Queenco Leisure International Ltd.

Annual Report 2010

Chairman's Statement

We are pleased to present our financial results for the 12 months to 31 December 2010.

2010 was a challenging year, as reflected in our financial results for the three and twelve months ended 31 December 2010. We continued to attract over 1.6 million visits across our casinos, of which over one million visited Loutraki. The economic environment was evidenced by customers spending less per visit than they have historically. As was widely reported, the challenging economic situation in Greece continued during 2010, and with 86% of the Company's revenues coming from our two Greek based casinos, primarily Casino Loutraki, and the increasing burdens of tax and regulation being placed on all Greek businesses, this had a direct impact on the Group's trading performance. Despite this, we believe the Company remains well placed to manage the current challenges, as it remains cash generating, debt free and with an experienced management team. Consequently, we believe that when gaming revenues recover alongside an improvement in the economic environment, QLI's financial results will improve accordingly.

EBITDA for the year were negative €0.4 million (2009: €21.2 million). While EBITDA for the three months ended 31 December 2010 were negative €0.2 million (2009: €3.3 million), to manage the reduction in the EBITDA the Company has taken swift action to reduce the overall cost base. Salaries of senior management at QLI's headquarters have been reduced by 10%, while we have made reductions in staffing levels and salaries at our casinos, where we have deemed it appropriate. The Group is also looking to make further restructuring measures in 2011.

Over the course of 2010, various changes in the Company's management were made, including the replacement of Mr. Ron Be'ery (who remained a member of our Board of Directors) by the undersigned as the Executive Chairman of the Board of the Company, the appointment of Mr. Itay Koppel, the former CFO of the Company, as Chief Executive Officer of the Company, and the appointment of Ms. Dovrat Dagan to replace Mr. Koppel as Chief Financial Officer of the Company. In addition, Ms. Aliza (Alicia) Rotbard replaced Ms. Miri Lent-Sharir as one of our two external directors.

On September 24, 2009, the Company announced that its Board had instructed the Company's management to examine a merger between the Company and Y.Z. Queenco. On March 15, 2010, the Company announced that its Board had resolved not to pursue such merger at this stage.

During 2008, certain disagreements between Mr. Moshe Bublil, the controlling shareholder of the Club Hotel Group, and the Company, arose. The disagreements were reflected in, among other things, various legal proceedings initiated by each of the parties, which may affect the structure of the boards of directors of some of the Holding Companies, the decision making process at such companies' boards of directors, the flow of information to the shareholders of the Holding Companies and the distribution of dividends by such Holding Companies to their respective shareholders. As of the date of this report, the Company has been encountering difficulties in obtaining part of the information from Club Hotel Loutraki ("CHL") that is needed by the Company.

2010 has been challenging for gaming throughout Europe, and is likely to remain so in the near future. The situations at our casinos - Loutraki, Rodos and Casino Palace - have been exacerbated by the economic situation facing Greece and Romania and we anticipate that the outlook will remain uncertain in the foreseeable future.

During 2011 we intend to continue to reduce costs where appropriate and preserve cash as we have done to date. We further intend to improve the overall cost control environment. The Group has a sound financial base from which to manage its business in the current environment and we are confident that our results of operations will improve in line with an improvement in the market as we are focused on maintaining our market position and service levels to all of our customers.

We examine our strategic plans from time to time, mainly based on economic developments and regulatory developments which occur in various jurisdictions in which the Company either already operates or is considering to operate in the areas of gaming, tourism and leisure.

The main strategic goals set by the Company for the coming years are as follows:

1. Expansion and development of operations in Southeast Asia.
2. Introduction and integration of on-line gaming products in existing and new projects subject to regulatory requirements in different countries.
3. Improving existing casinos and enterprises.
4. Continuing to cooperate with local authorities in the countries in which the Company operates and/or plans to operate, through the use of local knowledge in target markets.

I would like to take this opportunity to thank all the employees of the Group for their dedication and continued efforts to grow and develop the business.

Yigal Zilkha
Executive Chairman of the Board, Queenco Leisure International Limited
March 31, 2011

Chief Executive's Review

Introduction

2010 has been a year of mitigating the impact of the Greek debt crisis on our business, and this is reflected in our financial and operational performance for the three and twelve months ended 31 December 2010. Our customers continue to be deterred by the economic uncertainty and are therefore spending less at three of our main casinos; Loutraki, Rodos and Palace. EBITDA for the year was negative €0.4 million (2009: positive €21.2 million), while EBITDA for the three months ended 31 December 2010 was negative €0.2 million (2009: positive €3.1 million). We have therefore simultaneously put in place a cost reductions programme at each of our casinos and head office which has reduced the total headcount for the Group, and it is likely that further restructuring will take place in 2011 to effectively manage our cost base.

At the start of the global downturn, QLI put in place a strategy to maintain visitor numbers (the core of our business) at a constant level because we firmly believe that the loyalty of over 1m visitors to Loutraki, and the customers at our other operations, provides us with the platform to grow revenues in the long term, once the Greek and Romanian markets return to positive growth. Yet we drew your attention to the uncertainty deriving from financial position and results of operations of the Project in Loutraki**.** We have been pleased with the repeat customer visits throughout the year, which have been as a consequence of successful marketing initiatives at our operations, and believe therefore that the Company remains well placed to manage these ongoing challenges with an experienced management team.

During the last set of full year results we outlined our strategic decision to focus more on developing partnerships in order to pursue future projects. This forms an important part of diversifying our revenue mix in the coming years and capitalising on the opportunities that exist in South East Asia. In 2010 we signed a MoU with Paradise Investment Co. Ltd. to establish a joint venture at the Holiday Palace Hotel in Sihanoukville, Cambodia, and we were pleased to announce in January this year, that we signed a further MoU with Langham Hospitality Ltd. to operate an Eaton Luxe Hotel on the site of the Holiday Palace Hotel.

We are also encouraged by the initial steps which are being taken by the local authorities in our operation countries, to potentially legalise and regulate licensed online gaming. Such a move would enable QLI to explore the possibility of introducing remote gaming at our casinos, but also allow us to market and sell our high profile brands through an IT platform.

Summary of financial performance

Results for the twelve months ended 31 December 2010

Gross revenues were €136.4 million (2009: €163.2 million), a decrease of 16.4% whilst net revenues decreased by 16.3% to €96.3 million (2009: €115 million). The decline in both gross and net revenues was as a result of the ongoing economic crisis in Greece where QLI receives 84% of its Gross revenue from Loutraki and Rodos. The fall in win per visit meant that EBITDA reduced by €21.6 million to negative EBITDA €0.4 million (2009: positive €21.2 million). The Group has focused this year on reducing costs, in particular headcount, at each of our casinos and head office, and this process has generated a one off expense of €1.5 million. Additionally, the Group incurred expenses related to the increases in VAT in both Greece and in Romania of €1million. The Company remains committed to investing in superior customer service to maintain constant customer levels, and as a result, marketing costs have increased across our established casinos. The Company made a net loss for the year of €26.1 million (2009: Net Loss €6.8 million), which partly reflects the economic situation in Greece, but also the windfall tax which was imposed on businesses by the Greek government in 2009, and has continued again in 2010. An announcement on tax reforms has still yet to be announced by the Greek Government and as a consequence the impact of the current regime is likely to heavily affect our margins going forward.

Cash and cash equivalents currently stands at €16.3 million which gives us long term financial future to weather the impact of the Greek and Romanian economy and tax restraints imposed on our businesses, while at the same time invest for the future. Basic earnings per share was (6.8¢) (2009: (2.3¢)) and earnings per GDR (each GDR representing 10 ordinary shares) were (68¢) (2009: 23¢). No dividend is payable in respect of 2010.

Earlier this month we announced that Powerbrook Spain Ltd., the parent company of CHL, received a letter from the chairman of CHL outlining a request to all shareholders to consider a capital injection of up to €15 million to CHL. The above is raising a material uncertainty as to the ability of CHL to continue its operations as a going concern without obtaining an extension from Bank Piraeus for the payment of the above mentioned loan and/or finding alternative finance resources until such time CHL's operations will support its finance needs. As to the best of the Company's knowledge, CHL's management has plans for negotiating with Bank Piraeus for an extension of the loan and for a cost reduction plan. CHL's EBITDA for 2010 was approximately € 12.8 million and the 2011 budgeted EBITDA is approximately €17 million. The information with respect to CHL, which contributes a significant portion to the Group's consolidated financial information, is included in the consolidated financial statements under the going concern assumption. QLI has clarified that it is not obligated to invest and have requested more information on the matter. The Board will update shareholders on any developments.

Results for the three months ended 31 December 2010

Gross revenues were €33.0 million (2009: €40.1 million), whilst net revenues were €23.7 million (2009: €28.5 million). The decline in gross and net revenues in the period is primarily as a result of the 19% decline in gaming revenues at Loutraki and the 20.8% decline at Casino Rodos which was caused by the further decline in win per visit during the period.

EBITDA was negative at €0.2 million (2009: positive €3.1 million) which was mainly due to the lower net revenues, net loss for the period was €8.8 million (2009: net loss €7.7 million).

Basic earnings per share for the three months period ended 31December 2010 were (1.8¢) (2009: (1.9¢)) and earnings per GDR were (18 ¢) (2009: 19¢).

Operational Review

Results by casino for the twelve months ended 31 December 2010

Casino	Gross Gaming Revenue (EUR m)		Net Revenue (EURm)		EBITDA (EURm)		Visits (000's)		Gross Win per Visit (EUR)		QLI's Economic Interest
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	
Loutraki	164.9	203.3	114.7	139.9	12.8	40.0	1,051	1,131	157	180	38.5%
Rodos	27.5	31.9	19.8	22.7	1.4	5.7	163	165	169	194	91.6%
Palace	11.8	17.4	10.4	16.2	(2.1)	2.5	103	111	114	156	83.3%
Belgrade	10.8	11.0	9.6	9.9	(0.3)	(2.5)	306	272	35	40	34.6%

*Loutraki and Casino Beograd are consolidated in QLI's financial statements as 50% while the results of Rodos, Palace and Sasazu are fully consolidated.

** The results of Casino Beograd were incorporated in Loutraki under the equity method of accounting until March 31, 2009.

Results by casino for the three months ended 31 December 2010

Casino	Gross Gaming Revenue (EUR m)		Net Revenue (EURm)		EBITDA (EURm)		Visits (000's)		Gross Win per Visit (EUR)		QLI's Economic Interest
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	
Loutraki	38.8	47.8	26.9	32.8	2.5	8.4	257	282	151	170	38.5%
Rodos	6.0	7.6	4.3	5.4	(0.3)	0.9	39	43	153	178	91.6%
Palace	3.3	4.3	3.1	3.9	(0.5)	(0.7)	29	30	116	143	83.3%
Belgrade	2.9	3.2	2.6	2.7	(0.2)	(0.5)	89	70	32	45	34.7%

*Loutraki and Casino Beograd are consolidated in QLI's financial statements as 50% while the results of Rodos, Palace and Sasazu are fully consolidated.

Club Hotel Casino Loutraki ("CHL")

Results for the twelve months ended 31 December 2010

Gross gaming revenues for the twelve months ended 31 December 2010 were €164.9 million (2009: €203.3 million), while net revenues were €114.7 million (2009: €139.9 million). Over the course of the year Casino Loutraki generated EBITDA of €12.8 million, a decrease of 67.9% (2009: €40 million), which was caused by the fall in win per visit numbers as customers spent less in the midst of the current uncertain economic climate. The net loss was also exacerbated by the Greek government's decision to impose a VAT increase of 4% during the year and impose another one off windfall tax on all businesses, similar to that imposed in 2009 which unexpectedly increased CHL's expenses. As a result, Loutraki has again had to incur an expense of €3.6 million, which together with the €6.8 million losses CHL incurred from its share in Casino Beograd, and the €2.9 million impairment loss recognised on goodwill after performing the impairment test for the Serbian operation, meant that CHL suffered net losses of €1.7 million (2009: loss € 12.8 million).
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In spite of the Greek debt crisis, Loutraki still continues to attract a high number of customers. Again, over 1 million visitors passed through the casino's doors in 2010 (2009: 1.1 million). Loutraki has successfully focused marketing efforts on maintaining customer levels which in our local management's experience positions us well for returning the casino to profitability when the Greek economy returns to growth. Management has also taken steps to reduce the cost base by reducing staff levels and salaries. However, this resulted in incurring a one off expense of €2.0 million, relating to the reduction in headcount.

Results for the three months ended 31 December 2010

Gross gaming revenues for the three months ended 31 December 2010 were €38.8 million (2009: €47.8 million), while net revenues were €26.9 million (2009: €32.8 million). Casino Loutraki generated EBITDA of €2.5 million (2009: €8.4 million), principally caused by the fall in spend per visitor and in the number of visits as the Greek debt crisis continued to impact our customers

Despite the impact of the general economy on gaming revenues, the introduction of Texas Hold'em at Loutraki has so far been a success, and the local management believes that this is an important additional source of revenue going forward, as witnessed in the last quarter of 2010.

During 2008, certain disagreements between the Club Hotel group, and the Company, arose. Such disagreements resulted in, inter alia, the frequent and lengthy convening of shareholders meetings and board meetings of the Holding Companies, non performance of various resolutions adopted at such meetings and disagreements as to the substance and interpretation of various resolutions adopted at such meetings (some of which affect the decision making process at CHL).

Powerbrook Spain Ltd.

in February 2011 of the year, QLI (Management Services) Ltd., who represent the Group on the Board of Powerbrook Spain Ltd., the parent company of CHL, received a letter from Casino Austria International Holdings GmbH ('CAIH') that says that the Put Option Agreements they had with Vasanta Holdings Ltd. will not be pursued and are not legally binding. CAIH further notified Vasanta that it is interested in continuing its business relationship with Powerbrook Spain as well as with its shareholders, and therefore it will try to structure a transaction different than the one contemplated in the POA and expects to be able to present it within a short period.

Casino Beograd

The number of visits in Casino Beograd increased by 12.5% over the year at what is still a relatively new addition to the Group's portfolio. The casino has begun to benefit from the exclusivity arrangement that Casino Beograd has with the municipality of Belgrade. Gross revenues remained relatively flat at €11.8 million (2009: €12.3 million) compared with the previous year. Serbia has also been affected by the slowdown in consumer spending which caused the win per visit to reduce by 12.6% to €35. As a consequence, for the year ended 31 December 2010, Casino Beograd reported negative EBITDA of €0.3 million (2009: negative €2.5 million), but a significant improvement. In the context of the trading environment this was a credible performance, as Casino Beograd only opened in February 2008.

Casino Rodos

Results for the twelve months ended 31 December 2010

Revenues at Casino Rodos, the only casino located on the holiday island of Rhodes, were also impacted by the Greek debt crisis and the impact of the windfall tax introduced on a one off basis by the Government last year, which has continued again into 2010. Gross gaming revenues were €27.5 million (2009: €31.9 million) and net revenues were €19.8 million (2009: €22.7 million) mainly due to the decrease in win per visit caused by guests' lower spending budgets while EBITDA was €1.4 million (2009: €5.7 million). Casino Rodos made a net loss during the period of €3.6 million (2009: Net profit €1 million). The net loss for 2010 was affected by the tax provision of €1.6 million for previous years and by the VAT increase in Greece of 3%, during the year which increased Rodos' expenses, while the Greek government's decision to impose a one off windfall tax, similar to the previous year, on all businesses meant that Rodos had to incur a cost of €0.3 million. Casino Rodos also had to incur an additional €0.5 million cost in expenses generated from the operation of its private jet.

Despite the slowdown in the Greek tourist market and customer spend, Greek visitors from the mainland still came to the casino, which attracted 163K visitors, compared with 165K last year. Win per visit did however fall during the year, as customers remained cautious about the economic uncertainty. We were pleased however with the early success of Texas Hold'em which we also introduced this year. As with Loutraki, the local management believes that this is an important additional source of revenue going forward.

Results for the three months ended 31 December 2010

Gross gaming revenues for the three months ended 31 December 2010 were €6.0 million (2009: €7.6 million), while net revenues were €4.3 million (2009: €5.4 million), reflecting the national debt crisis over the quarter. EBITDA which was impacted by the decrease in revenues was negative at €0.3million (2009: positive €0.9 million). Net loss for the period was €3 million (2009: loss 0.7 million). The net loss was affected by tax provision of 1.6 million for previous years taxation.

Casino Palace

Results for the twelve months ended 31 December 2010

Gross gaming revenues were €11.8 million (2009: €17.4 million), while net revenues were €10.4 million (2009: €16.2 million). This fall resulted in a negative EBITDA of €2.1 million (2009: positive €2.5 million). The management at Casino Palace continues to have a cautious approach to costs which for the year was €12.5 million. Casino Palace made a net loss during the year of €5.1 million (2009: Net profit €0.4 million). The net loss for 2010 was affected by the VAT increase in Romania of 5% during the year which, along with the cancellation of employee contracts, increased Palace's expenses by €0.2 million.

During the year Casino Palace also sold its asset in Manu Street, Bucharest for €1.2 million; a net capital loss of €0.1 million. Casino Palace also incurred expenses related to the investment in Casino Constanta, Romania, through which QLI held an 83.3% stake. Following management's decision not to pursue the project, owing to the lack of developed gaming regulations in the country, Casino Palace incurred a one off expense of €0.9 million relating to the write off of investment at its project in Constanta and €0.4 million as a result of the impairment loss based on the revaluation of the land in Constanta.

Results for the three months ended 31 December 2010

Gross gaming revenues for the three months ended 31 December 2010 were €3.3 million (2009: €4.3 million), while net revenues were €3.1 million (2009: €3.9 million), reflecting the decrease in win per visit to €116 and decrease in number of visits by 4.1% to 29K. EBITDA which was impacted by the decrease in net revenues was negative at €0.5 million (2009: negative €0.7 million).

Net loss for the period was €2.1 million (2009: net loss €1.2 million), which resulted from the €0.9 million loss incurred from writing off the investment in the Constanta project and €0.4 million impairment loss which derived from the revaluation of the land there.

SaSaZu

During the year, SaSaZu increased gross revenues by 57.6% to €4.0 million (2009: €2.6 million) as the marketing efforts at the nightclub continue to bring in new customers. Such is the success of the SaSaZu brand, management are considering the possibility of exporting the brand and integrating them into existing QLI operations, such as Casino Rodos, where SaSaZu opened a venue for the summer, as well as potentially launching the concept in new markets through joint ventures. As the operation has continued to grow in Prague, earnings have improved, which now stand at negative EBITDA €0.8 million for the year ended 31 December 2010 (2009: negative €2.0 million).

Projects

As previously reported, the Company has decided not to enter into new developments in European countries. The Board took the strategic decision to exit the Bulgarian market as it could not be satisfied that the economic and regulatory conditions for investing in the country met with its own criteria. As a consequence, we have decided to sell the historic buildings which includes the ex-theatre in Sofia and ex-cinema in Varna, Bulgaria, and Casino Palace has decided due to the current market conditions in Romania to withdraw from the project in Constanta and to sell a property in the heart of Bucharest. As we stated above, there were a number of one off expenses relating to the withdrawal from the Constanta project, including writing off the initial investment of€0.9 million, and impairment charges relating to the reevaluation of the land of €0.4 million.

QLI believes that the future growth engines of the Group lie with investment opportunities in South East Asia which will give us the ability to diversify our revenue mix. At the start of this process, we have signed a memorandum of understanding with Paradise Investment Co. Ltd. to establish a joint venture at the Holiday Palace Hotel in Sihanoukville, Cambodia. In addition to this, we also signed a memorandum of understanding with Langham Hospitality Ltd. to operate an Eaton Luxe Hotel on the site of the Holiday Palace Hotel.

We are also encouraged by the initial steps which are being taken by the local authorities in the countries where we operate, to legalise and regulate licensed online gaming. Such a move would enable QLI to explore the possibility of introducing remote gaming as well as allow us to market and sell our high profile brands online.

Outlook

The outlook in the Greek economy remains uncertain. Over the past year we have attempted to reduce our cost base in line with a downturn in our trading performance, but what we had not anticipated was the extent of the impact from the macro-economic crisis, or such a significant change in the Greek Government's fiscal policy. The increase in VAT from 19% to 23% has affected our expenses and our bottom line, while the unexpected decision to impose a windfall tax on businesses for a second year running has impacted heavily on our ability to improve profitability.

QLI has put in place a strategy to diversify its revenue streams by focusing the Group's future development in the South East Asia region, and in particular Cambodia. The Group is encouraged by the potential legalisation and regulation of online gaming in Greece and believes it is well positioned to take advantage of such an opportunity as and when it comes to fruition. We remain committed to the strategic decision we took last year to explore joint venture possibilities with suitable firms who can help deliver these objectives, and look forward to updating the market on the MoUs we have already announced.

Itay Koppel
Chief Executive Officer, Queenco Leisure International Limited
31 March 2011

Financial Review for the twelve months ended 31 December, 2010

Revenues

Revenues, as presented in QLI's consolidated financial statement, consist of Total Gross revenues minus the tax on gross gaming revenues, applicable municipality and other gross taxes. QLI's 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.

Net revenues amounted to €96.3 million for the year 2010 compared to €115 million in 2009, a decrease of €18.7 million or 16.3% and gross gaming revenues amounted to €127.1million for the year 2010 compared to €155 million in 2009, a decrease of €27.9 million or 18%. For the twelve months ended December 31, 2010, approximately 64.9%, 21.6%, 9.3% and 4.2% of QLI's gaming revenues were derived from Casino Loutraki, Casino Rodos, Casino Palace and Casino Belgrade, respectively. Net gaming revenues and gross gaming revenues decreased primarily as a result of the continuing of economic crises in Greece and Romania that reduced the average win per visit across the Group operations. Of the total gross revenues amounting to €136.4 million for the twelve months ended December 31, 2010, €9.3 million was derived from other revenues, compared to €8.1 million in the same period in 2009. The increase of €1.2 million is mainly attributable to the SaSaZu operation.

Operating Costs

Cost of Revenues

Cost of revenues consists primarily of costs related to gaming, such as security, food and beverage, staff costs (primarily salaries) and also costs related to facility maintenance, rent, utility costs, amortization and depreciation, Greek tourist organization duties and other costs consisting of travel, communication and consumable expenses.

Cost of revenues amounted to €66.4 million for the twelve months ended December 31, 2010 same as in the comparative period in 2009. During the period there was increase of 1 million in staff cost that was offset mainly by decrease in food and beverage cost and other operating cost.

Selling and marketing expenses

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

Selling and marketing expenses amounted to €21 million for the twelve months ended December 31, 2010 an increase of €3.7 million compared to the same period in 2009. The increase in selling and marketing expenses is primarily attributable to the increase in Casino Loutraki, Casino Rhodes and Casino Palace expenses in order to attract visitors and promotion that was made in order to introduce the new Texas Hold'em game.

General and administrative expenses

General and administrative expenses consist primarily of the Company's head offices and each location's local management and administrative staff costs (primarily salaries) and expenses resulting from grant of share options, expenses related to the other professional services, such as accounting, legal and consulting expenses, as well as audit fees, gratuities and donations, stamp duty, bank charges and other costs.

General and administrative expenses amounted to €22.7 million for the twelve months ended December 31, 2010 an increase of €0.6 million compared to same period in 2009. The increase in general and administrative expenses is primarily attributable to consulting expenses for due diligence made for CHL with regards to Casino Austria International deal that was set off by decrease in staff cost as a result of reducing the number of employees.

EBITDA

QLI's negative EBITDA amounted to €0.4 million for the twelve months ended December 31, 2010 compared to €21.2 million for the same period in 2009. The decrease in the EBITDA of €21.5 million is primarily attributable to the decrease of €18.7 million in net revenues.

Share of results of associates

Share of results of associates, consists of an interest in Grand Casino D.o.o, a company incorporated in Belgrade, whose principal activity is casino gaming. The results of Grand Casino D.o.o were incorporated in CHL's financial statements until March 31st, 2009 under the equity method of accounting, and as of April 1st, 2009 are consolidated 100% in CHL's financial statements and 50% in QLI financial statements.

Investment income

Investment income is mainly attributed to interest accrued on bank deposits.

Investment income amounted to €0.4 million for the twelve months ended December 31, 2010 compared to €0.8 million for the same period in 2009, a decrease of €0.4 million. The decrease in investment income is primarily attributable to the reduction in cash position of the company in its bank deposits and decrease in the interest rate.

Finance costs

Finance costs consist primarily of interest on loans.

Finance costs amounted to €1.7 million for the twelve months ended December 31, 2010 compared to €1.3 million for the same period in 2009, an increase of €0.4 million. The increase is primarily attributable to the noncash finance loss on revaluation of derivative instruments as a result of the MOU signed with consortium Greek banks for restructuring Casino Rhodes bank loans.

Foreign exchange gain (loss)

Foreign exchange gain (loss) relates to gains or losses realized as a result of the fluctuations in the value of the Euro against the Romanian Lei, Serbian Dinar, Czech Koruna, USD and the NIS. QLI's reporting currency is Euro whilst the operation currency is the NIS. Changes in the Euro against the RON, SRD, US Dollar and NIS exchange rate have affected the foreign exchange gain (loss).

Foreign exchange loss amounted to €2.8 million for the twelve months ended December 31, , 2010 compared to foreign exchange gains of €1.2 million for the same period in 2009. The foreign exchange loss is mainly attributable to the weakness of the Euro and the USD against the NIS.

Tax

Taxes amounted to €6.5 million for the twelve months ended December 31, 2010 compared to €9.8 million for the same period in 2009, a decrease of €3.3 million, or 34%.
The decrease in taxes is primarily attributable to the decrease of €4.6 million in current tax as of the decline in profit before tax, and decrease of €0.7 million in deferred tax income (2009: income of €0.9 million) that was offset by increase of 0.5 million in respect of prior years tax..

Profit / (Losses)

Losses amounted to €26.1 million for the twelve months ended December 31, 2010 compared to €6.8 million for the same period in 2009 an increase of €19.3 million.

The losses are primarily attributable to the decrease of €21.5 million in the EBITDA as mentioned above increase in net finance cost of 4.9 million, and income of €1.1 million in depreciation and amortization that was offset by decrease of €4.6 million in income tax.

Cash and Funding Sources

QLI's principal sources of liquidity are cash provided by operations and loans under tree loans facilities from banks provided to Club Hotel Loutraki and Rhodes Casino S.A. As at December 31, 2010, QLI's consolidated cash and cash equivalents were €16.3 million.

Cash Flow Statement Data

The table below summarizes the consolidated cash flow for the twelve months ended December 31, 2010 and 2009:

(000' Euro)	**For the twelve months ending 31 December,(audited)**		
	2010	**2009**	**2008**
Cash flow from (used in) operating activities	(14,718)	10,812	27,797
Cash flow used in investing activities	(2,905)	(29,360)	27987
Cash flow used in financing activities	(271)	(8,460)	(21,165)
Net decrease in cash and cash equivalents	**(17,894)**	**(27,008)**	**(21,365)**
Foreign exchange rate	3,143	1,053	2,369
Cash and cash equivalents *beginning of the period*	31,060	57,015	76,011
Cash and cash equivalents *end of the period*	**16,309**	**31,060**	**57,015**

Operating Activities

QLI's consolidated net cash flow used in operating activities amounted to (€14.7) million for the twelve months ended 31 December 2010. The cash outflows used for operating activities is primarily attributable to the loss before tax of €19.7 million and adjustments of €5 million primarily attributable to €12.5 million depreciation and amortization, €1.7 million finance costs as well as a €2.8 loss attributable to foreign exchange losses offset by a decrease of €8.2 million in payables and €8.1 million in income tax and interest paid.

Investing Activities

For the twelve months ended December 31, 2010 QLI's consolidated net cash outflow used for investing activities amounted to €2.9 million. The net cash outflow in the twelve months ended December 31, 2010 is primarily attributable to €6.2 million cash outflow for purchase of property plant and equipment, and €3.0 million net cash used for acquisition of subsidiary that was offset by €1.5 million cash inflow from the sale of property, €2.6 cash in from realization of a trading investment and €1.1 million cash in from repayment of other long-term receivables.

Financing Activities

QLI's consolidated net cash outflow used for financing activities amounted to €0.3 million for the twelve months ended December 31, 2010. The net cash outflow used for financing activities is primarily attributable to €1.6 million profit share paid to the Municipality of Loutraki and €1 million repayment of Casino Rhodes bank loan that was set off by €2.5 million cash in from increasing bank overdraft by CHL.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. Words such as “anticipate”, “believe”, “plan”, “expect”, “intend”, “estimate”, “project”, “will”, “should”, “could”, “may”, “predict” and similar expressions are typically used to identify forward-looking statements. You are cautioned that actual results could differ materially from those anticipated in forward-looking statements. These estimates and assumptions by management reflect the Company’s best judgment based on currently known market conditions and other factors. Although the Company believes such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond the Company’s control. In addition, management’s assumptions about future events may prove to be inaccurate. The Company cautions all readers that the forward-looking statements contained in this document are not guarantees of future performance, and the Company cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond the Company’s control, and therefore the predictions, forecasts, projections and other forward-looking statements set forth herein may not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Company operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to the Company or persons acting on the Company’s behalf.

A copy of this document is available to the public, free of charge, at the Company’s official website:

www.queenco.com

TABLE OF CONTENTS

Section A- Description of the Company’s Business

CHAPTER 1- THE COMPANY'S BUSINESS AND ITS DEVELOPMENT

"€"-	Euro
"Financial reports"-	The financial reports of the Company as at December 31, 2010 attached to Section C of this report.
"The Company" or "Queenco"-	Queenco Leisure International Ltd.
"NIS"-	New Israeli Shekel.
"Share"-	Ordinary share, par value NIS 1.00, of the Company.
"GDR"-	Global Depositary Receipt.
"**Group**"-	The Company and its subsidiaries.
"**USD**"-	United States Dollar.
"**Ron**"	Romanian New Leu (national currency of Romania).

All of the data in this report are in Euro unless stated otherwise.

1. <u>THE GROUP'S ACTIVITY AND DESCRIPTION OF THE DEVELOPMENT OF ITS BUSINESS</u>.

1.1. <u>Overview</u>

The Company is an emerging market land-based entertainment centers and casino developer and owner incorporated in Israel. The Group currently owns two casinos in Greece, the first one in Loutraki (located approximately 70 km from the centre of Athens) ("**Casino Loutraki**") and the other on the island of Rhodes ("**Casino Rodos**"), one casino in the centre of Bucharest, Romania ("**Casino Palace**"), an exclusive casino in the Serbian Capital, Belgrade ("**Casino Beograd**"), an entertainment center in Prague under the SaSaZu brand and a new hotel and casino project in Sihanoukville, Cambodia.

The Group currently operates approximately 1,630 slot machines and 160 gaming tables across its existing operations. In addition, the Group has a number of complementary businesses at its casino locations, such as hotels and restaurants at its Greek locations, and restaurants in Bucharest, Belgrade and Prague. The Group's total gross revenue amounted to €136.4 million in 2010, €163.2m in 2009 and €196.45m in 2008 with gross gaming revenues from Casino Loutraki, the Group's flagship operation, accounting for approximately 65 per cent in 2010.

The Group opened in April 2009 an entertainment center in Prague under the SaSaZu brand, which includes an Asian restaurant and a nightclub.

As of the date of this report, the Company views Southeast Asia in general and Cambodia in particular, as its main growth generator in the coming years. As part of this strategy, the Company has taken and will continue taking various steps in order to promote its business in this region and, in line with such objectives, has entered into several agreements for the development of the Holiday Palace project in Cambodia (as more fully described in Section 3.2 below).

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, with a central management team in Israel which sets budgets and 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. As at 31 December 2010, the Group employed approximately 2,750 people compared to approximately 2,900 employees in 2009.

2. DEVELOPMENT OF THE BUSINESS

The Loutraki casino commenced operations in 1995. The Loutraki hotel opened in 2002.

The Rhodes casino commenced operations in 1999. In 2002, a hotel was opened within the building. In 2004, the Company increased its stake in the Rhodes Casino Company to 91.6 per cent.

The Bucharest casino commenced operations in 1995, and since 2007 has been operated (via a number of holding companies) by Queen Romania Ltd. ("**Queen Romania**"), which on 13 June 2007 became a wholly owned subsidiary of the Company.

Casino Beograd underwent a soft opening on June 30, 2007 and fully opened during February 2008. In December 2008, Club Hotel Loutraki S.A., a partially and indirectly owned company of QLI ("**CHL**") entered into an agreement with Casino Austria AG ("**CAAG**") for the purchase of CAAG's 51% holding in Casino Beograd for €42 million (which were paid on December, 2009), increasing CHL's total stake in the casino to 90%, and QLI's indirect holding to 30.7%.

Based on a 2006 Memorandum of Understanding, Nadji Club sro, a wholly owned subsidiary of QLI, entered during February 2011 into a lease agreement with Delata Center A.S. which sets the term and rental fees for the lease rights of the SaSaZu entertainment center which opened in March 2009.

The Company itself was incorporated in 2002 and acquired its interests in the Loutraki and Rhodes operations in January 2003. 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 decided to sell the assets in Bulgaria. In 2005, the operations in Loutraki were expanded, with the opening of a new casino hall. In December 2005, Grand Casino d.o.o. Beograd, a Serbian company which owns Casino Beograd, was granted a ten-year license for the exclusive operation of a casino in Belgrade.

The Company views Southeast Asia in general and Cambodia in particular, as its main growth generator in the coming years. As part of this strategy, the Company has taken, and will continue taking, various steps in order to promote its business in this region.

In September 2010 the Company signed a Memorandum of Understanding for the formation of a joint venture company to carry out hotel, casino, restaurant and entertainment operations as well as other associated businesses at the Holiday Palace Hotel in Sihanoukville, Cambodia, which was followed by a Memorandum of Understanding signed by the Company on January 26, 2011 with Langham Hospitality Limited, a Hong Kong-based developer and operator of hotels worldwide and the owner of several hotel brand names such as Langham, Eaton Luxe and Eaton Smart. Under the MOU, Langham will provide management and other services for the renovation, construction and operation of an Eaton Luxe Hotel (one of the brand names of Langham Hotels), with approximately 215 rooms in the Holiday Palace hotel in Sihanoukville, Cambodia.

During 2007 and 2008 the Company has entered into two agreements for the purchase of two pieces of land in Cambodia (as more fully described in Section 3.2 below), located in Sihanoukville, a coastal area in south-west Cambodia. The first piece of land was purchased in February 2007 by a foreign affiliate of the Group, indirectly jointly controlled by it. The current designation of this land is agriculture and as of the date of this report no decision has been made regarding the development of this land. The second piece of land was purchased during January 2008 by a wholly owned foreign subsidiary of the Company. This land's zoning can be changed to tourist projects such as hotels, luxury resorts and entertainment facilities, including gambling facilities.

As at the date of this Annual Report, the Company's major shareholders are Y.Z. Queenco Ltd. ("**Y.Z. Queenco**"), a Tel-Aviv Stock Exchange-listed company, with 35.4 per cent., and Shachar Hamilenium Ltd. ("**Shachar**"), a wholly owned subsidiary of Y.Z. Queenco, with 28.3 per cent. Mr. Yigal Zilkha, the controlling shareholder of Y.Z. Queenco, is also the controlling shareholder of Yigal & Muli Tourism Ltd. ("**Yigal Muli**"), which holds 9.3 per cent. of the Company's outstanding shares.

Current Operations

The Group currently operates two casinos in Greece (one in Loutraki and one on the island of Rhodes), one in the centre of Bucharest, Romania and one in Belgrade, Serbia, and an entertainment center in Prague, and has commenced the development of a project in Cambodia. The following table sets out key information relating to each of these casinos.

Operation	Gaming positions	Casino floor area	No. of hotel rooms	Facilities
Loutraki	1,000 slot machines 77 tables	5,500m^2	275 rooms (including 20 suites)	Five star hotel, indoor and outdoor swimming pools, gym, spa, dining room, three restaurants, two bars, conference centre
Rhodes	310 slot machines 34 tables	3,000m^2	33 suites	Historic building, five star boutique, dining rooms, two restaurants, bar, outdoor swimming pool, 24-hour butler service.
Bucharest	84 slot machines 18 tables	550m^2		Historic building, gourmet French restaurant, brassiere, night-club, VIP room, live sport televised coverage, live entertainment
Belgrade	230 slot machines 25 tables	10,000m^2		Entertainment centre with three restaurants, two bars, two shops and a ballroom.
Prague		5,000 m^2		Entertainment centre with a restaurant and nightclub

The Company's share of the gross gaming revenue of the various operations is broken down as follows:

	2010 €'000	**2009** €'000	**2008** €'000
Loutraki	82,474	101,643	132,085
Rhodes	27,468	31,939	35,740
Bucharest	11,774	17,353	22,947
Belgrade	5,399	4,087	
Total	127,115	155,020	190,771

Results by casino for the twelve months ended 31 December 2010 are broken down as follows:

Casino	**Gross Gaming Revenue (EUR m)**		**Net Revenue (EURm)**		**EBITDA (EURm)**		**Visits (000's)**		**Gross Win per Visit (EUR)**		**QLI's Economic Interest**
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	
Loutraki	164.9	203.3	114.7	139.9	12.8	40.0	1,051	1,131	157	180	38.5%
Rodos	27.5	31.9	19.8	22.7	1.4	5.7	163	165	169	194	91.6%
Palace	11.8	17.4	10.4	16.2	(2.1)	2.5	103	111	114	156	83.3%
Belgrade	10.8	11.0	9.6	9.9	(0.3)	(2.5)	306	272	35	40	34.6%

*Loutraki is consolidated in QLI's financial statements as 50% while the results of Rodos, Palace and Sasazu are fully consolidated.

2.1. Operations in Greece

2.1.1. Casino Loutraki

Holdings

The Company holds an indirect 34.1 per cent holdings in CHL. CHL has a joint venture arrangement with ATEKL S.A., a corporate arm of the local municipality. CHL currently holds an 84 per cent. interest in this joint venture. According to the joint venture agreement, such interest has decreased and will continue to decrease over time, as follows:

The Period	CHL Stake	ATEKL Stake[1]
From the operation date of the Casino[2]-7.5 years	88%	12%
End of 7.5 years-15 years	86%	14%
End of 15 years-38 years	84%	16%

[1] In accordance with the initial agreement with the municipality of Loutraki, ATEKL's share in the annual profit distributed by the JV will be no less than 1 million US dollar.

[2] February 15, 1995

End of 38 years-50 years	50%	50%

Operations

Casino Loutraki is the flagship operation of the Group, which accounted for approximately 63 per cent. of the Group's gross revenues in 2010.

The casino comprises an area of approximately 5,500m^2 on two floors. In addition, the casino contains 77 gaming tables, including roulette, blackjack, Caribbean Stud poker, craps, baccarat and Texas Hold'em Poker and approximately 1,000 slot machines.

Casino Loutraki operates 24 hours a day, seven days a week, 363 days a year, and employs approximately 1, 595 people. The casino, including the hall which was opened in 2005, includes approximately 80 gaming tables and since 2004 the number of slot machines has increased from 700 to 1,000. Visits to the casino decreased to 1.05 million visits in 2010 (a decrease of 7.1 per cent. compared to 2009). The decrease in visits to the casino (which occurred in the entire Greek casino market) is an outcome of the economic crisis in Greece and an increase in VAT and tax on private income affecting consumer spending in Greece. Win per visit declined by 12.6%, resulting from the lower spending in the current environment. The Loutraki operation includes a five-star hotel with 275 rooms, including 20 luxury suites, indoor and outdoor swimming pools, a gym, spa, two bars and three restaurants.

Market share

The Company believes that Casino Loutraki is the leading casino in Greece, measured by drop and win revenues. The main competitor in Greece is Parnita Casino in Athens. To the Company's knowledge, the Parnita Casino includes 63 gaming tables and 999 slot machines. The casino is open 24 hours a day, seven days a week. Parnita Casino's market share stayed stable at 48%, of the total turnover (drop) of both casinos at the end of 2010 and Casino Loutraki's share stayed at 52% as it was at the end of 2009.

In order to contend with the competition, Casino Loutraki has implemented the following actions:

1. Opening during the second quarter of 2011 a VVIP zone, aimed at attracting premium customers from other casinos and geographical markets such as Russia, Turkey and others.

2. Launching of a Customer Relationship Management (CRM) and a new loyalty program.

3. Rearrangement of casino layout in order to benefit smoking customers in light of the new regulations prohibiting smoking in public areas and restaurants (other than in designated areas).

4. Ongoing entertainment programs and live performances throughout the year and utilization of the hotel amenities to provide free services to VIP guests.

5. Due to legislation which permitted the use of Poker Tables (Texas Hold'em), the Company made during 2010 an approximate investment of €470,000 in equipment. The game was integrated successfully and contributed significantly to the revenue even during the first months of its

operation. The new game aided marketing efforts and helped attracting new audiences to the casino. Cooperation with Poker Stars (an online poker operator) to organize European Poker Tournament starting on August 2011, is expected to attract customers and to provide a lot of publicity to the casino.

Regulation

Casino Loutraki's operating license was awarded to the joint venture between CHL and ATEKL (the **"Loutraki JV")** in February 1995 for an indefinite period. In September 2007, the exclusivity period for the Loutraki casino license ended. To the Company's knowledge, as of the date of this Annual Report, the gaming committee has neither awarded any new licenses nor indicated that it intends to issue additional licenses. Under Greek law, the Greek government is entitled to issue up to 12 casino licenses and to the Company's knowledge 9 licenses have been issued so far. Greek law also establishes the requirements for a corporation that applies for such license, including with respect to its financial abilities and credibility. The addition of any casinos in Athens could enhance the competition already faced by Casino Loutraki.

In general, casinos in Greece are subject to governmental supervision, including supervision over the type of games, running of the games, employees and adherence to legal and license requirements.

According to recent publications in the Greek press, the Greek government intends, under a new bill, to present a tender for the operation of 25,000 gaming machines to be placed all over Greece. According to the publications, it seems apparent that the terms of the tender are suited for OPAP, the local Greek lottery and sports betting operator, and deny the participation of private casinos. According to the publications, four out of a total of ten licenses to operate the gaming machines will be issued in a public tender process. The bill was approved by a ministerial committee but has not yet been submitted for approval of the Greek Parliament.

As of the date of this report, the Company is unable to assess whether and when the law will be enacted, and if enacted, what would be its final form. The Company estimates that in the event that legislation similar to that described above is enacted, competition will increase in the filed of gaming machines, which has generated (in all Greek casinos jointly) revenues of €288.9 million during 2010, which represent 56.3% of the total gaming revenues of casinos.

In July 2009, the Greek authorities commenced enforcement of a law for the prevention of smoking in public areas. As of the date of this report, the prohibition does not apply to gaming areas of casinos. In other areas, not designated for gaming, the prohibition applies (subject to several exceptions). Commencing on June 1, 2011, the prohibition will apply to gaming areas as well. The Company estimates that enforcement of the law in the gaming areas may have an adverse effect on the volume of gaming in the gaming areas, but is unable, at this stage, to asses the extent of such effect. Greek casinos are lobbying for the postponement of the enforcement of the smoking prohibition in gaming areas and to the Company's knowledge, a hearing on this matter is scheduled to take place prior to June 1, 2011.

As of the date of this report, there is no Greek legislation relating to Online Gaming, though a bill on this matter has been prepared and sent to EU institutions for comments. The Company is unable to assess whether and when On Line Gaming legislation will be enacted, and if enacted, what would be its implications on the Company's business and on the entire gabling industry. According to various publications, the Greek government intends to issues between 15 to 50 On Line Gaming licenses by way of a public tender.

2.1.2. Casino Rodos – Rhodes

Holdings

The Company has a 91.6 per cent holding in the Rhodes Casino Company, the operator of Casino Rodos (see Section 4 – Group Structure).

Operations

The site of the casino also includes a five-star boutique hotel with 33 suites, two restaurants, an outdoor swimming pool and a 24-hour butler service. The casino operates 364 days a year, 24 hours a day, and employs approximately 310 people. Casino Rodos offers 310 slot machines, which are upgraded on a regular basis, and 34 gaming tables and includes a private gaming room in addition to the main gaming floor. Number of visits in Casino Rodos have been slightly affected by the general slowdown and declined by 1.2%for the year to 163 thousand visits, while win per visit declined by 12.9% to €169 for the year (2009: €194).

The casino and hotel are located on a property owned by the Greek government and are leased by the local municipality to the Rhodes Casino Company until 2026.

The island of Rhodes is difficult to access in the off season and since Casino Rodos is ideally suited to the high roller market, the Group entered in 2008 into an agreement for the purchase and renovation of a private jet with a total cost of approximately €3.7million in order to accommodate new and returning VVIP customers. The jet was leased to the Romanian airline Alfa Air. Under the terms of the jet lease, the Company will receive discount rates when using the jet in order to transport its premium customers to the various QLI casinos. As of the date hereof the Company has used the jet for several flights to transport customers to its casinos.

On December 29, 2010, Rhodes Casino Company signed an MOU with a consortium of banks led by Emporiki Bank which extends to 2017 a loan which was due during 2013.

As at the date of renewal, the outstanding loan amount was Euro 8.3 million. Pursuant to the MOU, the yearly interest rate on the loan is 3.5% + Euribor and the collaterals given by the Rhodes Casino Company for the full payment of the loan will decrease by 50%.

It should be noted that the original loan was granted to the Rhodes Casino Company prior to the acquisition by the Company in 2000 (through its subsidiaries) of AINIAS S.A (a company owned and controlled by the Company that holds 91.6% of the issued and outstanding share capital of the Rhodes Casino Company).

Market share

In accordance with Greek law, which sets a geographical partition between the casinos operating in Greece, there are no additional casinos on the island or in its vicinity. Casino Rodos enjoys exclusivity on the island of Rhodes for a period of 12 years, ending in April 2011. The Company has been informed by its legal advisors in Rodos that, as of the date of this report, the Greek government has expressed no intention of granting additional licenses for the operation of casinos in Greece.

Regulation

Rhodes Casino Company 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 license granted on the island of Rhodes, resulting in no local competition. The license provides for the operation of not less than 30 gaming tables and approximately 300 slot machines. The Company is not aware of any indications that the government will grant an additional license for a casino on the island.

According to recent publications in the Greek press, the Greek government intends, under a new bill, to present a tender for the operation of 25,000 gaming machines to be placed all over Greece. According to the publications, it seems apparent that the terms of the tender are suited for OPAP, the local Greek lottery and sports betting operator, and deny the participation of private casinos. According to the publications, four out of a total of ten licenses to operate the gaming machines will be issued in a public tender process. The bill was approved by a ministerial committee but has not yet been submitted for approval of the Greek Parliament.

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As of the date of this report, there is no Greek legislation relating to Online Gaming, though a bill on this matter has been prepared and sent to EU institutions for comments. The Company is unable to assess whether and when On Line Gaming legislation will be enacted, and if enacted, what would be implications. According to various publications, the Greek government intends to issues between 15 to 50 On Line Gaming licenses by way of a public tender.

2.2. Operations in Romania

2.2.1. Casino Palace – Bucharest, Romania

Holding

The Company has an indirect 83.3 per cent. holdings in S.C Queen Investments Inc. S.R.L ("**Queen Investments**"), a limited company incorporated in Romania whose principal activity is the operation of Casino Palace, a casino located in the centre of the old city of Bucharest. In addition, Queen Investments holds 100 per cent. of the issued shares of Restaurant Casa Vernescu S.R.L. (**"Casa Vernescu"),** through which it operates the Casa Vernescu restaurant which is located on the same site as the casino.

In addition to Casa Vernescu, the Group opened an Asian restaurant on the premises to accommodate the rapidly growing Asian cliental in Romania, invested in complementary services such as opening a new brasserie for customers, a night club (within the premises of the brasserie) and renovated the VIP room, and finished the renovation work in Casino Palace in order to ensure that players receive the highest quality gaming experience. Looking ahead, the Group (through a subsidiary) has acquired land opposite the casino for a total of $1.9 million, for the development of a boutique hotel to attract and accommodate high rollers. This project is currently on hold due to the global economic environment.

Due to the economic situation in Romania, Queen Investment has filed a termination notice of the license granted to it to operate the "Casino Constanta" project, which notice was acknowledged by the Constanta municipality and pursuant to payments of outstanding debt of €190,000 to the municipality no other obligation will remain between the parties.

Operations

The casino opened in September 1995 and operates 24 hours a day, 365 days a year. Casino Palace consists of eight gaming halls, containing a total of 18 gaming tables (including roulette, poker, blackjack, dice, Texas Hold'em Poker and punto banco) as well as 92 slot machines spread over an area of approximately 550m2.

The casino has introduced electronic roulette machines. The casino experiences peak activity during weekends and in the evenings, with a slight increase in visitors during the months of December to February. The casino and restaurant have approximately 340 employees.

The casino began operating 18 additional slot machines during the second quarter of 2010, thus increasing the number of machines to 110 but the said machines were eventually returned in March 2011.

Market share

Currently, there are 9 active casinos in Bucharest, although casinos outside of Bucharest and Internet gambling may also compete with Casino Palace. To Queen Investments' knowledge, Casino Palace’s main competitors in Bucharest are the Platinum Casino, the Queen Casino, Regent Casino and the Grand Casino, each of which are located in major hotels. The casino's management believes that the location of a casino is only one out of several considerations which may attract visitors to one casino or the other and that casinos located in hotels have a certain advantage over competitors, mainly due to their attraction to hotel guests and tourists which prefer playing in an institute which is regarded as being more established.

The casino's management is not aware of any formal information regarding the market share of each of the casinos operating in Bucharest, and is not aware of any consumer research, including researches ordered by any of the casinos.

<u>Regulation</u>

The National Gaming Committee in Romania, which is part of the Romanian Ministry of Finance, is the organ in charge of gaming regulation in Romania. Over the course of 2009 there have been several changes in gaming regulation under which the Company is required to obtain the following licenses in order to operate the casino:

(i) License to manage gambling: a personal, non-transferable license which is granted for a period of 5 years and under which the casino is required to pay 400,000 Ron per year for all gaming activities in the casino and 25,000 Ron per year for all slot machine activity.

(ii) Gambling and gaming license: a license which is granted for a period of 12 months and regulates two aspects of the activity - the location of the casino and type of games, and the supervision of the use of slot machines. Such license is granted to each slot machine separately, and it further provides that the casino is required to pay 250,000 Ron per year for each gaming table and 8,000 Ron per year for each slot machine. The said licenses are subject to technical examination of the gaming tables and slot machines and compliance with required norms, by a government representative who verifies compatibility with required technical parameters. Currently, Queen Investments holds all of the permits required for operating the casino. Under the new regulations, Queen Investments has given a 1 million Ron security for the payment of all license fees.

Entrance fees – the casino management collects an entrance fee to the casino of 20 Ron per day. The entrance fees collected are transferred to the government according to the law.

During 2010, the Romanian government has increased the VAT rate by 5%, from 19% to 24%. This has increased the operating expenses subject to VAT, which is not deductable for casino operations.

On January 5, 2011 Queen Investments was notified by the National Gaming Committee in Romania of the closing of the gaming tables area in Casino Palace for a period of 30 days, as a punitive fine for the decrease in the number of gaming tables at Casino Palace (from 24 to 18 tables), as of August 2010. It should be noted that the punitive fine did not apply to the slot machines in Casino Palace which have remained open.

On January 11, 2011 the Romanian court suspended the punitive fine for the closing of the gaming tables area in Casino Palace until the prosecution hearing set for September 2011.

During December 2008, several new rules relating to smoking in public areas were adopted. Under these new rules, commencing in July 2010 smoking in public areas such as bars, discos, restaurants and similar public areas was restricted to specifically designated areas which shall be separated from the non-smoking areas. As of the date of this report the rules have been implemented as to public areas in casinos. The Company is unable to assess the impact of the law on its financial results.

During December 2010, a law that enables a submission of a request for On Line Gambling license was enacted. However, as of the date of this report, the regulations for the implementation of such law have not yet been formulated. In addition, the law has not yet been approved by the EU institutions, and Queen Investment's legal counsels estimate that in light of the EU institutions' comments to the law it will have to be amended.

2.3. Casino Beograd, Belgrade

Operations

The casino opened during February 2008. The Company was informed by CHL that, following completion of the purchase of 51 per cent. from Casino Austria, CHL (in which the Company has a 38.5 per cent. economic interest) has an economic interest of 90 per cent. in the project and the Serbian lottery operator owns the remaining 10 per cent.

Under the terms of its license, Casino Beograd is the only casino within the city of Belgrade. The Group targets VIP customers, focusing on business visitors, tourists and expatriates living and working in Belgrade as well as the city’s local population of almost two million. The site includes a 10,000m^2 entertainment centre with three restaurants, two bars, two shops and a ballroom. The casino area now contains 230 slot machines and 25 gaming tables. The casino location is leased from CHL for €600,000 per year and for additional revenue related fees.

In 2010 the number of visitors to the casino increased by 12.5% to over 306 thousands visits, however the win per visit decreased to 35 Euro in 2010 from 40 Euro in 2009 (a decrease of 12.6%).

Market

Until 2005, gaming in Serbia was unregulated, enabling the operating of casinos, slot halls and other gambling centers with no governmental control. In 2005 it was decided to regulate the gaming industry by limiting the number of licenses to ten licenses, creating geographical separation between casinos and by limiting the duration of the licenses. Unlike the regulation on casinos, slot halls are not subject to the same restrictions and can operate with no limitation on the number of operating machines.

According to the terms of the license, Casino Beograd has been granted exclusivity over the operation of a casino in the city of Belgrade (within a radius of 30 km) for a period of 10 years (until the end of 2015). Despite the exclusivity granted to Casino Beograd, the Serbian Government granted an additional license to arrange gaming and operate machines in Serbia which also includes the city of Belgrade, despite appeals made by CHL and Casino Austria that such license would not include the city of Belgrade. As shareholders in Grand Casino Doo, CHL and Casino Austria have initiated an international arbitration process in order to settle the dispute between the parties regarding the exclusivity granted to Casino Beograd under the license. CHL has received a letter from the Serbian Ministry of Finance, stating that the arbitration was set for April 21st, 2011 and the Serbian government is expecting to resolve the dispute prior to this date.

In addition, there are several slot halls operating legally in Belgrade, which are regarded by the Company as potential competitors. The Company seeks to create a reliable reputation in the eyes of customers and position Casino Beograd as a total entertainment center offering, alongside a unique gaming experience, other entertainment and leisure services such as restaurants, shops and other services in order to increase the amount of visits to the casino.

During December 2006, Hit International was granted a license to operate a casino in proximity of no less than 30-50 km from Casino Beograd. To the Company's knowledge, Hit International's license has been returned to the government.

The Serbian lottery company has announced that during 2010 it will commence operating several games including lottery, poker and sports gambling . In addition, in July 2009, a company named Playtech announced that it reached an understanding with the Serbian lottery company for operating internet gambling. Several other internet sites enable playing in Serbia and generate revenues from the Serbian market.

Regulation

During September 2008, certain provisions under Serbian law regulating the conditions for applications for permits for the organization of special games of chance in gambling facilities were declared unconstitutional by the Constitutional Court of Serbia. CHL was informed by its legal advisors in Serbia that this decision may have a significant effect on the license to operate a casino in Belgrade and may lead to the revocation of the license. If such risk is materialized, Casino Belgrade would be entitled to remedies under the terms of the license and under applicable law.

The Company is seeking to obtain an extension of the license for ten additional years (until the end 2025).

2.4. Prague, Czech Republic

Holdings

The Company has a 100 per cent indirect holding in an entertainment center.

Operations

In March 2009, the Company commenced the operations of an entertainment centre in Prague, the Czech Republic, under the SaSaZu brand, which includes an Asian restaurant, and a nightclub. Total investment in the project was €11.6m. Following a 2006 Memorandum of Understanding relating to the building of entertainment center, Nadji Club SRO, a wholly owned subsidiary of QLI, entered during February 2011, into a lease agreement with Delata Center A.S., according to which the lease rights of the SaSaZu entertainment center would be for five years with eight options granted to the Company to renew for five years each.

3. PROPOSED PROJECTS

Given the global economic crisis, prioritizing investments is a key part of the Group's strategy. Preserving cash and investing wisely for the future is the key to the long term success of the Company and therefore all of the following projects are currently under review.

3.1. Romania

3.1.1. Constanta,

In October 2007, Queen Investments obtained concession rights over a historic building in Constanta for a period of 49 years. The Group intended to renovate the building and operate it as “Casino Constanta”. Queen Investments have entered into contractual obligations of approximately € 140 thousand per annum in this respect. There is a further obligation to invest at least € 10 million in the project. Due to the economic situation in Romania Queen Investments had entered into negotiations with the Constanta municipality regarding a possible change or termination to its liabilities with respect to the project. In December 2010 the Company announced that it had been informed by Queen Investments that its negotiation with the Constanta municipality regarding its liabilities with respect to the project has been unsuccessful. In a letter received from the Constanta municipality, the municipality informed Queen Investment unilaterally that the concession right is coming to an end due to the fact that Queen Investments failed to pay an amount of €140,000 due to the Constanta municipality.

Following receipt of the Constanta municipality's notice, Queen Investment had filed a termination notice of the license, which notice was acknowledged by the Constanta municipality, which also confirmed that in such circumstances the parties' obligations will not be affected and pursuant to payments of outstanding debt of €190,000 to the municipality no other obligation will remain between the parties. As a result, an impairment charge of €0.8 million was recorded by the Company, and the investment in the Constanta Project was written-off. According to the Company's legal advisers, the termination of the Constanta license will not have any affect on the Casino Palace license.

3.1.2. Land in Constanta,

In 2008, land was acquired for a total of €1.6 million, near the planned casino in Constansa. The land was initially designated for the construction of a boutique hotel near Casino Constansa. Following reconsideration, management has decided to change its plans and to offer the land for sale. As a result and based on an evaluation performed by an independent appraisal, an impairment charge of €0.6 million was recorded in the Statement of Comprehensive Profit and Loss for the year ended 31 December 2009. As at 31 December 2010, the land is presented as investment property and as a result and based on an evaluation performed by an independent appraisal, an impairment charge of €0.4 million was recorded.

3.1.3. Bucharest

In 2006, a building was acquired for a total sum of €1.9 million near the Casino Palace in Bucharest. Based on an evaluation performed by an independent appraisal, an impairment charge of €0.4 million was recorded in the Statement of Comprehensive Loss for the year ended 31 December 2009. The building was sold for €1.2 million and the Company has recognized a €0.1 million capital loss as at 31 December 2010.

3.2. Sihanoukville, Cambodia

As of the date of this report, the Company views Southeast Asia in general and Cambodia in particular, as its main growth generator in the coming years. As part of this strategy, the Company has taken, and will continue taking, various steps in order to promote its business in this region.

3.2.1. Holiday Palace Hotel

In September 2010 the Company signed a Memorandum of Understanding (the "Paradise MOU") with Paradise Investment Co., Ltd, a Cambodian company ("Paradise") for the formation of a joint venture company (the "JV") to carry out hotel, casino, restaurant and entertainment operations as well as other associated businesses at the Holiday Palace Hotel in Sihanoukville, Cambodia (the "Property").

According to the Paradise MOU:

1. The JV shall be held 70% by the Company and 30% by paradise.

2. A long term lease agreement relating to the Property, for an initial term of 25 years (with an option granted to the Company to extend the term of the lease by an additional 25 years) shall be entered into between Paradise and the JV, starting on April 1st, 2011.

3. A monthly rental fee of $30,000 shall be paid quarterly by the JV to Paradise. The first two years of the term of the lease will be rent free, to allow for renovations for which the Company shall be responsible.

4. The Company may enter into a casino and\or hotel management agreement with the JV.

5. Paradise will procure all governmental approvals, licenses and permits required for the JV to operate the Property, including the casino license.

6. The Company will renovate the existing Property and develop a new wing for the hotel.

7. An advanced payment of $180,000 was paid by the Company upon execution of the Paradise MOU. An additional amount of $180,000 shall be paid after the execution of a shareholder agreement and the foregoing lease agreement, the issuance of the casino license and the grant of a registration certificate to the JV.

8. An additional amount of $360,000 shall be paid by the Company upon commencement of the first lease term and takeover of the Property.

Consummation of the transaction is subject to the preparation of definitive agreements, including a shareholders agreement and a lease agreement, all of which shall be subject to approval by the Board of Directors of the Company; as well as any other approvals required from any third party.

In January 2011 the Company signed a Memorandum of Understanding (the "**Langham MOU**") with Langham Hospitality Limited, a Hong Kong based developer and operator of hotels worldwide and the owner of several hotel brand names such as Langham, Eaton Luxe and Eaton Smart ("**Langham**"). Under the Langham MOU, the Company will engage Langham for providing management and other services for the renovation, construction and operation of an Eaton Luxe Hotel (one of the brand names of Langham Hotels), with approximately 215 rooms at the Holiday Palace hotel in Sihanoukville, Cambodia (the **"Hotel**").

The Langham MOU`s main terms are:

1. The Company shall lease, renovate, and re-design the existing 135 rooms in accordance with Eaton Luxe standards and quality. This first phase, which constitutes the re-design of the existing 135 rooms, is estimated to be completed within 12 months. Within 24 months of the first phase being completed, an additional 80 rooms shall be added to the Hotel.

2. The parties intend to enter into a Technical Advisory Services Agreement for the two phases.

3. The parties intend to enter into a Management Agreement (the "**Management Agreement**"), upon which Langham shall be appointed as the manager of the Hotel, and shall have full authority for matters relating to the management and operation of the Hotel. The initial term of the Management Agreement will be 20 years and shall be extended for periods of 10 years at a time. The Langham MOU provides a Territorial Exclusivity clause which states that during the initial 20 years period Langham shall not manage or operate another Eaton Luxe hotel in Sihanoukville.

4. The management fee under the Management Agreement shall provide for: (i) an annual basic management fee, being a percentage of the Hotel's annual gross revenue, (ii) an annual incentive fee which shall be a percentage of the Hotel's gross operating profits, and (iii) a global marketing and advertising allocation fee.

5. The Casino within the Hotel will be operated and managed by QLI.

Finalisation of the transaction is subject to the signing of definitive agreements, all of which shall be subject to approval by the Board of Directors of the Company, as well as any other approvals which may be required.

3.2.2.

In February 2007, a foreign affiliate of the Group, indirectly jointly controlled by it, contracted to acquire land in Cambodia for a total consideration of € 9.7 million. The current designation of the land is for agriculture use. As at the date of these accounts, no decision has yet been made as to how to progress with the development of the land.

3.2.3.

In January 2008 a foreign interest of the Group, controlled by it, contracted to acquire additional land in Cambodia for a total consideration of approximately €7.5 million (additional land).

The Group expects that the designation of the additional land can be changed for tourism purposes. In this regard, the Group has contacted a local Cambodian entity to help the Group in obtaining the needed permits for the tourist project, for 10% of the projects rights, subject to obtaining all needed permits and meeting certain other conditions by August of 2009. As of the date of these accounts the above mentioned agreement has been expired. The Group is evaluating the economical feasibility of the project. As at the date of this report, no decision has yet been made as to how to progress with the project.

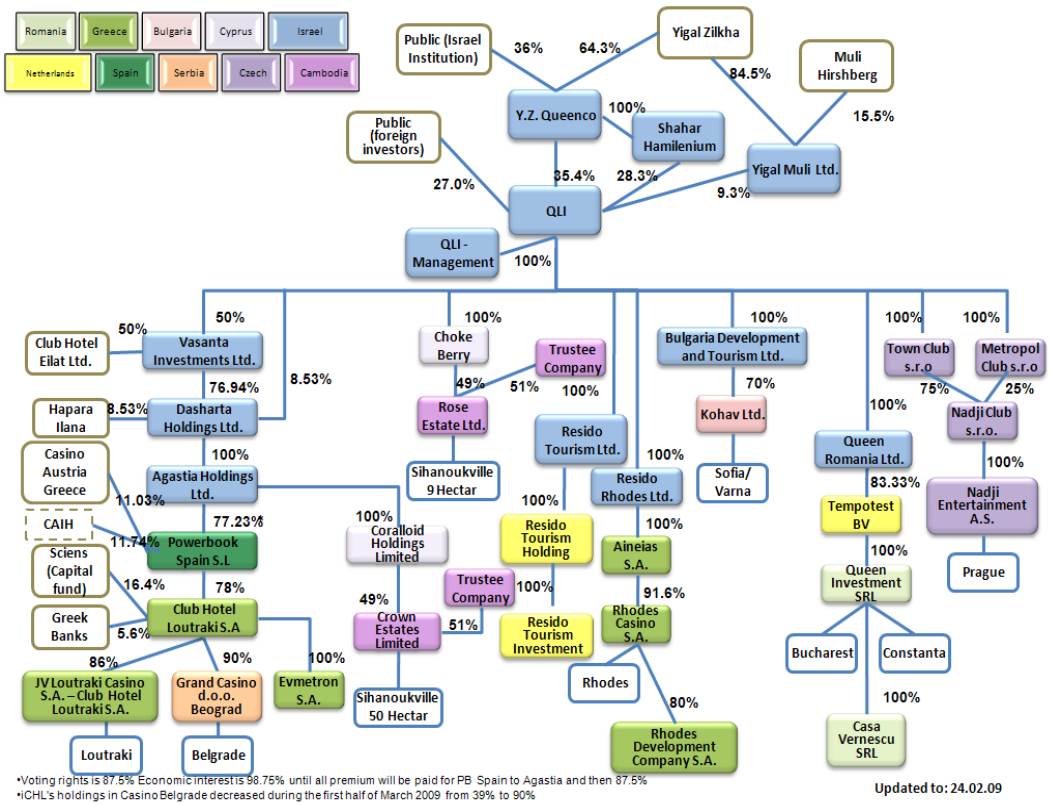
Based on an evaluation performed by an independent appraisal, the cost of investment made in each of the two assets (which are presented as the Group's fixed assets), is lower than their fair value.

3.3. <u>Sofia and Varna, Bulgaria</u>

During 2004, the Group purchased two assets in Bulgaria. The first is a theatre in the city of Sofia, the capital of Bulgaria, and the second is a cinema in Varna, a popular tourist resort located on the coast of the Black Sea. Parts of the properties are currently leased to third parties, and to date they have not provided significant revenues. The Company has offered both assets for sale. As at 31 December 2010, the land is presented as investment property.

4. GROUP STRUCTURE

The following chart describes the Group structure as at December 31, 2010:



*On August 26, 2009, Club Hotel announced the exercise of an option to purchase 50% of the indirect holdings of Mr. Yair Karni (through companies controlled by him) in CHL shares. As of the date of this report, 6% of the issued share capital of Dasharta Holdings Ltd. is registered, formally, under the name of Yodan Trust Company Ltd. As of the date of this report, checks provided to the Company by Club Hotel. Out of those checks an aggregate amount of Euro 4 million has been paid. Upon payment of additional checks provided by Club Hotel, Club Hotel's rights in and to 3% of the Dasharta shares out of the 6% shall vest.

** 6.6% of the share capital of QLI previously held by Mr. Freddy Robinson were transferred on 11 May 2010, to third parties the identity of which is unknown to the Company. Following the said transfer, the proxy granted by Mr. Robinson to Shahar Ha Millennium, to vote on its behalf at all shareholders meetings of QLI, has expired.

4.1. The Joint Control over CHL and the Relationship of the Parties as of the date of this Report

As detailed below the Company's holdings, in CH, are through multiple Israeli and foreign corporations (in which third parties hold shares), resulting in CHL being under joint control of the Company and Club Hotel (the "Holding Companies").

The provisions of the Articles of Association of the various Holding Companies, the structure of the Board of Directors of each of the Holding Companies, and various resolutions adopted jointly by the representatives of the Company and Club Hotel on the boards of directors of the Holding Companies create a joint control over CHL, resulting in all decisions relating to Powerbrook Spain S.L ("**Powerbrook**") and CHL having to be jointly adopted by both parties.

During 2008, certain disagreements between Mr. Moshe Bublil, one of the controlling shareholders of the Club Hotel group, and the Company, arose. Such disagreements resulted in, inter alia, the frequent and lengthy convening of shareholders meetings and board meetings of the Holding Companies, non performance of various resolutions adopted at such meetings and disagreements as to the substance and interpretation of various resolutions adopted at such meetings (some of which affect the decision making process at CHL).

The above mentioned disagreements were reflected in, among other ways, various legal proceedings initiated by each of the parties, which may affect the structure of the boards of directors of some of the Holding Companies, the decision making process at such boards of directors, information to the shareholders of the Holding Companies and the distribution of dividends by such Holding Companies to their respective shareholders.

In March 2011, the Chairman of the Board of Directors of CHL addressed, in a letter to CHL's shareholders, including Powerbrook (the "**Letter**"), stating that due to the turbulent Greek economy and changes in Greek regulation and the political environment, CHL requests that the Board of Directors of Powerbrook consider a capital injection of up to 15 million Euros into CHL. To the Company's knowledge, as of the date of this report, the matters described in the Letter have not yet been discussed by CHL's Board of Directors. Until CHL`s Board of Directors discusses the Letter and updates the Company on such discussions, the Company is unable to consider the foregoing request. The Company is not obligated to provide a capital injection to CHL, and to its knowledge, Powerbrook's current cash position is approximately 10 million Euros. In light of the information provided in the Letter and due to the fact that, to the Company's knowledge, CHL's Board of Directors has not yet discussed this matter, a request was forwarded to CHL`s Chairman of the Board of Directors to convene a meeting of the CHL board immediately.

In addition we draw attention to Note 1 to the financial statements regarding the uncertainty deriving from financial position and results of operations of the Project in Loutraki**.**

For further information regarding the legal proceedings pending between the parties, please see sections 8.11 and 8.2.1-8.2.2 hereinafter.

4.2. Vasanta Holdings Ltd., Dahsharta Holdings Ltd. and Agastia Holdings Ltd.

The Company holds, directly and indirectly, interests in three Israeli companies named Vasanta Holdings Ltd., a 50%-owned subsidiary of the Company ("**Vasanta**"), Dahsharta Holdings Ltd. ("**Dahsharta** ") and Agastia Holdings Ltd ("**Agastia**"). As of the date hereof, representatives of QLI (Management Services) Ltd. ("**QLI Management**") and B.A.T. (Management) 2004 Ltd. ("**B.A.T.**") serve as board members at each of these three companies.

The articles of association of each of the three companies set, inter alia, the following:

1. Quorum for meeting of the Board of Directors shall be a majority of Directors then in office. Resolutions at the board shall be passed by a vote of a majority of the directors.
2. No matter shall be discussed at the general meetings unless a quorum is present at the time when the general meeting starts its discussions. Subject to the

provisions of the articles, one or more shareholders present, personally or by proxy who hold or represent at least 50 per cent. of the voting rights in the company, shall be deemed to be a quorum.

3. No resolution of any meeting of the shareholders of the company shall be deemed adopted unless shareholders holding more than 50% of the then outstanding share capital of the company voted affirmatively in favor of such resolution.

4. Any number of shareholders present personally or by proxy shall be a quorum for an adjured meeting and they shall be entitled to deliberate and to resolve in respect of the matters for which the meeting was convened.

For information about the dispute between the Company and B.A.T. (Management) 2004 Ltd., please see section 4.1 above.

4.3. Powerbrook Spain S.L

For information about Powerbrook please see section 7.2 hereafter.

4.4. Board composition and passing resolution in CHL:

4.4.1. As of the date of this report, the board of directors of CHL consists of five members, four of which are to be appointed by Powerbrook and one by the other shareholders in CHL. It is noted that one of Powerbrook's directors is a wholly owned subsidiary of the Company.

4.4.2. The board of directors is in quorum and convenes validly when half of the directors plus one are present, however, the number of directors presents in person cannot be less than three. Until January 11, 2010, CHL's articles required a unanimous resolution in the following cases: A) Making investments or undertaking obligations deriving from loans or guarantees or any kind of credits with third parties who are not based in an EU member state. B) Making investments or undertaking obligations deriving from loans or guarantees or any kind of credits with third parties who are based in a EU member state should such acts exceed cumulatively 10% of the paid up share capital at the time or the amount of €18 million. In January 11, 2010 CHL's articles were amended and the foregoing transactions no longer require a unanimous consent and all board resolutions are passed by a simple majority. As of the date of this report the Company believes that the foregoing amendment was improperly adopted and the Company has initiated legal proceedings in Spain in order to enforce its rights. The Company is seeking a declaratory ruling of the Spanish court stating that Powerbrook's chairman Dr. Sadan (BAT Management representative on the board of Powerbrook) exceeded his authority when voted for the amendment of the articles of CHL. Such proceedings have not yet been resolved and at this stage the Company is unable to assess their outcome.

4.4.3. The general meeting is in quorum convenes validly on the agenda items, unless otherwise stipulated herein (1) when at least 32% of the paid up share capital is represented in such meetings; and (2) when 2/3 of the paid up share capital are represented in the meeting, regarding decision concerning, among others: merger, dissolution, change to the policy of distribution of profits, increase of shareholders' liabilities and any and all other matters that require a 2/3 majority under applicable law. The general meeting has the right to decide, among other things, on matters related to distributions of profits, approval of annual accounts and appointment of board members.

4.5. Examination of Merger with Y.Z. Queenco

On September 24, 2009, the Company announced that its Board instructed the Company's management to examine the process of a merger between the Company and Y.Z. Queenco. On March 15, 2010, the Company announced that its Board has resolved not to pursue such merger at this stage.

CHAPTER 2- OTHER INFORMATION

5. FINANCIAL DATA REGARDING THE COMPANY'S ACTIVITY

The following tables present selected consolidated financial information, which has been extracted without adjustment from, and should be read in conjunction with, the Consolidated Financial Statements as of and for the years ended 31 December 2010, 2009 and 2008, which have been reported on by Brightman Almagor Zohar & Co., a member of Deloitte Touche Tohmatsu, and prepared in accordance with IFRS, and the notes thereto, all of which are included elsewhere in this Annual Report.

Consolidated Statement of Income
(In thousands of €)

	Year ended 31 December		
	2010	**2009**	**2 0 0 8**
Revenues	96,296	115,020	137,390
Operating costs			
Cost of revenues	(66,417)	(65,458)	(58,614)
Selling and marketing expenses	(21,018)	(17,335)	*(16,101)
General and administrative expenses	(22,670)	(22,057)	*(23,329)
Other operating expenses	(1,717)	(6,772)	(366)
Share of results of associated company	-	(658)	(2,203)
Operating profit	**(15,526)**	**2,240**	**36,777**
Investment income	397	843	3,000
Finance costs	(1,703)	(1,258)	(2,992)
Foreign exchange loss	(2,827)	1,158	(384)
Profit before tax	**(19,659)**	**2,973**	**36,401**
Tax	(6,484)	(9,787)	(13,382)
Profit for the year	**(26,143)**	**(6,804)**	**23,019**
Other Comprehensive income			
Exchange differences arising on translation of foreign operations	3,344	(2,431)	53
Total Comprehensive income (loss) for the year	**(22,799)**	**(9,235)**	**23,072**
Attributable to:			
Equity holders of the parent	(23,855)	(8,293)	13,367
Minority interests	(2,288)	1,489	9,652
	(26,143)	**(6,804)**	**23,019**
Total Comprehensive income (loss) for the year Attributable to:			
Equity holders of the parent	(21,738)	(10,209)	14,369
Minority interest	**(1,061)**	**974**	**8,703**
	(22,799)	**(9,235)**	**23,072**
Earnings per share			
Basic (¢)	(6.8)	(2.3)	3.8
Diluted (¢)	(6.8)	(2.3)	3.8

Consolidated Balance Sheet
(In thousands of €)

	As at 31 December	
	2010	2009
Non-current assets		
Intangible assets	9,624	11,313
Property, plant and equipment	117,345	126,146
Investment property	2,168	3,940
Deferred tax asset	3,061	2,118
Other long term receivables	7,264	8,174
Total non-current assets	**139,462**	**151,691**
Current assets		
Inventories	997	1,053
Investments	2,103	4,841
Trade and other receivables	6,149	6,758
Cash and cash equivalents	16,309	31,060
Total current assets	**25,558**	**43,712**
Noncurrent assets held for sale	**3,000**	**--**
Total current assets	**28,558**	**43,712**
Total assets	**168,020**	**195,403**
Current liabilities		
Accounts payable	(5,498)	(6,695)
Current tax liabilities	(5,616)	(5,089)
Other current liabilities	(16,378)	(21,988)
Bank overdraft and loans	(18,032)	(17,093)
Total current liabilities	**(45,524)**	**(50,865)**
Net current liabilities	**(16,966)**	**(7,153)**
Total assets less current liabilities	**(122,496)**	**144,538**
Non-current liabilities		
Long-term bank loans	(7,839)	(6,634)
Other long-term liabilities	(2,177)	(4,113)
Deferred tax	(2,046)	(1,313)
Provision for retirement benefits	(6,091)	(5,848)
Total non-current liabilities	**(18,153)**	**(17,908)**
Net assets	104,343	126,630
Shareholders' equity		
Share capital	62,512	65,512
Share premium	130,998	130,998
Translation reserve	3,031	914
Other reserve	(14,080)	(14,080)
Accumulated Deficit	(101,973)	(79,158)
Equity attributable to equity holders of the parent	**80,488**	**101,186**
Minority interest	**23,855**	**25,444**
Total Equity	**104,343**	**126,630**

Consolidated Cash Flow Statement
(In thousands of €)

	Year ended 31 December		
	2010	**2009**	**2008**
Net cash from operating activities	**(14,718)**	**10,812**	**27,797**
Investing activities			
Interest received	372	767	2,635
Purchases of property, plant and equipment	(6,199)	(12,067)	(24,013)
Proceeds on sale of property, plant and equipment	1,508	79	341
Purchase of other intangibles	(26)	(214)	(73)
Advances on fixed assets	-	-	(2,509)
Investment in an associate	-	(1,200)	(1,376)
Increase in other long-term receivables	-	-	(168)
Realisation of (Purchases) of trading investment	(2,564)	3,783	(735)
Installments for the acquisition of a subsidiary	(2,964)	(2,964)	(2,964)
Repayment of other long-term receivables	1,125	1,125	-
Investment in a subsidiary net of cash acquired	-	(18,669)	-
Decrease in deposits	715	-	-
Loan to associate company		-	
sell of interest in joint venture entity	-	-	865
Net cash used in investing activities	**(2,905)**	**(29,360)**	**(27,997)**
Financing activities			
Dividends paid to minority shareholders	(169)	(2,586)	(5,131)
Dividends	-	-	(6,007)
Purchase of additional interest in joint venture entity	-	-	* (7,950)
Repayments of borrowings	(1,000)	(1,900)	(12,420)
Receipt / (repayment) of other long term liabilities	-	(397)	(1,245)
Issue of shares, net of expenses	-	-	-
Share of profits paid to Municipality of Loutraki	(1,591)	(3,562)	(4,371)
Increase (decrease) in bank overdrafts	2,489	(15)	15,959
Net cash provided by (used in) financing activities	**(271)**	**(8,460)**	**(21,165)**
Net decrease in cash and cash equivalents	(17,894)	(27,008)	(21,365)
Effect of foreign exchange rate changes	3,143	1,053	2,360
Cash and cash equivalents at beginning of year	31,060	57,015	76,011
Cash and cash equivalents at end of year	**16,309**	**31,060**	**57,015**
Tax cash flow	(7,232)	(10,402)	(18,323)
Interest paid	(834)	(877)	(1,212)

6. HUMAN RESOURCES

6.1. Employees

The following table sets out information on the number of people employed within the Group as at 31 December, 2008, 2009 and 2010, by location and work sector:

	2010	2009	2008
Company headquarters, Israel	14	22	18
Loutraki	1,595	1,650	1,890
Rhodes(1)	306	300	294
Bucharest	340	400	464
Belgrade management and casino operations	Approx 420	Approx 460	Approx 461
Prague	65	65	-
TOTAL	Approx 2,750	Approx 2,900	Approx 3,127

(1): Because of the seasonality of the Rhodes operations, significantly more personnel are employed in the summer than in the winter.

6.2. Directors and Management

On July 13, 2010, Mr. Yigal Zilkha replaced Mr. Ron Be'ery as the Executive Chairman of the Board of the Company and remained serving as a director. On October 7, 2010 Mr. Itay Koppel, the CFO of the Company since 1 August 2009, was appointed as Chief Executive Officer of the Company, and Ms. Dovrat Dagan was appointed as Chief Financial Officer of the Company.

At a shareholders' meeting that was held on November 26, 2010, Messrs. Yigal Zilkha, Effy Aboudy and Yitchak Shwartz were re-appointed as directors. Ms. Aliza (Alicia) Rotbard was appointed as a statutory external director for a three-year term (she replaced Ms. Miri Lent-Sharir as one of the Company's two external directors). The Board of Directors of the Company has decided to appoint Mr. Ron Be'ery as a director and Vice Chairman of the Company on 20 December 2010. Mr. Yechiel Gutman, who was appointed on 26 May 2009 as a statutory external director, holds such office until 26 May 2012.

Board of Directors

The current composition of the Board is as follows:

Name	Age
Yigal Zilkha	48
Ron Be'ery	56
Effy Aboudy	43
Yitchak Shwartz	58
Yechiel Gutman	65
Aliza (Alicia) Rotbard	65

The principal business address of each member of the board of directors is 11 Menachem Begin Road, Rogovin-Tidhar Tower, Ramat Gan, Israel.

Yigal Zilkha. Mr. Zilkha is the controlling shareholder of Y.Z. Queenco Ltd., which holds, directly and indirectly, approximately 65 per cent. of the Company's issued and outstanding share capital. Mr. Zilkha has been engaged in the gaming industry for over twenty years as a promoter and operator of casinos and is responsible for the Company's and its subsidiaries' business development. Mr. Zilkha was the Executive Chairman of the Board from the Company's initial public offering in July 2007 until March 2009, and again since July 13, 2010.

Ron Be'ery. Mr. Be'ery joined the Board as Executive Chairman in late March 2009 and following his replacement by Mr. Zilkha was appointed as a director and Vice Chairman of the Company on 20 December 2010. Mr. Be'ery has vast experience in investment banking. In 1985 Mr. Be'ery founded Be'ery Capital Ltd., an investment banking firm specializing in private and public equity fundraising for Israel-based technology companies, Mergers & Acquisitions and other financial and strategic transactions. Among other transactions, Be'ery Capital Ltd. acted as financial advisor for the Company's IPO on the London Stock Exchange in July 2007. From 1983 until 1985 Mr. Be'ery was Vice President of Alrov Group, a real estate company listed on the Tel Aviv Stock Exchange. From 1981 until 1983 Mr Be'ery was an analyst and an advisor on the first team of Bank Leumi's Investment Banking group. Mr. Be'ery is a CPA with a BA in Accounting and Economics from Tel Aviv University.

Effy Aboudy. Mr. Aboudy was previously the Company's Chief Financial Officer and worked in the Group from 1998 through the end of 2008. Previously, he was the financial controller of a company listed on the Tel Aviv Stock Exchange. He is an Israeli certified accountant and has an MBA from Tel Aviv University.

Yitchak Shwartz. Mr. Shwartz has been a certified accountant 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, a developer of residential projects as well as shopping centres and office buildings. Mr. Shwartz has a BA in Business and Economics from Bar-Ilan University.

Yechiel Gutman. Since 1979, Mr. Gutman has been a senior partner of the Gutman-Neiger law firm, which engages in taxation, communications, real estate and government regulation matters. Mr. Gutman also serves as a board member of the Israeli Securities Authority, the Israeli Refineries, EL-AL Israel Airlines, ZIM Integrated Shipping Services Ltd., Netvision Ltd., various entities involved in cultural activities, and as the Chairman of the Israeli Council for Film and Theatre Censorship. Mr. Gutman is also a board member of various financial institutions in Israel. Mr. Gutman has previously served as a senior advisor to the Israeli Minister of Justice and as legal advisor in the Israeli Parliament. Mr. Gutman serves as a judge in both the Israeli Police and Israeli Bar Association's Disciplinary Courts, has published two best selling political/legal novels and is a host of a weekly television and radio program concerning current events. Mr. Gutman has a BA in Sociology and History and an LLB from The Hebrew University, and has been a certified attorney in Israel since 1976. Mr. Gutman has been appointed as an external director.

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. Ms. Rotbard has been appointed as an external director

Board of Directors

The Company's articles of association provide that the Company must have at least three directors and may have up to nine directors (including two external directors required by Israeli law), each of whom, except for the external directors who are elected in accordance with Israeli law, is elected at an annual general meeting of shareholders by a simple majority. The Company's Board currently consists of six directors.

All the directors (other than the two external directors) hold office until the end of 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 will hold office until the end of 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 **("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, or his or her relative (namely a spouse, sibling, parent, grandparent, child or child of a spouse and any of their spouses), partner, employer or any entity under his or her control, has, as of 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 or any entity controlling, controlled by or under common control with the Company.

Mr. Yechiel Gutman was appointed on 26 May 2009 as the Company's external director, and Ms. Aliza (Alicia) Rotbard was appointed as an external director on November 26, 2010.

Committees of the Board

To the extent such delegation is permitted under the Companies Law, the Company's Board may delegate its powers to committees of the Board as it deems appropriate, save for certain powers listed in 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. Under a recent amendment to the Companies Law, a majority of the audit committee must be of independent directors (defined as either external directors or other directors that meet certain conditions for the appointment as external directors).

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 nominated by the audit committee. The internal auditor may be an employee of the company but 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 compliance of the company's conduct with applicable law, integrity and orderly business procedures. 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. Raviv Rozenberg has been nominated as our internal auditor.

Terms of service and remuneration

Remuneration of Executive Directors

In the year ended 31 December 2010, the aggregate total remuneration paid to the executive directors of the Company (being Yigal Zilkha, Ron Be'ery and Effy Aboudy) was €672 thousands (reflecting the economic benefits of options and bonuses).

The Company's shareholders approved on the General Annual Meeting on September 14, 2009, the terms and conditions of the compensation of Mr. Yigal Zilkha who is entitled to a yearly compensation equal to GBP 133 thousand. Mr. Zilkha has volunteered to reduce 10% of his salary in 2010 and 20% in 2011.

On August 10, 2009, the Board approved a stock option plan covering a number of shares equal to 4% of the Company's issued and outstanding share capital on a fully diluted basis, for the purpose of granting options to senior management including the Company's Chairman. The option plan provides for a capital gains route. The options vest over a period of four years (25% of the stock options vest during March of each of the years 2010, 2011, 2012, 2013). The vested portion may be exercised no later than March 2015 and the exercise price is Euro 4.2 per GDR (which represents 10 ordinary shares).

As part of the abovementioned stock option plan dated August 2009, the Company, during January 2010, granted stock options to three officers in the Company. The options can be exercise to 2.2% of the Company's issued and outstanding share capital on a fully diluted basis.

Remuneration of non-executive Directors

Each of the non-executive directors receives remuneration of €30,000 per annum.

Remuneration of Senior Management

In the year ended 31 December 2010, the aggregate total remuneration paid to the senior management of the Company who are not directors was €769,000 (reflecting the economic benefits of options and bonuses). In addition, senior managers receive benefits in kind such as the use of a company car and mobile telephone. Salaries of the CEO and CFO have been reduced by 20% at QLI's headquarters in Israel.

Interests of Directors and Senior Management

Interests in Share Capital

The directors and senior managers of the Company had the following beneficial interests in the share capital of the Company as at December 31, 2010:

	Number of Shares	% of issued share capital
Yigal Zilkha(1)	161,410,051	45.7%
Muli Hirschberg(2)	5,533,259	1.57%
Itay Koppel(3)	675,281	0.19%

Notes:

(1) Held indirectly through his holdings in Y. Z. Queenco and Yigal Muli. Does not include options to purchase 11,217,600 ordinary shares at an exercise price of €1.4 per share.
(2) Held indirectly through his holding in Y. Z. Queenco and Yigal Muli.
(3) Held indirectly through his holding in Y. Z. Queenco.

7. SIGNIFICANT AGREEMENTS ENTERED INTO DURING 2010 AND THROUGH THE DATE OF THIS REPORT

During 2010 and through the date of this report, the Company, either directly or through any of its subsidiaries, entered into the following material agreements:

7.1. Casino Belgrade

In late 2008, CHL entered into an agreement with CAAG for the purchase from CAAG of 51% of the shares of Casino Belgrade (representing CAAG's entire holdings in Casino Belgrade) for a purchase price of €42 million. The Company was informed by CHL in early March 2009 that the transaction was completed. Upon completion, CHL increased its holding in Casino Belgrade from 39% to 90% (the remaining 10% are held by the Serbian lottery company), and as a result the Company's indirect holding in Casino Belgrade increased from 13.3% to 30.7%. CHL informed the Company that it agreed with CAAG that CAAG shall be entitled to request the payment of the purchase price commencing on November 2, 2009. To secure the payment of the purchase price, CHL granted CAAG a first priority, fixed and continuing pledge over 60% of Casino Belgrade's issued shares, which will be removed upon payment to CAAG of the entire purchase price. Upon completion of the transaction, CAAG assigned to CHL all of the rights and obligations of an affiliate of CAAG which provides various management services to Casino Belgrade. It was further agreed that if following the September 18, 2008 decision of the Constitutional Court of Serbia described in section 2.3 above, the license is revoked, in whole or in part, and as a result the Company incurs damages, then CAAG shall indemnify CHL up to an aggregate amount equal to the purchase price, which will be paid, so long as Casino Austria International Holding GmbH ("**CAIH**"), an affiliate of CAAG, remains a shareholder in Powerbrook, out of dividends or other payments to which CAIH may become entitled as a shareholder in Powerbrook. On December 14, 2009 CHL received a request to pay the purchase price plus interest and delivered the purchase price to CAIH on December, 2009.

The Company has received a legal opinion stating that the resolution of the board of directors of CHL dated as of December 31, 2008 to acquire 51% of Casino Belgrade was adopted in violation of the Articles of Association of CHL and that under an interpretation of Greek law, such resolution is void. The Company has not taken any action concerning such decision. Therefore, the Company views the Belgrade transaction as valid.

In addition, CAIH granted CHL an option to acquire 50% or 75% of CAIH's interest in Grand Casino Brussels, by paying CAIH 50% or 87.5%, respectively, of CAIH's actual investment in the Brussels casino. This option was not exercised by CHL and had expired on 20 June 2009.

7.2. Powerbrook

Under agreements dated December 2002 and July 2003, Agastia sold a portion of its shares in Powerbrook to Casino Austria in a multiple-step transaction. Only the ordinary shares carry voting rights. Following the foregoing transaction, Casino Austria held 25 per cent. of the voting rights and Agastia held 75 per cent. of the voting rights. Under the transaction, Agastia transferred 150,000 ordinary shares and 100,000 preferred B shares (1,000 of which were later converted into 1,000 deferred A shares) of Powerbrook to Casino Austria and Agastia retained 450,000 ordinary shares and 100,000 preferred C shares.

The consideration for the transferred shares was a nominal amount in respect of the ordinary shares and €45 million in respect of the preferred B shares, which was financed through a loan granted by Agastia (the "**Seller's Loan**") which was fully paid on June 2008. In addition, Casino Austria agreed to arrange for a loan to be provided to Powerbrook from an Austrian bank in the amount of €74 million, with respect to which Powerbrook granted a pledge over its shares in CHL. The purpose of this loan was to effect a distribution to Agastia in respect of the preferred C shares.

It was agreed that any future profits of Powerbrook would be distributed on the following basis: 10 per cent. to the holders of ordinary shares (75 per cent. to Agastia and 25 per cent. to Casino Austria), 60 per cent. to be applied towards repayment of the Seller's Loan, and 30 per cent. to Agastia.

Until the premium on the preferred B and C shares (which is approximately €407 million) is paid, Powerbrook may only distribute as dividends ten per cent. of Powerbrook's free cash flow. After all of the foregoing premiums are paid, the ordinary shares confer the right to receive the total dividend to be distributed by Powerbrook.

Casino Austria had a put option in respect of all of its preferred B shares and half of its ordinary shares, under which it had the right to require Agastia to purchase these shares in return for the cancellation of the remaining balance of the Seller's Loan. Agastia had a call option, under which it had the right to require Casino Austria to sell all of its preferred B shares and half of its ordinary shares in consideration of the cancellation of the Seller's Loan plus €15 million. On June 2008, Agastia exercised the call option and following such exercise Agastia`s holdings in Powerbrook were increased to 88.75% and CAAG's holdings in Powerbrook were correspondingly decreased to 11.275%. Pursuant to the exercise of the call option described above, and the decrease in the holdings of CAAG, it is entitled to appoint only one board member. However, as of the date of this report CAAG's second member has not yet resigned. For further details see article 7.2.2.1 below.

On December 31, 2008, Vasanta informed the Company that it received from CAIH an irrevocable offer (hereafter the "**Irrevocable Offer**"), to enter into an agreement with CAIH, pursuant to which CAIH will have a call option to purchase from Powerbrook, and Vasanta will have a put option to cause CAIH to purchase from Powerbrook, the following securities (the call option may be exercised by CAIH with respect to all or any of the following securities, whereas the put option may be exercised by Vasanta only with respect to all of the following securities):

(i) ordinary shares of Powerbrook constituting 11.74% of the fully diluted share capital of Powerbrook;

(ii) a special share providing for (A) the right to receive certain amounts (out of (1) funds actually received by Powerbrook and attributable to operating income of Casino Belgrade and/or (2) the sale of shares of Casino Belgrade) that may be distributed by Powerbrook in the future and (B) for so long as CHL controls Casino Belgrade and Powerbrook controls CHL, the right that Powerbrook will use its best efforts to cause the appointment of a non-voting observer on behalf of CAIH to the board of directors of Casino Belgrade; and

(iii) a special share providing for certain veto rights with respect to the operations of Powerbrook for so long as CAIH holds at least 10% of the fully diluted share capital of Powerbrook.

Under the terms of the call option and the put option, (i) the call option was exercisable by CAIH with respect to all or any of the foregoing securities, (ii) the aggregate exercise price of the call option was €54.9 million and the exercise price of the put option is €49.5 million, and (iii) upon exercise of the call option (in whole or in part) or the put option, as the case may be, the exercise price will be paid to Powerbrook.

The call option and the put option also provided that the transactions contemplated by the offer may only be consummated following consummation of the sale transaction of 51% of the shares of Casino Belgrade described in section 7.1 above. Vasanta informed the Company that (a) at its board meeting held on 28 April 2009, it was resolved to accept the Irrevocable Offer, and (b) upon exercise of either the call option or the put option, Powerbrook will be responsible for the payment of €5.25 million to CAGG, resulting from certain outstanding amounts related to transactions between CAGG and Agastia during 2002.

The call option expired on August 30, 2009, and the put option was extended, unilaterally, by CAIH (following an extension letter sent by CAIH to Vasanta on September 3, 2009) until March 31, 2010, and exercised by Vasanta on March 31, 2010.

On December 2, 2010 the Company announced that it and its wholly owned subsidiary, QLI (Management Services) Ltd, in their capacity as directors in Powerbrook, received on 1 December 2010 a letter (hereafter "the Letter"), from a representative of Casino Austria Greece who is a director of Powerbrook (hereafter "the Director"). In the Letter, the Director informed the Company for the first time, that on 4 October, 2010 he was informed by two directors of CAIH, one of whom is also acting as a member of Powerbrook's board of directors, that the board of directors of CAIH decided at its 29 September 2010 meeting not to comply with the Put Option and is discussing the situation and considering the alternatives.

On February 6, 2011 the Company was formally informed by Vasanta that it has been notified by CAIH that the put option is not legally binding on CAIH for various reasons (which were not disclosed by CAIH) and therefore CAIH will not comply with such obligations.

CAIH further notified Vasanta that it is interested in continuing its business relationship with Powerbrook as well as with its shareholders, and therefore it will try to structure a transaction different than the one contemplated in the Irrevocable Offer and expects to be able to present it within approximately six to eight weeks.

Prior to the date of this report, each of Powerbrook and Vasanta notified CAIH that it rejects CAIH's position and that their position is that the put option is still valid and binding and that they retained the rights in the matter.

7.2.1. <u>Board composition and passing resolution in Powerbrook</u>

7.2.1.1. As of the date of this report, the board of directors of Powerbrook consists of nine members, seven of which are appointed by Agastia and two by CAAG. Pursuant to the exercise of the call option described in section 7.2 above, and the decrease in the holdings of CAAG, it is entitled to appoint only one board member. However, as of the date of this report CAAG's second member has not yet resigned. It should be clarified that the refusal of CAAG's second director to resign is not acceptable by the Company and not in accordance with the shareholders agreement. Additionally, as of the date of the report, the fact that CAAG still has a second director in Powerbrook may have impact on the establishment of a quorum and the decision-making process in the board of Powerbrook.

The presence of half of the board members plus one additional member shall constitute a quorum. As of the date of this report, there is a dispute over the presence of Vasanta's representative in the board of Powerbrook. The Company and Club Hotel has a dispute regarding the appointment of a representative of Vasanta Holdings in the board of directors of Powerbrook. The Company believes that a resolution actually approving the presence of Vasanta's representative in Powerbrook`s board meetings has never been duly adopted and that any such resolution would contradicts 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 alleged decision to approve Vasanta's representative in the board of Powerbrook, (which has been denied by the Company), would result in Powerbrook's board's ability to establish a quorum (five board members) even without the presents of the Company's representatives in the meeting.

7.2.1.2. Board resolutions are passed by a majority of the participating of the board members, except for the following resolutions which require, in addition to the consent of the majority of the members, the consent of CAAG's members:

7.2.1.2.1. Engagement between Powerbrook and a related party which is not under customary terms.

7.2.1.2.2. Investment of the grant of a loan by existing shareholders of Powerbrook.

7.2.1.2.3. Approval of competition with Powerbrook's business by an existing shareholder.

7.2.1.2.4. Investment outside of Greece exceeding €50 million.

7.2.1.3. the presence of shareholders owning at least 50% of the issued shares shall constitute a quorum for general meetings and shareholders' resolutions shall be passed by shareholders holdings a majority of the shares represented and voted at the meeting (whether present or voting by proxy), provided that shareholders representing at least one third of the aggregate voting power in Powerbrook shall participate in the meeting (abstentions shall not be counted). In addition, the articles list several resolutions which require a special majority, such as a merger, the appointment of a controller, the dissolution and authorization of certain transactions between Powerbrook and its shareholders.

7.2.1.4. The distribution of dividends requires consent of the board and shareholders of Powerbrook.

For further information regarding the legal proceedings pending between the parties, please see section 8.1.2 hereinafter.

8. LITIGATION

8.1. <u>Legal Proceedings initiated by the Group:</u>

8.1.1. On January 18, 2010, QLI Management Services Ltd., in its capacity as one of the two directors of Agastia, filed with the Tel-Aviv District Court a motion against B.A.T. and Mr. Bublil, B.A.T's representative on the Board of Directors of Agastia, to order B.A.T., in its capacity as a director of Agastia, to comply with and take all actions necessary to give effect to the resolutions adopted by the board of directors of Agastia in June 2008, mainly with respect to effecting certain amendments to the articles of association of Powerbrook, in which Agastia holds 87.5%. Such amendments relate to (i) the amending of Powerbrook's articles such that the number of directors of Powerbrook shall be reduced from nine to five and that the required majority for the adoption of resolutions by the board of directors of Powerbrook shall be at least by four out of the five directors, (ii) immediately following the amendment of the articles, Agastia, Dasharta and Vasanta shall all resign from the board of Powerbrook, and (iii) amending of Powerbrook's articles in a way that all free and remaining cash flow shall be distributed to Powerbrook's shareholders on annual basis.

QLI Management Services Ltd. claimed that failure by B.A.T to cooperate with QLI Management Services Ltd. in effecting the foregoing resolutions may adversely affect Agastia`s ability to meet its obligations towards its direct and indirect shareholders and may result in, among other things, (i) an adverse effect on the Company's ability to prevent the adoption of certain resolutions by the board of directors of Powerbrook and (ii) the Company's inability to cause Powerbrook to distribute free cash flow to its shareholders, including to the Company (through its indirect holdings in Powerbrook).

On March 17, 2010 a response has been filed, stating that later oral understandings were agreed between the parties.

Following a hearing held on October 31, 2010, as part of derivative claim No. 1040115-01 as described in section __ hereafter, the parties filed on November 15, 2010 and on February 8, 2011 requests for a deferral of procedures. On March 24, 2011 the parties have submitted to the court a declaration stating that the attempts to resolve the disagreements outside the court have failed. As of the date of these statements a preliminary hearing in this case has been set for April 6, 2011.

According to the Company's legal counsel's opinion, at this stage it is not possible to assess the outcome of the motion.

Regarding the Mediation proceeding between the parties please see section __ hereafter.

8.1.2. On July 22, 2010, the Company filed a lawsuit with the Central District Court of Israel, for declaratory relieves and permanents injunctions with respect, among other things, to the cancelation of the appointment of Advocate Yossi Baitner on the board of directors of Powerbrook, as the representative of Vasanta, Dasharta and Agastia (the "**Joint Companies**"), which are directly and indirectly held by the Company and Club Hotel Investments CH Ltd (Club Hotel).

On November 1, 2010, Advocate Baitner has served a statement of defense to the court in which he dismissed QLI's claims and claimed, among other things, that he has been acting under explicit orders of the board of directors of Vasanta to appear on Powerbrook's board meetings. Advocate Baitner further claimed that QLI's claims should be resolved with Club Hotel and not by way of a lawsuit against him.

During October 2010 Club Hotel Investments Ltd filed a motion for dismissal of the claim. With the consent of the Company it has not yet filed a statement of defense.

Following consent reached upon at a hearing, which was approved by the court, Club Hotel is required to file its statement of defense by April 6, 2011 and QLI is required to submit its response to the motion by April 14, 2011. The remaining defendants, Vasanta, Dasharta and Agastia have not filed statements of defense and have not requested for an extension of the date for filing their statements of defense. For further details please see the Company announcement from July 22, 2010.

Following a hearing dated October 31, 2010, as part of derivative claim No. 1040115-01 as described in section __ hereafter, the parties filed on November 15, 2010 and on February 8, 2011 requests for a deferral of procedures. On March 24, 2011 the parties have submitted to the court a declaration stating that the attempts to resolve the disagreements outside the court have failed.

According to the Company's legal counsel's opinion, at this stage it is not possible to assess the outcome of the matter.

8.2. <u>Legal Proceedings against the Group:</u>

8.2.1. On January 20, 2010 the Company, the Company's wholly-owned subsidiary QLI Management Services Ltd. and a third party that is an 8.53% shareholder in Dasharta, were served with a motion for a restraining order and claim filed with the Tel Aviv District Court by B.A.T., 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, along with a copy of the derivative claim, to be filed by Vasanta.

On February 21, 2010, it was held that B.A.T.'s request for provisional remedies will be discussed together with the main claim.

On its reply, dated March 10, 2010, the Company stated that both the general and adjourned meetings were duly convened, and any and all resolution adopted at those meetings were duly adopted in accordance with Dasharta's Bylaws and that there is no ground for an approval of a derivative claim.

On April 28, 2010, B.A.T filed a request for a temporary injunction and a temporary order against the convening of a general meeting in Dasharta that was scheduled for April 29, 2010, at which an additional director in Dasharta was to be appointed. The district court rejected the requested injunction and ruled that BA.T can raise the claims at the meeting. As of the date of this report, the parties have agreed not to convene the meeting and appoint a new director prior to the hearing on the matter..

Upon mutual agreement, all procedures between the parties have been delayed in order to try and resolved the disagreements outside the court.

On March 24, 2011, the parties have submitted to the court a declaration stating that the attempts to resolve the disagreements outside the court have failed. As of the date of this statement a preliminary hearing in this case has been set for 6 April, 2011.

It should be noted that the claim does not include any monetary relief against the Company.

According to the Company's legal counsel’s opinion, at this stage it is not possible to assess the outcome of the claim.

8.2.2. On January 31, 2010 the Company, QLI Management Services Ltd. and Mr. Zilkha, the controlling shareholder of the Company and the representative of QLI Management Services Ltd. in its capacity as a director of Agastia, were served with a motion to approve a derivative claim, along with a copy of the derivative claim, to be filed by Agastia, filed with the Tel Aviv District Court by B.A.T.

The remedies requested in the claim include declaratory remedies and a US$50.5 million monetary remedy.

The claim relates to the acquisition of land in Cambodia. B.A.T 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 rejected the forgoing claims and filed a response on March 21, 2010, stating that the claim has no legal ground due to various reasons including the following: (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.

On May 9, 2010, the plaintiffs filed a response to the Company's response on the motion to approve a derivative claim, and on September 12, 2010 the Company filed its statement of defense

On October 31, 2010, a hearing was held before the Hon. Judge A. Baron, following which the court suspended all proceedings between the parties for three months during which the parties agreed to undergo a mediation process.

On February 8, 2011, requests for a deferral of procedures was served by the parties in an attempt to exhaust the mediation process. However, on March 21, 2011, the parties have submitted to the court a declaration stating that the attempts to resolve the disagreements outside the court have failed. As of the date of this statement a preliminary hearing in this case has been set for June 5, 2011.

According to the Company's legal counsel's opinion, it is hard to asses the outcome of the claim and the likelihood of it being approved as a derivative claim but in light of the Company's arguments the likelihood of the claim to succeed against the Company is less than 50%.

The Company has been served with a copy of a motion filed with the Tel Aviv District Court by Club Hotel Eilat Ltd. seeking a court declaratory order that (i) ClubHotel Eilat is the owner of 3% of the shares of Dasharta, and (ii) that the Company shall take all necessary action to complete the registration of the above mentioned 3% shares in the name of Club Hotel Eilat. The company's response was filed in June 2010, and in its July 22, 2010 decision the Court held that a verdict can be given without the need to hold interrogations and solely by using written statements. On 1 August, 2011 the plaintiff agreed to the court's proposal and QLI notified the court that it would insist on carrying out interrogations. Following a court hearing held on September 7, 2010 it was decided that the parties will submit their written statements and during October 2010 the parties filed their written statements.

On November 4, 2011 and on February 15, 2011, requests for a deferral of procedures were served by the parties in an attempt to exhaust the mediation process. However, on March 27, 2011, the parties have submitted to the court a declaration stating that the attempts to resolve the disagreements outside the court have failed. As of the date of this statement a preliminary hearing in this case has been set for June 5, 2011.

On March 28, 2011 Club Hotel Eilat Ltd has submitted a written notice to the Company offering to bring forward the payment due for the purchase of Dasharta's shares. QLI has answered in a its letter of March 29, 2011 that it does not see any hindrance to do so as long as, among others, by March 30, 2011 QLI will receive a cheque dated 31 March, 2011 for the remaining balance for the shares (thus -€1.125 million). Replacing the cheque received by the Company for the remaining balance dated August 2011. As well as a notice of Club Hotel Eilat Ltd, to the court, declaring it is drowning back its lawsuit against QLI as described in this section 8.2.3. As of the date of this annual report Club Hotel Eilat has not yet submitted the required documents and the cheque, and therefore, the bring forward of the payment has not yet been concluded and thus the shares has not been transferred yet.

For a description of other legal proceedings in which the Company is involved, please see note [31] to the consolidated financial statements.

9. RISK FACTORS

The risks and uncertainties below are such that the Group may face and which the Company believes are material. If any of the following risks actually occurs, the Company's business, financial condition or results of operations could be adversely affected. Additional risks not described below are those not currently known to the Company or that the Company currently deems immaterial.

General Risk Factors

European Economic Crisis

The direct economical consequences of the economic crisis in the financial markets, remain unknown. The European economies, including those in which the Company operates, are under threat of an economic slowdown. The Company is not immune against the consequences of the crisis. A decrease in private consumption resulting in a decrease in leisure expenses might reduce the Company's activities and adversely affect the Company's results of operations.

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.

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 Euro. The Company also has sales, expenses, assets and liabilities denominated in currencies other than the Euro due to its global operations, in particular, NIS, US$, Czech koruna, Serbian Dinar and the Romanian New Lei. 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 and its ability to pay dividends in the future.

Interest rate fluctuations may affect the Company's portfolio.

Changes in interest rates and capital markets could adversely affected the Company's ability to maintain the value of its investment portfolio which is comprised mainly of interest bearing deposits.

The Group faces certain risks related to operating in emerging markets

Emerging markets where the Company operates or may operate in the future are subject to greater risks than more developed markets, including legal, regulatory, economic and political risks. 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 Company intends to invest 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 Eastern Europe and Asia are not necessarily similar to those in Western Europe, 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 many jurisdictions in which the Company 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, its ability to achieve its investment objectives and level of dividends that it is able to distribute.

Risks Related to the 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. 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 the risk factor headed "The Group may not be able to obtain licenses and permits" below.

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. At present, internet gaming is prohibited in Greece although in practice such sites can be accessed by Greek internet users. However, increased internet access across the Greek population could result in internet-based gaming presenting additional competition for the Group. Internet-based gaming is not currently prohibited in Romania, although the Company believes that internet-based gaming poses a minimal threat at present due to limited internet access. However, if the international internet gambling companies were to focus on the Romanian market or local operators were to enter the online market, internet gaming sites accessible to the Romanian population would improve, and could prove to be competition for Casino Palace. In Serbia, internet-based gaming generates revenues from the Serbian market.

Lack of developed regulation in certain markets

While the regulation of gaming in Greece is relatively strict and developed, the regulation in a number of the other markets in which the Group intends to operate is less developed. Lack of developed regulation in these jurisdictions potentially enables large numbers of local and international competitors to establish gaming operations which can compete with the Group's gaming operations. It is impossible to predict the level of regulation that will be implemented in undeveloped markets or the 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 management anticipates, the Company may decide not to invest, which would impact on its intended growth projects.

Risks Related to the Group's Business and Group`s Structure

Group structure

Casino Loutraki, together with several of the Group's planned investments, 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. There is a possibility that these third parties may have interests which conflict with those of the Group. If the Group is unable to reach or maintain agreement with a joint venture partner on matters relating to the operation of the business, its financial condition and the results of its operations may be materially adversely affected. Since the commencement of CHL's operations in 1995, all distributable revenues of CHL have been distributed to its shareholders; however, there can be no assurance that the Group's third party partners will continue to vote in favor of distributing CHL's dividends, and therefore the Company cannot ensure that dividends are distributed from the relevant projects through the Group to the Company. In addition, such third parties may hinder required structure improvements by imposing difficulties on amending articles and or passing resolutions by corporate organs. The current disagreement with some of the Group's joint venture partners and the consequential related legal proceedings could impose difficulties on the operations of the business in those joint ventures and may have an adverse effect on board composition, decision making, flow of information and distribution of revenues of CHL. Some of the disagreements may result in certain resolutions being adopted by the companies' various organs without the presents, or without the consent of the Company's representatives, as described in section 7.2.1.1 above.

Economic crisis in Greece and Romania

The Company's operations involve investment in operations in Greece and Romania and are exposed to the financial crisis these countries are undergoing and which has worsened in a way which jeopardizes their ability to repay their debts. The Greek economy has been adversely affected by the world economic crisis and has experienced a negative growth of 4.8 per cent over the course of 2010. In 2009, Greece experienced an increase in the government deficit which has exceeded the maximum level of deficit under the EU Convention for Growth and Stability with the deficit reaching 15.4% of GDP. The national debt, inflation and unemployment levels have all arisen above European average. Austere measures have been taken, including increases in VAT and tax on private income, causing reduction in private consumption and increase of unemployment. In April 2010 a leading credit agency assigned Greek debt its lowest possible credit rating; in May, the International Monetary Fund and Eurozone governments provided Greece emergency short- and mediumterm loans worth $147 billion so that the country could make debt repayments to creditors. In exchange for the largest bailout ever assembled, the government announced combined spending cuts and tax increases totaling $40 billion over three years, on top of the tough austerity measures already taken. Greece, however, struggled to boost revenues and cut spending to meet 2010 targets set by the EU and the IMF. Additional austere steps were taken by the Greek Government as a condition to the receipt of the aid package from EU countries, which might impact and reduce the Company's results in these countries and subsequently impact the Group's financial condition and results of operations.

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

Before it can commence operations in the jurisdictions in which it intends to conduct gaming activities, the Group must obtain the requisite licenses and permits (for gaming and, where relevant, building) from the relevant authorities. In particular, the Groups operations in Romania require several gaming licenses. 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. As described in section 2.3 above, in late 2008 certain provisions under Serbian law regulating the conditions for applications for permits for organization special games of chance in gambling facilities were declared unconstitutional by the Constitutional Court of Serbia. The Company has been advised by Serbian counsel that such decision may have a significant effect on the license to operate a casino in Belgrade and may lead to the revocation of the license. If such risk is materialized, Casino Belgrade would be entitled to remedies under the terms of the license and under applicable law. In addition, as of the date of this report there is uncertainty as to the extension of the Company's license to operate Casino Belgrade (which currently will be terminated in 2015). Failure to obtain an extension could have a material adverse effect on CHL and the Company.

Dependence on Loutraki

Approximately 65 per cent of the gross gaming revenues of the Group in 2010 were represented by Casino Loutraki. Although the Group expects this percentage to reduce due to the financial crisis Greece is undergoing and as other casinos are developed and become mature, any significant reduction in the revenues of Casino Loutraki would have a material adverse effect on the Group's profits and financial position.

CHL incurred a net loss of €17 million during the year ended December 31, 2010, and as of that date, CHL's current liabilities exceeded its current assets by €48 million (of which €35 million are to Bank Piraeus).

The above is raising a material uncertainty as to the ability of CHL to continue its operations as a going concern without obtaining an extension from Bank Piraeus for the payment of the above mentioned loan and/or finding alternative finance resources until such time CHL's operations will support its finance needs. As to the best of the Company's knowledge, CHL's management has plans for negotiating with Bank Piraeus for an extension of the loan and for a cost reduction plan. The Company is not obligated to provide a capital injection to CHL, and that to its knowledge, PBS's current cash position is approximately €10 million.

The Gaming market in Bucharest is competitive

There are currently 9 casinos in operation in Bucharest and several of these pose a competitive threat to Casino Palace's operations. In particular, casinos which are located in hotels have the advantage of direct access to guests, which Casino Palace does not currently have.

Competition in Greece may increase

The Group faces competition in Loutraki, Greece from the Mont Parnes Casino, which is located closer to the centre of Athens than Casino Loutraki. The Management believes that Mont Parnes Casino is currently the second largest casino in Greece in terms of drop and win, but the owners have completed an extensive refurbishment and improvement project and have extended the casino's opening hours to 24 hours a day, seven days a week. This has resulted in significant increases in admissions and revenue to the Mont Parnes Casino. In addition, the management of the Mont Parnes Casino is building a new five-star hotel. The Company cannot be certain that this increased competition will not have a material adverse effect on the turnover and profitability of Casino Loutraki.

While to date the Greek authorities have not publicly indicated any intention to grant additional casino licenses, there can be no certainty that they will not do so in the future. Should the Greek authorities grant additional casino licenses, the resulting increased competition could have a material adverse effect on the business and profitability of Casino Loutraki and Casino Rodos.

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 2010 accounting for approximately 32 per cent. of 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 be likely to 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.

Disputes with the tax authority in relation to Casino Rodos may affect the profits of the Group

In 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. Rhodes Casino Company has challenged these assessments and has initiated litigation procedures against the Greek tax authorities. The Company has not considered it necessary to include a provision in the Company's accounts. However, it is impossible to predict whether the tax assessments will be cancelled, particularly as the case will not be finalized until 2016 at the earliest. If Rhodes Casino Company is required to pay the €16 million, this will have an adverse effect on the financial condition of the Group.

Section B - Directors Report

1. **Principal activities of the Group during the year**

For a description of the principal activities of the Group during the year please see **Section A** of this annual report.

2. **Competitive Strengths**

The Directors believe that the Company benefits from the following competitive strengths:

- pipeline of opportunities to develop casinos in emerging markets;
- operation of leading casinos in Greece and Romania;
- experienced management teams both centrally and at each local level; and
- experience in dealing with governments and regulations;

3. **Strategy**

The Company aims to become a leading gaming and entertainment company in each of its chosen markets by offering an exclusive user experience, as well as top quality products and services; in all cases well targeted to the regional customer. The Company pursues the following strategies in order to achieve the objective:

- ;
- Pursue Attractive Investment Opportunities in Developing Markets

  mainly in Southeast Asia
- Focusing on core competencies
- Improving operating efficiency
- Increase scope and scale of existing investments

4. **Presentation of Financial Information**

The Group's consolidated financial statements for the years ended 31 December 2010, 2009 and 2008 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 consolidated financial statements included elsewhere in this annual report. The Group's presentation currency is the Euro.

Revenues

Revenues, as presented in the Group's consolidated financial statements, consist of total revenues less tax on gross gaming revenues and applicable municipality tax. The Group's total revenues consist of 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. In the Group's 2010 fiscal year, approximately 93% per cent., of the Group's total revenues consisted of gross gaming revenues, and approximately 64.9% per cent. 21.6% per cent. and 9.3% per cent. and 4.2% of gross gaming revenues were derived from Casino Loutraki, Casino Rodos, Casino Palace, and casino Beograd respectively.

The table below sets forth for each of the Group's 2010, 2009 and 2008 fiscal years, a breakdown of the Group's total revenues, including gross gaming and other revenues, the tax applied to gross gaming revenues and applicable municipality tax.

	Year ended 31 December		
	2010	2 0 0 9	2 0 0 8
Gross gaming revenue	**127,119**	**155,022**	**190,771**
Food and beverage revenue	5,946	4,336	2,354
Entrance tickets (net)	1,090	1,447	1,047
Hotel revenue	1,128	1,340	1,470
Rental revenue	197	155	115
Sundry revenue	906	859	684
Total other revenue	**9,267**	**8,317**	**5,670**
Total Revenue	**136,386**	**163,159**	**196,441**
Tax on gross gaming revenues	(37,810)	(45,368)	(55,506)
Municipality tax	(2,280)	(2,771)	(3,545)
Revenue per income statement	**96,296**	**115,020**	**137,390**

* Under the terms of the licenses with the respective local municipalities, Casino Loutraki and Casino Rhodes are required to pay a 33 per cent. and 30 per cent. annual tax, respectively, on gross gaming revenues to the Greek Gaming Committee, as well as an additional 2 per cent. annual tax on total revenues. Casino Palace is required to pay a fixed tax to the Romanian gaming authority on each table and slot machine it operates, as well as an additional fixed amount.

Operating Costs

Cost of Revenues

Cost of revenues consists primarily of costs related to gaming, security and food and beverage staff costs, primarily salaries, and also of costs related to food and beverage, facility maintenance, rent, utility costs, amortization and depreciation, Greek tourist organization duties and other costs consisting of travel, communication and consumables expenses.

Selling and marketing expenses

Selling and marketing expenses primarily consist of expenses related to advertising and marketing, and also costs of marketing staff, primarily staff salaries, and costs of food and beverage, free or reduced rate hotel accommodation for casino patrons, transportation costs for casino patrons and costs related to entertainment.

General and administrative expenses

General and administrative expenses consist primarily of Group and local management and administrative staff costs, primarily salaries, and expenses related to other professional services, such as accounting, legal and consulting expenses, as well as audit fees, gratuities and donations, stamp duty, bank charges and other costs.

Other operating expenses

Other operating expenses consist of casino license bids, impairment of fixed assets and other operating costs.

Investment income
Investment income consists of gain on marketable securities, interest on bank deposits and dividends from equity investments.

Finance costs
Finance costs consist primarily of interest on borrowings and to a lesser extent of interest on finance leases and costs related to debt write off.

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, the Romanian lei, Czech koruna, Serbian Dinar, and the U.S. dollar. The Group's reporting currency is Euro but its revenues and costs derived at Casino Palace are in both Romanian lei and Euro, subjecting the Group to variation in the exchange rate between the Euro and the Romanian lei, respectively.

Tax
Tax primarily consists of current tax and to a lesser extent tax relating to prior years and deferred tax. In Israel, normal income tax of companies for the 2010, 2009 and 2008 calendar years was 25 per cent., 26 per cent. and 27 per cent., respectively, of the estimated assessable profit for the year. Israeli income tax will be reduced in 2011 to 24 per cent. For Greece-based projects, normal income taxation for the 2010, 2009, and 2008 calendar years was calculated at 25 per cent., of the assessable profit for the year. As part of a new tax reform in Greece, corporate tax rates will be reduced from 25% in 2009 to 20% in 2014 and thereafter (24% in 2010, 23% in 2011, 22% in 2012 and 21% in 2013). In addition, the new tax reform imposes a 10 per cent. tax (deductible at source) upon all dividend distributions to shareholders (corporations and individuals) residing in Greece or in any other non-EU member countries. The same tax rate will be imposed upon other payments made to shareholders, directors and employees. According to the Company's current structure, CHL is held by PowerBrook Spain which is an EU member resident (Spain) and is not subject to the said 10 per cent. dividend tax. Such exemption does not exist in the case of Casino Rodos which is held by AINEIAS S.A which is a Greek company and is, therefore, subject to the said tax. For Romania-based projects, the Group is taxed depending on the activity undertaken. Casino Palace is subject to tax based on the greater of 16 per cent. of profit and 5 per cent. of income. The Company does not expect the applicable tax rate to change for its 2011 fiscal year. The Casino Palace restaurant in the Company's is subject to a 16 per cent. tax rate applied to profits before tax.

The Group incurred increases in VAT in both Greece and in Romania. The Greek government's decision to impose a VAT increase of 4% during the year from 19% to 23% (in the main land) and 3% increase in the Greek Islands this increase was imposed in two stages during 2010. In Romania the VAT has increased in 5% during the last year.

Results of Operations
The following table sets forth certain consolidated profit and loss data (pursuant to IFRS) for the periods indicated:

Consolidated Statement of Income

(In thousands of €)

	Year ended 31 December		
	2010	**2009**	**2 0 0 8**
Revenues	96,296	115,020	137,390
Operating costs			
Cost of revenues	(66,417)	(65,458)	(58,614)
Selling and marketing expenses	(21,018)	(17,335)	**(16,101)
General and administrative expenses	(22,670)	(22,057)	**(23,329)
Other operating expenses	(1,017)	(6,272)	(366)
Share of results of associated company	(-)	(658)	(2,203)
Operating profit	**(15,526)**	**2,240**	**36,777**
Investment income	397	843	3,000
Finance costs	(1,703)	(1,258)	(2,992)
Foreign exchange loss	(2,827)	1,158	(384)
Profit before tax	**(19,659)**	**2,973**	**36,401**
Tax	(6,484)	(9,787)	(13,382)
Profit for the year	**(26,143)**	**(6,804)**	**23,019**
Other Comprehensive income			
Exchange differences arising on translation of foreign operations	3,344	(2,431)	53
Total Comprehensive income (loss) for the year	**(22,799)**	**(9,235)**	**23,072**
Attributable to:			
Equity holders of the parent	(23,855)	(8,293)	13,367
Minority interests	(2,288)	1,489	9,652
	(26,143)	**(6,804)**	**23,019**
Total Comprehensive income (loss) for the year Attributable to:			
Equity holders of the parent	(21,738)	(10,209)	14,369
Minority interest	**(1,061)**	**974**	**8,703**
	(22,799)	**(9,235)**	**23,072**
Earnings per share			
Basic (¢)	(6.8)	(2.3)	3.8
Diluted (¢)	(6.8)	(2.3)	3.8

Year Ended 31 December 2010 to Year Ended 31 December 2009

Revenues

Revenues, as presented in QLI's consolidated financial statement, consist of Total Gross revenues minus the tax on gross gaming revenues, applicable municipality and other gross taxes. QLI's 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.

Net revenues amounted to €96.3 million for the year 2010 compared to €115 million in 2009, a decrease of €18.7 million or 16.3% and gross gaming revenues amounted to €127.1million for the year 2010 compared to €155 million in 2009, a decrease of €27.9 million or 18%. For the twelve months ended December 31, 2010, approximately 64.9%, 21.6%, 9.3% and 4.2% of QLI's gaming revenues were derived from Casino Loutraki, Casino Rodos, Casino Palace and Casino Belgrade, respectively. Net gaming revenues and gross gaming revenues decreased primarily as a result of the continuing of economic crises in Greece and Romania that reduced the average win per visit across the Group operations. Of the total gross revenues amounting to €136.4 million for the twelve months ended December 31, 2010, €9.3 million was derived from other revenues, compared to €8.1 million in the same period in 2009. The increase of €1.2 million is mainly attributable to the SaSaZu operation.

Cost of Revenues

Cost of revenues consists primarily of costs related to gaming, such as security, food and beverage, staff costs (primarily salaries) and also costs related to facility maintenance, rent, utility costs, amortization and depreciation, Greek tourist organization duties and other costs consisting of travel, communication and consumable expenses.

Cost of revenues amounted to €66.4 million for the twelve months ended December 31, 2010 same as in the comperative period in 2009. During the period there was increase of 1 million in staff cost that was offset mainly by decrease in food and beverage cost and other operating cost.

Selling and marketing expenses

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

Selling and marketing expenses amounted to €21 million for the twelve months ended December 31, 2010 an increase of €3.7 million compared to the same period in 2009. The increase in selling and marketing expenses is primarily attributable to the increase in Casino Loutraki, Casino Rhodes and Casino Palace expenses in order to attract visitors and promotion that was made in order to introduce the new Texas Hold'em game.

General and administrative expenses

General and administrative expenses consist primarily of the Company’s head offices and each location's local management and administrative staff costs (primarily salaries) and expenses resulting from grant of share options, expenses related to the other professional services, such as accounting, legal and consulting expenses, as well as audit fees, gratuities and donations, stamp duty, bank charges and other costs.

General and administrative expenses amounted to €22.7 million for the twelve months ended December 31, 2010 an increase of €0.6 million compared to same period in 2009. The increase in general and administrative expenses is primarily attributable to consulting expenses for due diligence made for CHL with regards to Casino Austria International deal that was set off by decrease in staff cost as a result of reducing the number of employees.

EBITDA

QLI's negative EBITDA amounted to €0.4 million for the twelve months ended December 31, 2010 compared to €21.2 million for the same period in 2009. The decrease in the EBITDA of €21.5 million is primarily attributable to the decrease of €18.7 million in net revenues.

Share of results of associates

Share of results of associates, consists of an interest in Grand Casino D.o.o, a company incorporated in Belgrade, whose principal activity is casino gaming. The results of Grand Casino D.o.o were incorporated in CHL's financial statements until March 31st, 2009 under the equity method of accounting, and as of April 1st, 2009 are consolidated 100% in CHL's financial statements and 50% in QLI financial statements.

Investment income

Investment income is mainly attributed to interest accrued on bank deposits. Investment income amounted to €0.4 million for the twelve months ended December 31, 2010 compared to €0.8 million for the same period in 2009, a decrease of €0.4 million. The decrease in investment income is primarily attributable to the reduction in cash position of the company in its bank deposits and decrease in the interest rate.

Finance costs

Finance costs consist primarily of interest on loans. Finance costs amounted to €1.7 million for the twelve months ended December 31, 2010 compared to €1.3 million for the same period in 2009, an increase of €0.4 million. The increase is primarily attributable to the noncash finance loss on revaluation of derivative instruments as a result of the MOU signed with consortium Greek banks for restructuring Casino Rhodes bank loans.

Foreign exchange gain (loss)

Foreign exchange gain (loss) relates to gains or losses realized as a result of the fluctuations in the value of the Euro against the Romanian Lei, Serbian Dinar, Czech Koruna, USD and the NIS. QLI's reporting currency is Euro whilst the operation currency is the NIS. Changes in the Euro against the RON, SRD, US Dollar and NIS exchange rate have affected the foreign exchange gain (loss).

Foreign exchange loss amounted to €2.8 million for the twelve months ended December 31, , 2010 compared to foreign exchange gains of €1.2 million for the same period in 2009. The foreign exchange loss is mainly attributable to the weakness of the Euro and the USD against the NIS.

Tax

Taxes amounted to €6.5 million for the twelve months ended December 31, 2010 compared to €9.8 million for the same period in 2009, a decrease of €3.3 million, or 34%.

The decrease in taxes is primarily attributable to the decrease of €4.6 million in current tax as of the decline in profit before tax, and decrease of €0.7 million in deferred tax income (2009: income of €0.9 million) that was offset by increase of 0.5 million in respect of prior years tax..

Profit / (Losses)

Losses amounted to €26.1 million for the twelve months ended December 31, 2010 compared to €6.8 million for the same period in 2009 an increase of €19.3 million.

The losses are primarily attributable to the decrease of €21.5 million in the EBITDA as mentioned above that was offset by decrease of €3.3 million in tax and decrease of €4.6 million in other expenses and increase in net finance cost of 4.9 million.

Cash and Funding Sources

QLI's principal sources of liquidity are cash provided by operations and loans under tree loans facilities from banks provided to Club Hotel Loutraki and Rhodes Casino S.A. As at December 31, 2010, QLI's consolidated cash and cash equivalents were €16.3 million.

Cash Flow Statement

The table below summarizes the consolidated cash flow for the twelve months ended December 31, 2010 and 2009:

(000' Euro)	For the twelve months ending 31 December,(audited)	
	2010	2009
Cash flow from (used in) operating activities	(14,718)	10,812
Cash flow used in investing activities	(2,905)	(29,360)
Cash flow used in financing activities	(271)	(8,460)
Net decrease in cash and cash equivalents	(17,894)	(27,008)
Foreign exchange rate	3,143	1,053
Cash and cash equivalents *beginning of the period*	31,060	57,015
Cash and cash equivalents *end of the period*	16,309	31,060

Operating Activities

QLI's consolidated net cash flow used in operating activities amounted to (€14.7) million for the twelve months ended 31 December 2010. The cash outflows used for operating activities is primarily attributable to the loss before tax of €19.7 million and adjustments of €5 million primarily attributable to €12.5 million depreciation and amortization, €1.7 million impairment and loss on sale of property as well as a €2.8 loss attributable to foreign exchange losses offset by a decrease of €8.2 million in payables and €8.1 million in income tax and interest paid.

Investing Activities

For the twelve months ended December 31, 2010 QLI's consolidated net cash outflow used for investing activities amounted to €2.9 million. The net cash outflow in the twelve months ended December 31, 2010 is primarily attributable to €6.2 million cash outflow for purchase of property plant and equipment, and €3.0 million net cash used for acquisition of subsidiary that was offset by €1.5 million cash inflow from the sale of property, €2.6 cash in from realization of a trading investment and €1.1 million cash in from repayment of other long-term receivables.

Financing Activities

QLI's consolidated net cash outflow used for financing activities amounted to €0.3 million for the twelve months ended December 31, 2010. The net cash outflow used for financing activities is primarily attributable to €1.6 million profit share paid to the Municipality of Loutraki and €1 million repayment of Casino Rhodes bank loan that was set off by €2.5 million cash in from increasing bank overdraft.

Significant Accounting Policies

The significant accounting policies relating to the Group's operations are set out in Note 2 to the Company's financial statements included elsewhere in this report**.**

Significant Developments since 31 December, 2010

Please refer to the transactions described in sections 2.2.1, 3.1.1, 3.2 above.

5. **Disclosure about Market Risk**.

Responsibility for the Company's Market Risk Management.

The Company's Board of Directors is responsible for managing market risk as it relates to currency rates and interest. The Company's Board of Directors is updated by the Company's management on material changes in the Company's exposure to various risks.

Description of Market Risk.

Foreign currency risk

The Group generates sales revenues and pays expenses in Euro, Romanian Lei and U.S. dollars. Wherever possible, contracts are drawn in Euros. In all other contracts the currency risk is assessed, and where considered necessary, hedging into Euros or local currencies, depending upon the currency of the contract expenditure, is undertaken.

Interest rate risk

The Group is exposed to interest rate risk as funds borrowed carry floating interest rates. This risk is mitigated by the surplus funds within the Group, and by arrangements with financial institutions for borrowing facilities to be available at market rates in the cases of short-term cash shortages. Surplus funds are placed with "A" grade financial institutions and in money market securities.

Credit risk management

The Group grants no credits in its casinos except for insignificant amounts for the use of the restaurants or other facilities of the casinos. Accordingly, the Group does not have a significant concentration of credit risk.

6. Directors with Accounting and Financial Expertise

The directors with accounting and financial expertise are: Effy Aboudy, Aliza (Alicia) Rotbard andYitchak Shwartz .

7. Disclosure Regarding the Remuneration of the Auditor

Remuneration for audit services, for services related to the audit and for tax services for 2010 is €722 thousand for QLI and subsidiaries. Out of this amount a sum of €75 thousand was paid for the Company's audit services..

Section C- Financial Reports

Statement of Directors' Responsibilities

The Directors of the Company certify that, to the best of their knowledge, the financial statements have been prepared in accordance with IFRS and provide a true and fair view of the assets, liabilities, financial position and profit and loss of the Company. The Directors of the Company also certify that the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the Group together with a description of the principal risks and uncertainties the Company face.