed to PBS' shareholders on an annual basis.

These two proceedings were consolidated, and in June 2013: (a) the Tel-Aviv District Court determined, concerning the claim initiated by Club Hotel, that there is a substantial evidentiary basis to support a conclusion that there is a deadlock in the management of the jointly controlled companies holding CHL, and that there was no fault in the manner in which the adjourned meeting was convened. However, the court determined that this does not justify the adoption of resolutions in a shareholders meeting in contravention of Dasharta's articles of association and in the manner in which they were adopted, and therefore, it was determined that the resolutions adopted at such meeting are void; and (b) concerning the claim initiated by the Company, the Tel-Aviv District Court rejected the applicant's request regarding the appointment and/or dismissal of directors in PBS, but accepted the applicant's request to enforce Agastia's resolutions regarding the distribution of available cash at PBS. Therefore, the court ordered the respondents to effectuate this resolution.

Once the above two claims were resolved, the Tel-Aviv District Court commenced proceedings concerning the following four motions, which were consolidated and delayed until the resolution of the above claims as per a November 2012 decision of the court. A preliminary hearing has already taken place and additional hearings were set for late June 2014 and commencing September 2014 -

- Proceedings initiated in Israel in January 2010 by Club Hotel against the Company and Mr. Zilkha to approve a derivative claim on behalf of Agastia, including a $53.5 million, or €39 million, monetary remedy, in connection with the acquisition of the 9 hectare land in Cambodia. Club Hotel claims that the Company took advantage of a business opportunity that was intended to be offered to Agastia and that the Company did not reveal to Agastia that it had received an offer to purchase an asset held by it in Cambodia, and therefore is seeking a monetary remedy that will reflect the damages that have allegedly been incurred by Agastia.

  The Company rejects the forgoing claims and filed an opposition thereto, stating that the claim has no legal ground due to various reasons including: (1) the Company and Mr. Zilkha have operated in the gaming industry many years prior to their joint holding of Agastia; (2) the Company and Mr. Zilkha have operated casinos other than through Agastia; and (3) there are no restrictions on competition between the Company, Mr. Zilkha and Agastia.

As for B.A.T.'s additional claim, the Company stated that it had received no such purchase offer. Based on the advice of its legal counsels, and due to the strength of the Company's arguments, the Company is of the opinion that the likelihood of an unfavorable outcome against the Company in these proceedings is less than 50%.

- Proceedings initiated by us in Israel in July 2010 to receive declaratory relief and permanent injunctions with respect to the alleged violation of certain fiduciary duties by the representative of Vasanta, Dasharta and Agastia on the board of directors of PBS and with respect to his nomination as the representative of Vasanta on the board of directors of PBS, which the Company claims is null and void. The case is in its preliminary stages and its outcome cannot be determined at this point.

- Proceedings initiated by the Company in Israel in September 2011 against Agastia for the repayment of NIS 42 Million, or €8.8 million (inclusive of linkage differentials and interest), which were lent to Agastia by the Company in 2007 and were used (together with monies lent to Agastia by other parties) to buy the 50 hectare land in the city of Sihanoukville, Cambodia. The case is in its preliminary stages and its outcome cannot be determined at this point.

- Proceedings filed in Israel in September 2011 jointly by the Company and Mr. Yigal Zilkha against Mr. Bublil, Club Hotel and others. The claim describes a systematic, methodological oppression applied by Mr. Bublil and companies under his control against the plaintiffs, which occurred in the framework of the “Club Hotel Loutraki Greece” joint venture. Such oppression was effected through the breach of agreements, the attempt to financially “suffocate” the joint venture companies, as well as through obtaining in illegitimate ways certain resolutions of the corporate organs of the joint venture. Among other things, the plaintiffs are seeking a valuation of the parties’ respective holdings in the joint venture companies, which will be the basis for the termination of the partnership between the ultimate shareholders engaged in the “Club Hotel Loutraki Greece” tourism enterprise. The Company submitted the lawsuit after exhausting the viable options to resolve the continuous conflict without the assistance of the court. Such ongoing conflict led the joint companies to a deadlock, resulting in damages caused to the joint venture. The case is in its preliminary stages and its outcome cannot be determined at this point. For a decision of the court concerning an interim motion filed in these proceedings to appoint an official to act for the exercise of Vasanta's rights against CAIH, see "Disagreements with Casino Austria Group" above.

The Company has also filed the following claims in connection with its dispute with Club Hotel:

- Proceedings initiated in Greece in September 2012 by the Company against CHL to determine that CHL is committed to transfer its financial information according to IFRS standards in a timely manner when due, at the Company's request and without charging a fee

for the preparation of such financial statements. The Company also asked the court to determine that CHL immediately return to the Company all payments in respect of audits of its financial statements which the Company previously paid under protest and lack of choice. A hearing was set for March 26, 2015. Based on its Company's legal counsels' advice, the Company is of the opinion that there is a good chance for this lawsuit to be accepted.

- Proceedings initiated in Israel in September 2012 by the Company against Vasanta and Dasharta requiring for their consolidated financial statements to be provided in a timely manner when due. in July 2013 the court appointed an accountant from PWC as an expert of the court to resolve some of the disputes among the parties.

- Proceedings initiated by the Company in Barcelona, Spain in June 2010, requesting a declaratory relief against a member of PBS's board of directors (Mr. Sadan), stating that the defendant overreached the powers granted to him in the representation of PBS at the shareholders meeting of CHL on November 3, 2011. In September, 2012, the claim has been entirely accepted by the Barcelona court. This judgment was appealed by the member of PBS's board of directors on November 2012. The Company has opposed to this appeal. The Barcelona Court has dismissed a request made by Mr. Sadan to declare the nullity of the court's clarification resolution of October 2012 (which declared that the actions taken by Mr. Sadan in CHL are not enforceable vis-a'-vis PBS).

- The Company filed an additional declaratory claim against PBS to declare unenforceable, on the grounds of nullity and void ability, all the resolutions adopted by the board of directors of PBS in its meeting of April 12, 2011 (which include, among other things, a retroactive approval to empower Mr. Sadan to vote at CHL's shareholders meeting to amend its articles of association). The claim was dismissed in December 2011 and was appealed on January 25, 2012. In October 2013, the Company's appeal has been accepted, following which PBS has requested a right to appeal this decision.

With respect to other litigation and contingent liabilities of the Group, including tax contingencies, please see note 30 to the Financial Statements.

The Company rejects all claims filed against it and denies the allegations stated therein.

MANAGEMENT AND CORPORATE GOVERNANCE

The following table sets forth information regarding our executive officers and directors as of the date hereof:

Name	Age	Position(s)
Yigal Zilkha	50	Chairman of the Board of Directors, Business Development Officer
Yariv Lerner	41	Chief Executive Officer and Director
Shirly Zilkha	42	Deputy-Chief Executive Officer and Director
Arie Haviv	41	Chief Financial Officer
Yitzhak Shwartz	61	Director
Moshe Sharbany	50	Director
Aliza (Alicia) Rotbard	67	External Director
Yoram Hessel	67	External Director
Meni Akunis	35	Chief Operating Officer
Guy Sigura	37	General Counsel and Company Secretary

Yigal Zilkha. Mr. Zilkha currently serves as the Chairman of the Board and is also in charge of the Company's business development. He is the major shareholder of YZ, which currently holds, directly and indirectly, approximately 37.25% of the Company's issued share capital. Mr. Zilkha also holds, through a company under his control, an additional 5.15% of the Company's issued share capital. YZ and ASYV are parties to a shareholders agreement, which regulates, among other things, their voting as shareholders of the Company. Mr. Zilkha has been involved in the gaming industry for over twenty years as a promoter and operator of casinos. Mr. Zilkha also serves as the Chairman of the Board of YZ.

Yariv Lerner. Mr. Lerner is the Chief Executive Officer of the Company. He is the beneficial owner of ASYV, who has purchased from YZ shares of the Company constituting 33.6% of the issued share capital of the Company. As noted above, YZ and ASYV are parties to a shareholders agreement, which regulates, among other things, their voting as shareholders of the Company. During the past 10 years, Mr. Lerner has been engaged in various creative transactions, while gaining comprehensive managerial experience, including in the framework of corporate recovery. Mr. Lerner currently serves as the chairman of the board of directors of Natali Medical Services Ltd., one of Israel's leading tele-medicine, security and aid services'

company, and as a director in various other corporations. In addition, Mr. Lerner owns various real estate projects in Israel and abroad. Mr. Lerner is an attorney with an LL.B from Haifa University. Mr. Lerner also serves as the Chief Executive Officer of YZ.

Shirly Zilkha. Ms. Zilkha is the deputy-Chief Executive Officer of the Company. She is the wife of Yigal Zilkha, and has been serving as the Company's coordinator of legal claims for the past several years. She has a law degree (LL.B) from Ono Academic College. Ms. Zilkha also serves as a director and as the deputy-Chief Executive Officer of YZ.

Arie Haviv. Prior to his appointment as our Chief Financial officer, Mr. Haviv has been serving as our controller since November 2011 and as an assistant controller since July 2009. Prior to joining us, Mr. Haviv served for 4 years as the controller of an overseas contractor and for over a year as an internal auditor in Migdal Insurance Company. Mr. Haviv is a certified public accountant (CPA) and has a BA in Accounting and Business Administration from the College of Management, Israel. Mr. Haviv also serves as the Chief Financial Officer of YZ.

Yitzhak Shwartz. Mr. Shwartz has been designated by the board as an independent director pursuant to the provisions of the Israeli Companies Law, 1999. He is a certified CPA in Israel since 1982. From 1980 until 1986, Mr. Shwartz served as an audit manager at Liboshitz Kasirer, an accounting firm. From 1986 until 1995, Mr. Shwartz served as the Chief Financial Officer of Adler Investments Limited, a company listed on the Tel Aviv Stock Exchange. In 1995, Mr. Shwartz was appointed as the Chief Operating Officer of Adler Investments Limited and he is currently responsible for its real estate operations in Israel and overseas. In addition, Mr. Shwartz is responsible for the operations in and outside of Israel (primarily in Eastern Europe) of the Adler - Africa Israel partnership, which is a developer of residential projects as well as shopping centers and office buildings. Mr. Shwartz has a BA in Business and Economics from Bar-Ilan University.

Moshe Sharbany. Mr. Sharbany is an authorized investment advisor and has been engaged for over 20 years in various commerce, finance and real-estate ventures.

Aliza (Alicia) Rotbard. Ms. Rotbard is a management and investment consultant and is a member (including as an external director) of the boards of directors of various public and private companies. Ms. Rotbard has been involved in the management of various companies and served as the Deputy General Manager of the Tel-Aviv Stock Exchange. Ms. Rotbard holds a B.Sc. in Mathematics and Physics from the Hebrew University in Jerusalem.

Yoram Hessel. Mr. Hessel retired from a senior position at the Prime Minister's Office in February 2003. Mr. Hessel is the Chief Executive Officer of Vintage Crown Ltd., Israel; and is a member of various boards of directors, including: member of the board of directors and chairman of the audit & related parties committee and the financial reporting & subsidiary companies' committee, Bank Otsar Hachayal Ltd., Israel; member of the board of directors, AFCON Holdings Ltd., Israel; member of the board of directors, Tadiran Holdings Ltd., Israel.

Meni Akunis. Mr. Akunis has been serving as the Chief Financial Officer of the Company's Cambodia and Romania projects. Prior to joining the Company, Mr. Akunis has served as the chief financial officer of Adama Romania and as an accountant in Ernst & Young Israel. He is a certified public accountant (CPA) in Israel, has a B.A. in Accounting and Business Administration and an MBA with a focus in finance from the College of Management, Israel.

Adv. Guy Sigura. Mr. Sigura has been serving as the Company's General Counsel since March 2012. Prior to joining the Company, Mr. Sigura has practiced law for 6 years at Haim Zadok Law Offices, one of the most prominent law firms in Israel. Mr. Sigura is a member of the Israeli bar association since 2007, has an LL.B in Law and Business Administration from the Interdisciplinary Center (IDC) Herzliya Radzyner School of Law, and an LL.M in Commercial Law from the Tel Aviv University in collaboration with the University of California Berkley Boalt Hall School of Law (both honors: Summa Cum Laude). Mr. Sigura also serves as the general counsel and company secretary of YZ.

Corporate Governance - General

The Company is an Israeli public company and its corporate governance is therefore subject to the provisions of the Israeli law. See also "Risk Factors" below relating to the Company's location in Israel and to the Company's shares and GDRs.

In November of 2013, the Company adopted an internal enforcement plan, which includes a set of procedures and instructions meant to ensure compliance by the Company and its personnel with the provisions of the laws applicable to thereto.

Board of Directors

The Company’s articles of association provide that the board shall consist of not less than three directors and not more than nine directors (including the two external directors required by Israeli law). Our directors are generally elected at general meetings of our shareholders, and except for our external directors, hold office until the next annual general meeting of shareholders following their appointment. A simple majority of shareholders at a general meeting may remove any of the directors (other than the two external directors) from office, elect directors in their place or fill any vacancy, however created, in the Company’s board. Vacancies on the Board, other than vacancies created by removal of an external director, may be filled by a vote of a majority of the directors then in office. The board may also appoint additional directors up to the maximum number permitted under the Company’s articles of association. A director so appointed by the board holds office until the first annual general meeting following such appointment. Any director may be re-elected as a director (except for the external directors) at the annual general meeting.

External Directors

Under the Israeli Companies Law, 1999-5759 (the "Companies Law"), as a public company incorporated under the laws of Israel, the Company is required to appoint at least two external directors to its board. The Companies Law provides that a person may not be appointed as an external director of a company if he or she is a relative (namely a spouse, sibling, parent, grandparent and offspring or an offspring, sibling or parent of a spouse or any of their spouses) of a controlling person of the Company, or if he or she, its relative, partner, employer, a person to whom it is directly or indirectly subordinate or a corporation under his or her control, have, on the date of the person's appointment to serve as an external director, or had during the two years preceding such date of appointment, any affiliation (as such term is defined in the Companies Law) with the Company, the controlling person of the Company or its relative or another corporation.

Ms. Rotbard and Mr. Hessel serve as external directors on our board and their terms extend to November 25, 2016 and September 10, 2015, respectively.

Committees of the Board

The Company's board may delegate its powers to committees of the Board as it deems appropriate to the extent such delegation is permitted under the Companies Law.

Under the Companies Law, each committee exercising powers of the board of directors of a public company is required to include at least one external director, except for the audit committee, which is required to include all external directors.

The Company's board currently has an audit committee, a committee for the review of financial statements and a remuneration committee.

Internal Auditor

The Companies Law provides that the board of directors of a public company incorporated under the laws of Israel must appoint an internal auditor proposed by the audit committee. The internal auditor may not be an "interested party" (as such term is defined in the Companies Law), an office holder or an affiliate, or a relative of any of the foregoing, nor may the internal auditor be the Company's independent auditor or its representative. The role of the internal auditor is to examine, among other things, the propriety of acts of the Company from the point of view of compliance with the law and proper business administration. The internal auditor has the right to demand that the chairman of the audit committee convene an audit committee meeting, and the internal auditor may participate in all audit committee meetings. Mr. Uzi Ezer serves as our internal auditor. Mr. Ezer is the head of Ezer Zalit & Co, which specializes in conducting internal audit of companies, institutions and organizations in Israel and abroad. Mr. Ezer is a CPA who holds a postgraduate degree in Business Administration from the University of

Manchester, England and has 19 years of experience in the field of internal audit. Mr. Ezer served inter alia as chief internal auditor of Bank Hapoalim Investments Company and deputy chief internal auditor of IDB as well as conducted investigative, internal audit for the Israel Securities Authority.

Executive Officers' and Directors' Compensation

The aggregate total consideration paid for the year 2013 to the Company's directors (5 persons) amounted to €96 thousand.

Currently, only our external directors and independent director are entitled to compensation for their services as directors of the Company and receive such compensation in accordance with the provisions of regulations promulgated under the Companies Law in this respect.

Mr. Zilkha, Mr. Lerner and Ms. Zilkha do not receive compensation (except reimbursement of expenses) for their services as Chairman of the Board, Chief Executive Officer and deputy-Chief Executive Officer, respectively.

The aggregate total consideration paid for the year 2013 to the Company's senior management who are not serving as directors, amounted to €586 thousand (including economic benefits of options and bonuses). In addition, senior managers receive benefits in kind such as the use of a company car and a mobile telephone.

In January 2014, the Company's shareholders approved a remuneration policy for office holders as required under the provisions of the Companies Law. The policy must be approved every three years and provides, among other things, that an office holder may be awarded one or more of the following components of compensation: fixed compensation and benefits, payment upon termination of office (advanced notice and transition periods), equity awards, performance-based bonuses, insurance, exemption and indemnification. With respect to each of these components, the policy sets forth maximum limits of compensation, depending on the position of the office holders, and certain conditions for their grant. The policy also sets forth the Company's policy concerning the terms of office of directors who do not serve in other positions at the Company. The Company believes that the policy incorporates all matters required to be included in a remuneration policy as mandated by the Companies Law, including (without limitation): (a) the requirement to consider the office holders' education, skills, professional experience, expertise, position and past compensation agreements; (b) consideration of the ratios between overall compensation of the office holders and the average and median salary of the other employees of the Company; (c) the board's right to reduce variable compensation; (d) the manner in which the exercise price of equity awards shall be determined and a minimum vesting period for equity awards; (e) the determination of a maximum period for advanced notice and transition periods upon termination of service, based on the office holders' tenure, terms of service, contribution to the Company, the Company's performance during his/her tenure and the circumstances of the termination of office; (f) basing variable components of compensation on key performance

indicators and on measurable criteria; (g) determining the ratio between fixed and variable components of compensation and setting forth caps on the amount of variable compensation payable; and (h) a claw-back provision with respect to restatements of financial statements. It should be noted that the policy does not intend to amend any office holder's existing terms of office; nor to bestow any office holder with a right to receive the compensation, or any element thereof set forth therein. The specific terms of office of each office holder shall be separately determined in accordance with the relevant provisions of the Companies Law and the relevant regulations promulgated thereunder.

For a description of the service agreement between the Company and YZ, providing, among other things, for the participation of Queenco in 10% of the cost of the Company's employees, including its executive officers, see "Group Structure" above. YZ's board of directors has also adopted a remuneration policy which principles are similar to those of the Company's remuneration policy.

On 21 January 2014 the Company adopted a share option plan for employee, consultants, service providers and office holders of the Company and its related companies (the "Option Plan"). The board of directors may grant up to 54,945,993 options to purchase ordinary shares of the Company under the Option Plan, constituting 5% of the Company's issued and outstanding share capital, at an exercise price per share of €0.024. The Option Plan allows for a cashless exercise under certain terms and subject to the sole discretion of the plan's administrator. Generally, the Option Plan sets forth a three-year vesting term and a 6 years exercise period, and further provides for a limited exercise period in the event of the grantee's termination of employment/service with the Company. As of the date hereof, 23,626,777 options have been granted under the Option Plan to employees and officers (who are not directors or controlling persons), constituting 2.3% of the share capital of the Company.

On 24 October 2013, the Company's shareholders approved the purchase from time to time of directors' and officers' liability insurance for the directors (including statutory independent directors) and officers serving from time to time at the Company and its subsidiaries. Such policy/ies may be purchased independently or jointly with YZ, provided that the Company's portion of the premium payable under a joint policy with YZ shall not exceed 84% thereof. The terms of the policy/ies, including the identity of the insurers, coverage limitations, annual premium and deductibles, shall be determined by the Company's management and approved by the Company's authorized organs separately for each insurance term; provided, that such terms are reasonable in view of the circumstances and relevant market terms and that: (a) the annual coverage of the policy/ies does not exceed an aggregate amount of US$ 10 million for all the directors and officers covered thereby, plus 20% for legal expenses; and (b) the maximum annual premium payable by the Company shall not exceed US$84,000.

The shareholders were asked to approve the purchase of the above policy with respect to officers and directors of the Company who are not controlling shareholders of the Company or their

relatives; while the coverage of such policy regarding officers and directors of the Company who are controlling shareholders of the Company or their relatives was approved by the Company in accordance with the Israeli Companies Regulations (Relief for Transactions with Interested Parties), 2000.

Our officers and directors are also entitled to indemnification and exculpation in accordance with the terms of the Companies Law and the form of indemnification agreement approved by the Company's shareholders.

FUTURE DEVELOPMENTS

For the Company's future plans, please see "Summary" and the section titled "Strategy" and "Challenges" under "Industry Background, Competitive Strengths, Strategy and Challenges" above.

RISK FACTORS

The risks and uncertainties below are not the only ones faced but represent the risks that the Company believes are material, If any of the following risks actually occurs, the Group's business, financial condition or results of operations could be adversely affected. In this case, the value of the Company and/or the trading price of the GDRs could decline and the Company's investors could lose all or part of their investment. Additional risks not described below or not currently known to the Company or that the Company currently deems immaterial may also adversely affect the Company's value and/or market price of the GDRs.

Risks Related to the Financial Position of the Company

Our Financial Statements include a going concern warning

Due to several reasons described in this report, the financial statements of the Company for the year ended 31 December 2013 contain a going concern warning. Although the Company intends to implement various actions in order to improve its cash flow and ability to continue as a going concern, the timing and scope of the success in the execution of these actions depend on agreements with third parties and/or are affected by processes and other factors which are not under the Company's control.

We owe NIS 12.4 million, or €2.6 million, to our controlling shareholder and €0.6 million to a previous shareholder of one of our subsidiaries, and if we are unable to repay these debts when due, we may act to liquidate some of our assets

As of 31 December, 2013, we owe NIS 12.4 million, or €2.6 million, to our controlling shareholder and €0.6 million to a previous shareholder of one of our subsidiaries. Although we have been able to agree with such debtors on the rescheduling of our debt so far, there is no assurance that we will be successful in such endeavor in the future. If we are unable to repay these debts when due, we may act to liquidate some of our assets.

Risks Related to the Gaming Industry

Demand for gaming services is unpredictable

Demand for gaming services is difficult to predict. While it is possible to draw certain parallels between the macro-economic situation, the amount of disposable income and the amount of money that an average household spends on entertainment in general, the correlation between overall leisure spending and spending on gaming appears to be non-linear. Demand for gaming services may be affected by public opinion, negative or positive publicity and other factors. In addition, it may be affected by other entertainment options available at the time. Specifically, at present all forms of internet betting are prohibited in Greece, as well as slot machines outside licensed casinos. Should these restrictions be lifted (as a result of a European Union ruling or otherwise), the Group's revenues could be negatively affected as customers utilize this additional method of gambling. Consequently, the revenue of the Group may be adversely affected by temporary or permanent, sudden or gradual fluctuations on the demand side, which cannot be explained by the Group's financial performance or the condition of the economy in general. In particular, the demand for gaming services in each jurisdiction will depend, to a certain extent, on that jurisdiction's economic situation.

Changes in the gaming regulatory environment may have a detrimental effect on the Group's revenues

The Group operates in markets which are subject to state and/or municipal regulation and supervision. Adverse changes in the laws or their interpretation in any of the countries where the Group operates may have a material adverse effect on the business of the Group or create obstacles to further expansion in these countries. In particular, new state or municipal restrictions on the size and location of gaming establishments or more stringent rules relating to the advertising of casinos may have an adverse effect on the profitability and revenues of the Group as a result of increased compliance costs and restricted marketing opportunities. Alternatively, our competition may increase where regulators allow numerous licenses or extend on-line gaming licenses. Legal regulation of the gaming industry is highly susceptible to changes in the political and social agenda and consequently the Group is unable to make reliable long-term predictions about the legal environment in the markets in which it currently operates. See also "-

Lack of developed regulation in certain markets could increase competition," "- Competition in Greece may increase" and "- The Group may not be able to obtain licenses and permits."

The Group may face increased competition from Internet-based services

The world-wide volume of Internet-based gambling is increasing and it is possible that Internet gaming services will attract an increasingly large share of customers in the future. For example, at present, internet gaming is prohibited in Greece although in practice such sites can be accessed by Greek internet users. In addition, the Greek government intends to regulate on-line gaming. Increased internet access across the Greek population could result in internet-based gaming presenting additional competition for the Group.

Lack of developed regulation in certain markets could increase competition

While the regulation of gaming in Greece is relatively strict and developed, the regulation in Cambodia and south-east Asia is less developed. Lack of developed regulation in this jurisdiction potentially enables a large number of local and international competitors to establish gaming operations which can compete with the Group's gaming operations. In addition, lack of developed regulations could result in weak enforcement of prohibitions on illegal gaming, which also increases competition. It is impossible to predict the level of regulation that will be implemented in undeveloped markets or the exact impact that such implementation or lack thereof will have on the Group's operations. Moreover, if a market in which the Group intends to invest does not become as regulated as the Company's management anticipates, the Company may decide not to operate in this market, which would affect its intended growth plan.

Labor disputes could impede our operations

We require the services of many employees in order to operate our land-based hotels and casinos. Therefore, any labor disputes resulting in work stoppages and strikes could severely impede our operations. In Greece, there is a general federation of employees (G.S.E.E), which promotes and protects the rights of employees, and most of the employees' terms are determined in accordance with the law. Under Greek law, we are required to enter into a collective bargaining agreement with the employees of Casino Rhodes. Especially in view of the economic crisis in Greece, labor disputes could arise, which could have a material adverse effect on our operations.

Risks Related to the Group's Business

European Economic Crisis

The direct economic consequences of the economic crisis in the financial markets remain unknown. The European economies, including Greece, where the Group operates, are in the midst of an economic slowdown. The Group is not immune against the consequences of the crisis. A decrease in private consumption resulting in a decrease in leisure expenses might reduce

the Group's activities and adversely affect the Company's results of operations. See"-Economic crisis in Greece."

Economic crisis in Greece

The Group's operations involve investment in operations in Greece and are exposed to the financial crisis this country is undergoing and which has worsened in a way which jeopardizes its ability to repay its debts. The Greek economy averaged growth of about 4% per year between 2003 and 2007, but the economy went into recession in 2009 as a result of the world financial crisis. By 2013 the economy had contracted 26%, compared with the pre-crisis level of 2007. Although the economy is beginning to slowly stabilize, its expected growth rate in 2014 is still negative (at 0.5%) and is expected to become positive (at 2.3%) only during the years 2015-2018. Greece is a major beneficiary of EU aid, equal to about 3.3% of its annual GDP, but in exchange for such aid was required to take extreme austerity measures, resulting, among other things, in an unemployment rate of 27.5% in 2013. The crisis in Greece has, and is likely to continue to, adversely affect our results of operations in this market. See also "Industry Background" above.

The Group may not be able to obtain and/or maintain licenses and permits

In order to commence and continue gaming operations, the Group must obtain and maintain the requisite licenses and permits for gaming and, where relevant, for building, from the relevant authorities. The Company cannot predict with certainty that it will be able at any time to obtain the required licenses and permits or the time it will take to obtain them, particularly in heavily regulated markets or where competing casinos are already active in the area. If the Group is unable to obtain the required gaming licenses or if delays are experienced in receiving the required permits, it could adversely affect its ability to implement its development strategy, which could have a material adverse effect on the Group’s financial condition and results of operations. The foregoing risk is also applicable with respect to the maintenance of licenses in existing operating casinos.

For example, according to the Cambodian law, a casino license should be registered in the name of the company operating it (in our case, the joint venture). As of the date hereof, the casino license is registered in the name of a company owned by the Cambodian Partner. Therefore, the joint venture is subject to penalties, including the closure of the casino. The Cambodian Partner is obligated under the joint venture agreement to assign the license and the right to operate the casino to the joint venture. See also "Business Review - Operations in Sihanoukville, Cambodia". For the provisions of the Casino Rhodes license and certain risks associated therewith, see "Business Review - Casino Rodos – Rhodes."

Competition in Greece may increase

On 22 August 2011, the Greek government amended some of its gaming regulations, pursuant to which, among other things, it granted OPAP, the local Greek lottery and sports betting operator, a concession for the operation of 35,000 gaming machines. As of the date hereof, OPAP has not yet acted on this concession, but is expected to do so by the third quarter of 2014. Once operated, competition is expected to increase for our casino. For additional information, see "Industry Background" above. Granting of additional casino licenses could also result in increased competition. Increased competition could have a material adverse effect on the business and profitability of Casino Rodos. See also "- The Group may face increased competition from Internet-based services."

Casino Rodos' results of operations are dependent on tourism

Casino Rodos is dependent on the attractiveness of the island of Rhodes as a tourist destination. This is illustrated by its operating figures which show an increase in both admissions and revenue during the tourist season, with the third quarter of 2013 accounting for approximately 43% of gross revenues annually. Although many of the casino's visitors are residents of Rhodes, the economy of the island as a whole is dependent on tourism. A downturn in the number of tourists visiting the island in the summer will likely have a negative impact on the Rhodes economy, with the island's residents having less disposable income. Consequently, a weak tourist season not only results in reduced revenues in the summer, but is also likely to have an adverse effect on the casino's turnover through the winter months.

If the Group is unable to attract and retain key personnel, its business may be harmed

The Group's success depends to a significant extent upon the contributions of a number of the Group's key senior management and personnel. There can be no assurance that the Group will be able to retain its key personnel, in which case, it could adversely affect the Group's operations and results.

The Group may experience difficulties in managing its planned expansion

The Group is currently in the process of developing a new casino and hotel in Cambodia and is planning to further expand its operations in Cambodia. The Group's planned expansion and development projects may lead to increased administrative and organizational challenges. Managing an increasing number of local gaming operations, including in different economic and regulatory environments, could ultimately lead to higher administrative costs, a reduced rate of expansion and other operational inefficiencies. If the Group is not able to manage its growth efficiently or successfully, its results of operations and financial conditions could suffer.

Disputes with the tax authority in relation to Casino Rodos may adversely affect the financial position of the Company

On December 2005, Rhodes Casino Company received tax assessments in respect of the years 1999 and 2000 in an amount of €16 million, resulting from an alleged breach of technical book keeping procedures (for further information, see note 30 to the Financial Statements). The current amount of the assessments (including interest and penalties) is €23 million. Rhodes Casino Company has challenged these assessments and has initiated litigation procedures against the Greek tax authorities. The claim is now awaiting a verdict. The Company's legal advisors have advised us that from a purely legal point of view and in light of the evidence submitted to the court in order to support the Company's view, Casino Rhodes has substantial legal argumentation and it is more likely that not (51%) that the Company's appeal will be accepted. However, the Company's legal advisors have also noted that the outcome of the litigation cannot be safely predicted in view of the possible negative predisposition that the judges could have towards Casino Rhodes by virtue of its behavior during the tax audit, and especially in the currently prevailing general unfavorable environment towards taxpayers who fail to comply with their formal tax compliance obligations. Based on the legal merits of the case, as set forth by the Company's legal advisors, no provision has been made by Casino Rhodes with respect to this liability. Casino Rhodes will not be able to pay the €23 million or any material portion thereof should the appeal be decided against is, in which event, the Company may be required to pay Casino Rhodes' obligations to the banks, currently amounting to €6.3 million, by virtue of its guarantee thereof.

The Group faces certain risks related to operating in emerging markets

Emerging markets where the Group operates or may operate in the future are subject to greater risks than more developed markets, including legal, regulatory, economic and political risks. This is particularly true in Cambodia and South East Asia. In particular, changes in the rates of inflation and interest may affect the Company's income and capital value. Additionally, the extent to which a foreign investor may be able to own or control assets in that jurisdiction may be unclear. The regions in which the Group operates and intends to operate are comprised of emerging markets with economies that are not as fully developed as Western Europe. Further, some of the countries carry risks of political, legal and economic instability and corruption which could adversely affect the Company's results of operations. In addition, adverse political or economic developments in neighboring countries could have a significant negative impact on, among other things, individual countries' GDP, foreign trade or economy in general.

The legal systems in some of the countries where the Group operates are still developing

The legal systems in some of the countries where the Group operates or is considering operating are still developing. The judicial processes in Asia are not necessarily similar to those in Western Europe or the United States, and parties seeking to rely on the local courts for effective redress in

case of a breach of law or regulation, or in an ownership dispute, may find this difficult to obtain. The legal regimes regulating gaming in the jurisdictions in which the Group operates and intends to operate that regulate the gambling industry have in many cases been adopted relatively recently, and there is comparatively greater uncertainty as to how disputes might be resolved in a court proceeding in these jurisdictions. This is particularly true in Cambodia. There is therefore a greater risk of unexpected outcomes which might have a material adverse effect on the Company and its ability to achieve its investment objectives.

Risks Relating to the Group's Structure

Our disagreements with the other major shareholder of CHL adversely affect the operations of CHL's projects and our ability to exercise our control over the Vasanta Assets

Casino Loutraki, as well as the Belgrade Casino, are held through a chain of companies and joint venture associations with third parties, meaning that ownership and control of such assets are shared with third parties. These third parties may have interests which conflict with those of the Company. If the Company is unable to reach or maintain an agreement with a joint venture partner on matters relating to the operations of the business, its financial condition and the results of its operations may be materially adversely affected. For example, the Company has several disagreements with the other major shareholder of CHL, which have resulted in the Company's reduced ability to affect the operations and decision making process in CHL and related companies. Among other things, these disagreements have led to numerous litigation procedures and the Company's inability to ensure distribution of dividends from CHL and PBS. Furthermore, the Company is unable to supervise the day-to-day operations of CHL, including in order to prevent fraudulent actions in CHL. In addition to such disagreements' adverse affect on the operations of the projects and the Company's ability to exercise its control thereon, the resulting litigation requires management's attention and the extension of legal and other expenses, which could have otherwise been devoted to the Company's operations. See "Disagreements with the Other Shareholders of the Group; Litigation."

Tax related risks

The calculation of the Group's tax liabilities requires interpretation and implication of various tax laws and treaties. The Group operates in various countries and is subject to the particular tax regimes of each such country. The Group's tax liabilities calculation is based on the Group's understanding and implementation of the various tax regimes to which it is subject. However, tax authorities may interpret and implement the same laws and treaties differently, thus increasing the Group's tax liability. See also" - Disputes with the tax authority in relation to Casino Rodos may adversely affect the financial position of the Company."

Currency fluctuations may affect the accurate interpretation of financial statements and trends are unpredictable

The NIS is the Company's functional currency although the Group reports its financial results in Euros. The Group also has sales, expenses, assets and liabilities denominated in currencies other than the Euro due to its global operations, in particular, NIS and USD. Fluctuations in the exchange rates of these foreign currencies could have an impact on the Company's results of operations.

In addition, increases and decreases in the value of the Euro versus other currencies could affect the Group's consolidated reported results of operations and the reported value of its assets and liabilities in its consolidated balance sheet, even if its results of operations or the value of those assets and liabilities has not changed in their original currency. These translations could significantly affect the comparability of the Group's results between financial periods and/or result in significant changes to the carrying value of its assets, liabilities and shareholders' equity.

We are controlled by a small number of shareholders, who may make decisions with which you may disagree

We are controlled by YZ and ASYV, who hold together approximately 76% of our share capital, and are therefore able to exercise significant influence over our operations and business strategy and will have sufficient voting power to influence all matters requiring approval by our shareholders, including the ability to elect or remove directors, approve or reject mergers or other business combination transactions, raise future capital and amend our articles of association. The interests of these shareholders may differ from the interests of our other shareholders or GDR holders. Furthermore, this concentration of ownership may delay, prevent or deter a change in control, or deprive you of a possible premium for your shares or GDRs as part of a sale of our Company. See "Business' Review - 2013 Equity Developments; Shareholders Agreement".

Risks Relating to the Company's location in Israel

Political, economic and military conditions in Israel may affect the Company's operations

Our headquarters are located in Israel and our key employees, officers and directors are residents of Israel. Accordingly, political, economic and military conditions in Israel and the surrounding region may directly affect our ability to effectively manage the Group from our Israeli headquarters. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. Any major escalation in hostilities in the region could result in a portion of our management being called up to perform military duty for an extended period of time.

Investors' rights and responsibilities as shareholders in Israel may differ from those under United Kingdom or United States law

The Company was incorporated in Israel and is subject to Israeli corporate law. The rights and responsibilities of holders of GDRs are governed by the 2007 Deposit Agreement between the Company and the Bank of New York Mellon and the ordinary shares are governed by the Company's articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical United Kingdom companies or United States corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith towards the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. In addition, a shareholder who knows that it possesses the power to determine the outcome of a shareholders' vote or to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness towards the company. However, Israeli law does not define the substance of this duty of fairness. There is little case law available to assist us in interpreting these provisions and in understanding the implications of these provisions.

It may be difficult to enforce a United Kingdom or US judgment against the Company, its officers and directors or to assert United Kingdom or US securities or other law claims in Israel

All of the Company's assets and significant portion of the assets of its directors and executive officers are not located in the United States or the United Kingdom. Any judgment obtained in the United States or the United Kingdom against the Company, its directors or executive officers, including a judgment cased on the civil liability provisions of the US federal securities laws or under the laws of England and Wales, may not be collectable in the United States or in England and Wales, as the case may be, and may not be enforced by an Israeli court. It also may be difficult for investors to assert US securities law claims or claims under the laws of England and Wales in original actions instituted in Israel.

Israeli law restricts changes of control, which may negatively affect the value of our ordinary shares and GDRs

Israeli law requires the acquisition of shares of public companies above specified thresholds to be consummated through tender offers, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. For example, a merger may not be completed unless at least 50 days have passed from the date that a merger proposal was filed by each merging company with the Israeli Registrar of Companies and at least 30 days from the date that the shareholders of each merging company approved the merger. Moreover, a full tender offer can only be completed if the acquirer receives at least 95% of the issued share capital (provided that a majority of the

offerees that do not have a personal interest in such tender offer shall have approved the tender offer, except that if the total votes to reject the tender offer represent less than 2% of the company's issued and outstanding share capital, in the aggregate, approval by a majority of the offerees that do not have a personal interest in such tender offer is not required to complete the tender offer), and generally, the shareholders may, at any time within six months following the completion of the tender offer, petition the court to alter the consideration for the acquisition. Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to our shareholders whose country of residence does not have a tax treaty with Israel exempting such shareholders from Israeli tax. For example, Israeli tax law does not recognize tax-free share exchanges to the same extent as U.S. tax law. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of numerous conditions, including a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies are restricted. Moreover, with respect to certain share swap transactions, the tax deferral is limited in time, and when such time expires, the tax becomes payable even if no actual disposition of the shares has occurred. These and other similar provisions could delay, prevent or impede an acquisition of us or our merger with another company, even if such an acquisition or merger would be beneficial to us or to our shareholders.

DISCUSSION OF FINANCIAL INFORMATION AND FINANCIAL RISK MANAGEMENT

The Company filed its audited financial statements for the year ended 31 December 2013 on 1 April 2014.

Your attention is referred to the Company's incorporation of the results of operations of CHL under the equity method commencing on 31 March 2012, as opposed to its proportional consolidation of such results prior to that date.

In accordance with IFRS 11, comparative amounts for previous years have been restated to reflect the change in accounting for the Group's investment in Vasanta. See Note 2.1 to the Financial Statements.

Discussion of Financial Information as of and for the Twelve Months Period ending 31 December 2013 as compared to the Twelve Months Period ending 31 December 2012

Our audited consolidated financial statements for the twelve months ended 31 December 2013 have been prepared in accordance with IFRS and the statements issued by the International Financial Reporting Interpretations Committee as adopted by the European Commission. The accounting policies applicable to the Group's financial statements are discussed in the notes to the Financial Statements. The Group's presentation currency is the Euro.

Revenues

Revenues consist of total gross revenues minus the tax on gross gaming revenues, applicable municipality and other gross taxes. Our total consolidated gross revenues consist of gross gaming revenues, comprised of slot machine and gaming table wins, food and beverage sales, entrance fees, hotel accommodation and outlet charges, rentals and sundry revenues. Under the terms of the licenses with the respective local municipalities, Casino Rhodes is required to pay to the Greek Gaming Committee an annual tax on gross gaming revenues at the rate of 32% as well as an additional 2% annual tax on total revenues.

For the twelve months ended 31 December 2013, gross revenues amounted to €22.9 million, an increase of 2.2% as compared to the twelve months ended 31 December 2012 (€22.4 million); and net revenues amounted to €15.3 million, an increase of 0.6% as compared to the twelve months ended 31 December 2012 (€15.2 million). This slight increase in revenues is mainly attributable to the increase in the number of visitors to our casinos and revenues from operations of the chartered flights to Rhodes in 2013, as offset by the decrease in win per visit. Revenues continue to be suppressed by the prolonged economic crisis in Greece where the Group generates 94.1% of its gross revenue from Casino Rhodes.

Operating Costs

Cost of Revenues

Cost of revenues consists primarily of costs related to the salaries of the casinos' personnel, as well as costs related to food and beverage, facility maintenance, rent, utility costs, amortization and depreciation, Greek tourist organization's duties and other costs consisting of travel, communication and consumables expenses.

For the twelve months ended 31 December 2013, cost of revenues remained substantially constant as compared to the twelve months ended 31 December 2012 (€12 million).

Selling and marketing expenses

Selling and marketing expenses primarily consist of expenses related to advertising and marketing, as well as the salaries of the marketing personnel, costs of food and beverage, complimentary hotel accommodation or reduced rates for casino patrons, transportation costs for casino patrons and costs related to entertainment.

For the twelve months ended 31 December 2013, selling and marketing expenses amounted to €3 million as compared to €3.7 million for the twelve months ended 31 December 2012, a decrease of €0.6 million, or 16%. The decrease in selling and marketing expenses is mainly attributable to a decrease in the cost of commissions to agents and expenses of transporting players to Casino Rhodes.

General and administrative expenses

General and administrative expenses consist primarily of the salaries of the Group's central and local management and administrative staff, expenses related to other professional services, such as accounting, legal and consulting expenses, gratuities, donations and other costs.

For the twelve months ended 31 December 2013, general and administrative expenses amounted to €4.8 million as compared to €4.3 million for the twelve months ended 31 December 2012, an increase of €0.5 million, or 12%. The increase in general and administrative expenses is mainly attributable to the provision for VAT in the amount of €0.2 million (since payments of VAT by the Company to YZ on interest payments were not recognized by the tax authorities), and to the increase in the provision for litigation in Rhodes in the amount of €0.3 million.

Other operating expenses

For the twelve months ended 31 December 2013, other operating expenses amounted to €0.8 million as compared to €0.7 million for the twelve months ended 31 December 2012. Other operating expenses in 2013 primarily consist of disposal of fixed assets (€0.3 million) and impairment of non-current assets held for sale (€0.5 million).

Impairment of investment in an associated company

For the twelve months ended 31 December 2013, impairment of investment in an associated company amounted to €14.5 million as compared to €46.7 million for the twelve months ended 31 December 2012. These impairment charges are the result of impairment tests conducted with respect to the Company's investment in CHL, which resulted in a zero carry value of the investment as of December 31, 2013.

For additional information regarding the above, as well as a description of the circumstances surrounding the impairment tests, and the assumptions and method underlying it, see Note 16 to the Financial Statements.

EBITDA

The Company's negative EBITDA amounted to €2.6 million for the twelve months ended 31 December 2013, as compared to €2.8 million for the twelve months ended 31 December 2012.

Investment income

For the twelve months ended 31 December 2013, investment income amounted to €180 thousand as compared to €199 thousand for the twelve months ended 31 December 202.

Financing costs

Financing costs remained constant (at €1.3 million) for the twelve months ended 31 December 2013 as compared to the twelve months ended 31 December 2012. Financing costs consisted primarily of interest on loans from YZ and banks in Greece.

Foreign exchange gain (loss)

Foreign exchange gain (loss) relates to gains or losses realized as a result of fluctuations in value of the Euro against the NIS and the U.S. dollar against NIS. The Group's reporting currency is Euro while its functional currency is the NIS. Changes in the Euro against the US Dollar and NIS exchange rate have affected the foreign exchange gain (loss).

For the twelve months ended 31 December 2013, foreign exchange losses amounted to €1 million as compared to €0.3 million for the twelve months ended 31 December 2012. This increase may be primarily attributed to the strengthening of the NIS versus the Euro and versus USD.

Tax benefit (expense)

For the twelve months ended 31 December 2013, tax benefits amounted to €136 thousand as compared to a tax expense of €1 million for the twelve months ended 31 December 2012.

Discontinued Operations

For the twelve months ended 31 December 2013, loss from discontinued operations amounted to €1.6 million as compared to €4.6 million for the twelve months ended 31 December 2012. Loss from discontinued operations in 2012 is higher since it reflects both the operations in Romania and in Prague, while loss from discontinued operations in 2013 includes only the operations in Prague.

Total Profit (loss)

Total loss amounted to €23.5 million for the twelve months ended 31 December 2013 as compared to a total loss of €39.4 million for the twelve months ended 31 December 2012.

Cash and Funding Sources

Our principal sources of liquidity are cash provided by operations and loans from our controlling shareholders, as well as loan from banks extended to Casino Rodos. As of 31 December 2013, our consolidated cash and cash equivalents amounted to €1.7 million as compared to €2.4 million as of 31 December 2012.

Operating Activities

Net cash used in operating activities amounted to €2.7 million for the twelve months ended 31 December 2013 as compared to €3.3 million for the twelve months ended 31 December 2012. The negative cash flow from operations is primarily attributable to the operating losses in our various projects.

Investing Activities

Net cash used in investing activities amounted to €0.4 million for the twelve months ended 31 December 2013, as compared to €0.4 million for the twelve months ended 31 December 2012.

Financing Activities

Net cash from financing activities amounted to €2 million for the twelve months ended 31 December 2013, as compared to €3.5 million for the twelve months ended 31 December 2012. The net cash from financing activities during the twelve months ended 31 December 2013 is primarily attributable to the consideration of the August 2013 rights issuance in the amount of €5.8 million and the receipt of an additional loan from YZ in the amount of €0.7 million, as offset by the repayment of loans to YZ in the amount of €4 million and the repayment of a loan to the banks in Rhodes in the amount of €0.5 million.

Financial Risk Management

For a discussion of the Company's financial risk management, see Note 33 to the Financial Statements.

RESPONSIBILITY STATEMENTS

The Directors of the Company certify that to the best of their knowledge:

(a) the audited consolidated financial statements of the Company for the year ended 31 December, 2013, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.