Queenco Leisure International Ltd.

Annual Report 2009

Chairman's Statement

We are pleased to present our financial results for the 12 months to 31 December 2009.

2009 was a challenging year for the business which was reflected in QLI's financial results for the three and twelve months ended 31 December 2009. While we continued to attract over 1.7 million visits across our casinos, of which over one million visited Loutraki. The broader economic environment meant customers spent less per visit than they have historically. As was widely reported the Greek economy came under severe pressure in the last quarter of 2009, and with 80% of the Company's revenues coming from our two Greek based casinos, primarily Casino Loutraki, 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 generative, debt free and has an experienced management team. Consequently, we believe that when gaming revenues recover alongside an improvement in the economic environment, QLI's financial reports will be influenced accordingly.

EBITDA for the year were €21.2 million (2008: €47.8 million). While EBITDA for the three months ended 31 December 2009 were €3.3 million (2008: €8.9 million) to manage the reduction in the EBITDA the Company has taken swift action to reduce the overall cost base. Salaries of senior management have reduced by 10% at QLI's headquarters, 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 2010.

In 2009 the Company refocused its investment programme. We made a strategic decision to focus more on other acquisition opportunities such as existing casinos and by doing so exploit the opportunities to grow earnings. In addition, the Group will actively seek to attract strategic partners in order to pursue future projects jointly.

On September 24, 2009, the Company announced that its Board had instructed the Company's management to examine the process of a merger between the Company and Y.Z. 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 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, 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 CHL that is needed by the Company.

2009 has been challenging for gaming worldwide, and is likely to remain so in the near future. The situations at our casinos, Loutraki and 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 at least.

During the year we are planning 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 the business in the current environment and we are confident that our trading performance will improve in line with an improvement in the market as we are focused on maintaining our market position and service levels to all our customers.

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.

Ron Beery
Chairman, Queenco Leisure International Limited
March 28, 2010

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

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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, 2009 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. THE GROUP'S ACTIVITY AND DESCRIPTION OF THE DEVELOPMENT OF ITS BUSINESS.

1.1. Overview

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**"), and an entertainment center in Prague under the SaSaZu brand.

The Group currently operates approximately 1,650 slot machines and 165 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 operations, and restaurants in Bucharest, Belgrade and Prague. The Group's total gross revenue amounted to €163.2 in 2009, €196.45m in 2008 and €205.7m in 2007 with gross gaming revenues from Casino Loutraki, the Group's flagship operation, accounting for approximately 65 per cent in 2009.

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

Due to the economic situation in Romania, we are currently examining the company ability of changing or terminating its liabilities with respect to the "Casino Constanta" project.

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 2009, the Group employed approximately2,900 people.

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%.

After signing a Memorandum of Understanding for the lease rights in 2007, the SaSaZu entertainment center opened in March 20, 2009. This project in Prague is owned by a wholly owned subsidiary of the Company.

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.

During 2007 and 2008, the Group entered into two agreements for the purchase of two pieces of land in Cambodia (as more fully described in Section 0 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. 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 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, as well as the entertainment center in Prague. 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 80 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	92 slot machines 24 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:

	Year ended 31 December		
	2009	**2008**	**2007**
	€'000	€'000	€'000
Loutraki	101,643	132,085	139,838
Rhodes	31,939	35,740	39,269
Bucharest	17,353	22,947	20,159
Belgrad	4,087		
Total	155,020	190,771	199,266

Results by casino for the twelve months ended 31 December 2009 are broken down as follows:

Casino	**Net Revenue (EURm)**		**Gross Gaming Revenue (EURm)**		**EBITDA (EURm)**		**Visits (000's)**		**Win per Visit (EUR)**		**QLI's Economic Interest**
	2009	2008			2009	2008	2009	2008	2009	2008	
Loutraki	139.9	174.2	101,6	132,1	40	73.9	1,132	1,166	180	220	38.5%
Rodos	22.7	25.4	32.0	35,7	5.7	8.6	165	169	194	212	91.6%
Bucharest	16.2	22.1	17,4	22,9	2.5	7.2	111	110	156	209	83.3%
Belgrad	9.9	12.5	11.0	14.7	(2.5)	(3.4)	272	190	40	77	34.7%

* Loutraki is consolidated in the report at 53% between January and June 2008 and 50% onwards, while the results of Rodos and Bucharest are fully consolidated.

** The results of Casino Beograd are incorporated in Loutraki under the equity method until the 31st of March, 2009 of accounting, and onwards is fully consolidate in CHL.

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
From the operation date of the Casino[1]-7.5 years	88%	12%
End of 7.5 years-15 years	86%	14%
End of 15 years-38 years	84%	16%
End of 38 years-50 years	50%	50%

Operations

Casino Loutraki is the flagship operation of the Group, which accounted for approximately 65 per cent. of the Group's gross revenues in 2009.

The casino comprises an area of approximately 5,500m^2 on two floors. The casino's license permits the operation of 1,000 slot machines. In addition, the casino contains 80 gaming tables, including roulette, blackjack, poker, craps and baccarat.

[1] February 15, 1995

Casino Loutraki operates 24 hours a day, seven days a week, 363 days a year, and employs approximately 1,650 people. The casino, including the hall which was opened in 2005, includes 80 gaming tables and since 2004 the number of slot machines has increased from 700 to 1,000. Visits to the casino decreased to 1.13 million visits in 2009 (a decrease of 3per cent. compared to 2008). The decrease in visits to the casino (which occurred in the entire Greek casino market) is an outcome of the economic crisis in Greece. Win per visit declined by 18%, 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 best knowledge, the Parnita Casino includes 63 gaming tables and 969 slot machines. the casino’s open24 hours a day, seven days a week, Parnita Casino's market share has grown, from 47 per cent. of the total turnover of both casinos at the end of 2008 to 51 per cent. at the end of 2009 and Casino Loutraki's share has decreased, accordingly, from 53 per cent. at the end of 20008 to 49 per cent. at the end of 2009.

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

1. Opening a VVIP zone, aimed at attracting premium customers from other casinos and geographical markets such as Russia, Turkey and others.
2. Enhancing complementary services, including construction of a promenade and renovating two restaurants.
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.

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.

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).

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 300 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 also been affected by the general slowdown and declined by 2.3% for the year to 165 thousand, while win per visit declined by 8.5% to €194 for the year (2008: €212).

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 of a private jet in order to accommodate new and returning VVIP customers. The jet is not yet in use and the Company is considering different options for the use or sale of the jet. As part of the marketing efforts at high rollers, the Company has been sponsoring a twice weekly charter flight during the winter period which flies VIPs to the island

Market share

In accordance with Greek law, which states 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.

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.

2.2. 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.

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 24 gaming tables (including roulette, poker, blackjack, dice and punto banco) as well as 92 slot machines spread over an area of approximately 550m^2.

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, in the aggregate, 400 employees.

We expect to start operating 18 additional slot machines in the casino on during the second quarter, thus increasing the number of machines to 110.

Market share

Currently, there are 11 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.

Regulation

The Romanian Gaming Commission, which is part of the Romanian Ministry of Finance, is the organ in charge of gaming regulation in Romania. Recently 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 5 year periods 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 12 month periods 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 provides 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.

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 will be restricted to specifically designated areas which shall be separated from the non-smoking areas. However, as of the date of this report, regulations for execution of the new requirements have not been enacted and the Company is unable to assess whether and in what way the new requirements will be implemented.

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.

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). Nevertheless, 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. Hit International has not yet commenced operating a casino.

The Serbian lottery company has announced that during 2010 it will commence operating several games including lottery, poker and sports gambling. In addition, on July 2009, a company named Playtech has announced it has reached an understanding with the Serbian lottery company for operating internet gambling. Several other internet sites enable playing in Serbian 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 €10.7m. The Company has entered into a memorandum of understanding relating to the building of entertainment center for five years with eight options granted to the Company to renew for five years each. The Company is negotiating a long term lease agreement.

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 has 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. Queen Investments is currently examining its ability of changing or terminating its liabilities with respect to the project

In 2008, land was acquired for a total of €1.6 million, near the planed 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 it plans and to offer the land for sale. As a result and based on a 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 2009, the land is presented as investment property.

3.1.2. Bucharest

In 2006, a building was acquired for a total of €1.9 million near the Casino Palace in Bucharest. Such building was initially designated for the construction of a boutique hotel near the casino. Following reconsideration, management has decided to change it plans and to offer the asset for sale while leasing it to third party until such a sale is consummated. As a result and 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. As at 31 December 2009, the building is presented as investment property.

3.2. Sihanoukville, Cambodia

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.

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. With this regard, the Group has contacted a local Cambodian entity to help the Group in the obtainment of the needed permits for the tourist project, for 10% of the projects rights, subject to the obtainment of 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 these accounts, no decision has yet been made as to how to progress with the project.

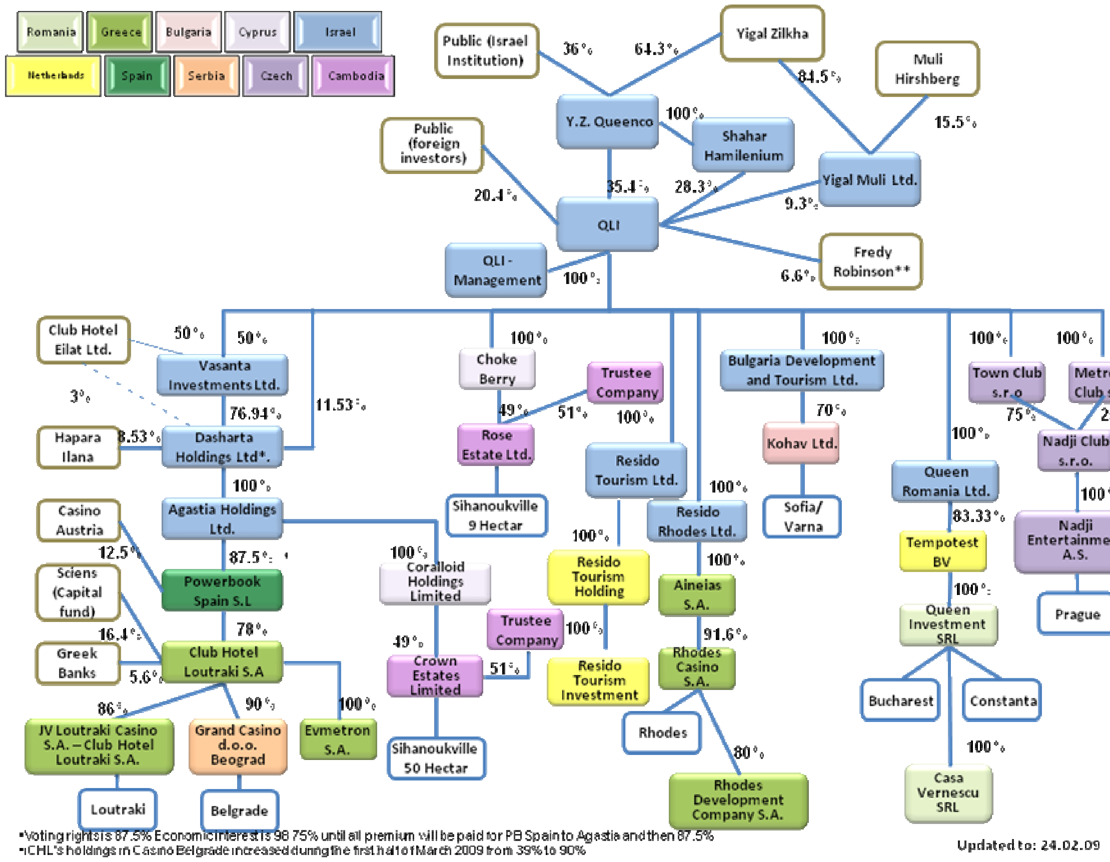
Based on an evaluation performed by an independent appraisal, the cost of investment made in each of the two assets (which are presented as the Group's fixed assets), is lower than their fair value.

3.3. Sofia and Varna, Bulgaria

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. Due to the weak regulatory regime over gaming in Bulgaria, the Company decided to offer both assets in Bulgaria for sale.

4. GROUP STRUCTURE

The following chart describes the Group structure as at December 31, 2009: [Need to update]



*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.

** Shortly prior to the date hereof, the trustee for the creditors of Freddy Robinson Assets Ltd. (in this section only, the **"Trustee"**) submitted to the District Court in Tel Aviv an urgent motion, requesting that the Court approve the acceptance by the Trustee of an offer which to the Company's knowledge has been made by a third party for the purchase of Mr. Robinson's shares in QLI, free and clear of any third party rights, liens, encumbrances and debt. Mr. Robinson's QLI shares are currently pledged in favor of Mr. Zilkha, the Company's controlling shareholder, pursuant to a subordinate pledge recorded with the Israeli Pledges Registrar on June 14, 2007. If the Court approves the foregoing motion, the proxy granted by Mr. Robinson to Shahar Ha Millennium, to vote on its behalf on the shareholders meetings of QLI, shall expire. To the Company's knowledge, as of the date hereof the Court has not yet ruled on the motion.

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 CHL 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 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, 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 CHL that is needed by the Company.

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 Spain S.L. ("**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 validity 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. On 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 is considering all legal aspects related to this matter under Spanish and Greek Law. As of the date of this report the Company has not yet reached a conclusion as to the taking of any legal steps on this matter.

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 2/3of 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 2009, 2008 and 2007, 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		
	2009	**2 0 0 8**	**2 0 0 7***
Revenues	115,020	137,390	142,895
Operating costs			
Cost of revenues	(65,458)	(58,614)	(54,918)
Selling and marketing expenses	(17,335)	**(16,101)	(14,911)
General and administrative expenses	(22,057)	**(23,329)	(19,959)
Other operating expenses	(6,772)	(366)	(492)
Share of results of associated company	(658)	(2,203)	(1,351)
Operating profit	**2,240**	**36,777**	**51,264**
Investment income	843	3,000	4,933
Finance costs	(1,258)	(2,992)	(3,195)
Foreign exchange loss	1,158	(384)	(61)
Profit before tax	**2,973**	**36,401**	**52,941**
Tax	(9,787)	(13,382)	(15,407)
Profit for the year	**(6,804)**	**23,019**	**37,534**
Other Comprehensive income			
Exchange differences arising on translation of foreign operations	(2,431)	53	(666)
Total Comprehensive income (loss) for the year	**(9,235)**	**23,072**	**36,868**
Attributable to:			
Equity holders of the parent	(8,293)	13,367	25,138
Minority interests	1,489	9,652	12,396
	(6,804)	**23,019**	**37,534**
Total Comprehensive income (loss) for the year Attributable to:			
Equity holders of the parent	(10,209)	14,369	24,488
Minority interest	**974**	**8,703**	**12,380**
	(9,235)	**23,072**	**36,868**
Earnings per share			
Basic (¢)	(2.3)	3.8	7.6
Diluted (¢)	(2.3)	3.8	7.5

* The 2007 amounts reflect the 12 months operations for the group as if the restructuring described in Note 1of the financial reports had occurred at the beginning of the reporting period starting 1 January 2007.

** Reclassifications – See Note 2.20 of the financial reports.

Consolidated Balance Sheet
(In thousands of €)

	As at 31 December	
	2009	2 0 0 8
Non-current assets		
Intangible assets	11,313	8,233
Property, plant and equipment	126,146	108,322
Investment property	3,940	6,994
Associate company	-	11,435
Deferred tax asset	2,118	2,043
Other long term receivables	8,174	12,144
Total non-current assets	**151,691**	**149,171**
Current assets		
Inventories	1,053	760
Investments	4,841	9,107
Trade and other receivables	6,758	4,470
Cash and cash equivalents	31,060	57,015
Total current assets	**43,712**	**71,352**
Total assets	**195,403**	**220,523**
Current liabilities		
Accounts payable	(6,695)	(4,941)
Current tax liabilities	(5,089)	(5,352)
Other current liabilities	(21,988)	(23,012)
Bank overdraft and loans	(17,093)	(16,958)
Total current liabilities	**(50,865)**	**(50,263)**
Net current assets (liabilities)	**(7,153)**	**21,089**
Total assets less current liabilities	**144,538**	**170,260**
Non-current liabilities		
Long-term bank loans	(6,634)	(8,536)
Other long-term liabilities	(4,113)	(7,286)
Deferred tax	(1,313)	(1,795)
Provision for retirement benefits	(5,848)	(5,340)
Total non-current liabilities	**(17,908)**	**(22,957)**
Net assets	126,630	147,303
Shareholders' equity		
Share capital	65,512	62,512
Share premium	130,998	130,998
Translation reserve	914	2,830
Other reserve	(14,080)	(7,950)
Accumulated Deficit	(79,158)	(71,495)
Equity attributable to equity holders of the parent	**101,186**	**116,895**

Minority interest	**25,444**	**30,408**
Total Equity	**126,630**	**147,303**

Consolidated Cash Flow Statement
(In thousands of €)

	Year ended 31 December		
	2009	**2 0 0 8**	**2 0 0 7***
Net cash from operating activities	**10,695**	**27,797**	**46,280**
Investing activities			
Interest received	767	2,635	4,801
Purchases of property, plant and equipment	(12,067)	(24,013)	(9,983)
Proceeds on sale of property, plant and equipment	79	341	
Purchase of other intangibles	(214)	(73)	(28)
Advances on fixed assets	-	(2,509)	
Investment in an associate	(1,200)	(1,367)	(9,754)
Increase in other long-term receivables	-	(168)	
Realisation of (Purchases) of trading investment	3,783	(735)	(7,923)
Installments for the acquisition of a subsidiary	(2,964)	(2,964)	(714)
Repayment of other long-term receivables	1,125	-	-
Investment in a subsidiary net of cash acquired	(18,669)	-	-
Loan to associate company	-		(7,585)
Purchase of additional interest in joint venture entity	-		(2,153)
Net cash used in investing activities	**(29,360)**	**(27,997)**	**(33,339)**
Financing activities			
Dividends paid to minority shareholders	(2,586)	(5,131)	(3,402)
Dividends	-	(6,007)	(8,752)
Purchase of additional interest in joint venture entity	-	** (7,950)	-
Repayments of borrowings	(1,900)	(12,420)	(11,730)
Receipt / (repayment) of other long term liabilities	(397)	(1,245)	3,285
Issue of shares, net of expenses	-	-	53,346
Share of profits paid to Municipality of Loutraki	(3,562)	(4,371)	(4,361)
Increase (decrease) in bank overdrafts	(15)	15,959	(250)
Net cash provided by (used in) financing activities	**(8,460)**	**(21,165)**	**28,136**
Net increase (decrease) in cash and cash equivalents	(27,008)	(21,365)	41,077
Effect of foreign exchange rate changes	1,053	2,360	(305)
Cash and cash equivalents at beginning of year	57,015	76,011	35,239
Cash and cash equivalents at end of year	**31,060**	**57,015**	**76,011**
Tax cash flow	(10,402)	(18,323)	(14,717)
Interest paid	(877)	(1,212)	(1,208)

*The 2007 amounts reflect 12 months operation for the Group as if the reorganization described in Note 1 of the Group's consolidated financial statements had occurred at the beginning of the reporting period starting 1 January 2007.
** Restated – see Note 2.21 of the Group's consolidated financial statements

CHAPTER 3- DESCRIPTION OF THE COMPANY'S BUSINESS: MATTERS RELATING TO THE GROUP'S OVERALL ACTIVITY

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 2007, 2008 and 2009, by location and work sector:

	2009	**2008**	**2007**
Company headquarters, Israel	22	18	8
Loutraki	1,650	1,890	1,893
Rhodes(1)	300	294	310
Bucharest	400	464	450
Belgrade management and casino operations	Approximately 460	Approximately 461	Approximately 400
Prague	65	-	-
TOTAL	Approx 2,900	Approx 3,127	Approx 3,061

(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 26 March 2009 the Company reached an agreement with each of Mr. Uri Ben-Ari, the Company's then Chief Executive Officer, and Ms. Neomi Enoch, the Company's then Chief Financial Officer, as to their retirement from office. As part of the agreements, the Company recorded a provision in the amount of approximately Euro 223,000 for severance payments. In March 2009, Mr. Ron Be'ery joined the Company's Board and was appointed as Executive Chairman of the Board, and Mr. Avi Halifa was appointed as the Company's interim Chief Financial Officer.

In May 2009, Messrs Freddy Robinson and Aharon Shatan announced their resignation from the Board. At a shareholders meeting that was held on 26 May 2009, Messrs. Yigal Zilkha, Ron Beery and Effy Aboudy were re-appointed as directors, and Messrs. Yitchak Shwartz and Yechiel Gutman were appointed as new directors. Mr. Gutman was appointed as a statutory external director. Ms. Miri Lent-Sharir, who was appointed on 25 October 2007 as a statutory external director, holds such offices until 25 October 2010. Mr. Nathan Nissani, who was a statutory external director since 25 October 2007, passed away on 27 April 2009. On 1 August 2009, Mr. Itay Koppel was appointed as the Company's Chief Financial Officer.

Board of Directors

The current composition of the Board is as follows:

Name	Age
Ron Be'ery	55
Yigal Zilkha	47
Miri Lent-Sharir	54
Effy Aboudy	42
Yitchak Shwartz	57
Yechiel Gutman	65

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

Ron Be'ery. Mr. Be'ery joined the Board as Executive Chairman in late March 2009. 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.

Yigal Zilkha. Mr. Zilkha holds indirectly approximately 45.6 per cent. of the Company's shares. Mr. Zilkha has been involved in the gaming industry for over twenty years as a promoter and operator of casinos and is responsible for the Group's business development.

Miri Lent-Sharir. Ms. Lent-Sharir has over 20 years of executive management experience, and has been a member of the board of a variety of companies, including technology, manufacturing and real estate companies, as well as banks. At present she is a member of the board of directors of Union Bank of Israel Ltd. and Taya Investments Co. Ltd., both of which are listed on the Tel Aviv Stock Exchange. Ms Lent-Sharir has a BA in Economics and an MBA from Tel Aviv University. Ms. Lent-Sharir has been appointed as an external director.

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

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.

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.

Ms. Miri Lent-Sharir was appointed in October 2007 as the Company's external director, and Mr. Yechiel Gutman was appointed as an external director on 26 May 2009.

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.

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 2009, the aggregate total remuneration paid to the executive directors of the Company (being Ron Be'ery, Yigal Zilkha and Effy Aboudy) was €1,242 thousands (reflecting the economic benefits of options and bonuses).

The Company's shareholders approved on September 14, 2009, the terms and conditions of the compensation of Mr. Beery in his role as the Executive Chairman of the Board and ratified certain terms of employment of Mr. Yigal Zilkha. The Chairman is entitled, from 26 March 2009, to a monthly payment of NIS 120,000 and to an annual bonus of up to NIS 1.2 million (the bonus will not be applicable to the year ended 31 December 2009). The Bonus will be payable subject to the company performances as will be determined in criteria set by the Board of Directors. The Chairmen also received a signatory bonus of NIS 340,000 and a class 7 vehicle at the Company's expense. In addition, the Chairman was granted stock options representing 1.3% of the issued and outstanding capital of the Company on a fully diluted basis. Mr. Yigal Zilkha is entitled to a yearly compensation equal to GBP133 thousand.

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. In addition to the stock options for an amount of shares equal to 1.3% of the Company's issued share capital granted to the Chairman, stock options for an amount of shares equal to 0.3% of the Company's issued share capital were granted to one of the Company's officers. The total value of the benefits embodied in the stock options granted is €0.5 million. 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). The Chairman may sell the vested stock options to the Company at a price that correlates to the increase in the market price of the Company's parent company's 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 2009, the aggregate total remuneration paid to the senior management of the Company who are not directors was €998,000 (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 senior management have reduced by 10% 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, 2009:

	Number of Shares	% of issued share capital
Yigal Zilkha(1)	161,124,745	45.6%
Muli Hirschberg(2)	5,485,427	1.55%
Itay Koppel(3)	225,094	0.06%

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 Yigal Muli.
(3) Held indirectly through his holding in Y. Z. Queenco.

7. SIGNIFICANT AGREEMENTS ENTERED INTO DURING 2008 AND THROUGH THE DATE OF THIS REPORT

During 2008 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.

As of the date of this report, the put option has not yet been exercised by Vasanta.

7.2.1. Board composition and passing resolution in Powerbrook

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.

8. LITIGATION

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

8.1.1. On January 18, 2010, QLI Management, 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 claimed that failure by B.A.T to cooperate with QLI Management 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.

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

8.2. Legal Proceedings against the Group:

8.2.1. On January 20, 2010 the Company, the Company's wholly-owned subsidiary QLI Management 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.

According to 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 and Mr. Zilkha, the controlling shareholder of the Company and the representative of QLI Management 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 rejects 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.

According to legal counsel’s opinion, the likelihood of the claim to succeed is less than 50%.

8.2.3. The Company, QLI Management and Mr. Beery, the Company’s Chairman, were served with a motion to issue restraining orders, filed with the Tel Aviv District Court by Mr. Nisan Khakshouri and a company owned by him.

The motion was filed against 20 respondents, including Mr. Moshe Bublil and companies controlled by him, various companies from the Club Hotel group, certain Israeli companies through which certain shareholders of the Loutraki

Casino hold their shares therein, Powerbrook, CHL, various directors in the foregoing companies (including Mr. Be`ery) and others (collectively, the "**Respondents**").

On February 15, 2010, the court rejected Khakshouri's request for provisional remedies. A request to cancel the motion has been filed.

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

World Economic Crisis

The direct economical consequences of the worldwide crisis in the financial markets, commencing with the sub-prime crisis in the United States and increasing during 2008 and 2009, remain unknown. World 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 theses 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 2.5 per cent over the course of 2009 as well as an increase in the government deficit which has exceeded the maximum level of deficit under the EU Convention for Growth and Stability. The national debt, inflation and unemployment levels have all arisen above European average which resulted in the decrease of these countries credit rating, the decrease in private consumption, tax increases and unemployment 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 60 per cent of the net gaming revenues of the Group in 2009 were represented by Casino Loutraki. Although the Group expects this percentage to reduce 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.

The Gaming market in Bucharest is competitive

There are currently 11 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 each year accounting for approximately 30 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:

- operation of leading casinos in Greece and Romania;
- established cash generating operations;
- pipeline of opportunities to develop casinos in emerging markets;
- 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:

- Capitalise on recent expansions in order to maintain and enhance leading local position;
- Pursue Attractive Investment Opportunities in Developing Markets
- Focusing on core competencies
- Improving operating efficiency
- Increase scope and scale of existing investments
- Internal enhancement and improvement
- Utilize Two-Tier Management Structure and Experience

4. **Presentation of Financial Information**

The Group's consolidated financial statements for the years ended 31 December 2009, 2008 and 2007 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 2009 fiscal year, approximately 95% per cent., of the Group's total revenues consisted of gross gaming revenues, and approximately 65.6% per cent., 20.6% per cent. and 11.2% per cent. And 2.6% 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 2009, 2008 and 2007 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		
	2009	**2008**	**2007**
Gross gaming revenue	**155,022**	**190,771**	**199,266**
Food and beverage revenue	4,336	2,354	2,588
Entrance tickets (net)	1,447	1,047	1,030
Hotel revenue	1,340	1,470	1,806
Rental revenue	155	115	135
Sundry revenue	859	684	903
Total other revenue	**8,317**	**5,670**	**6,462**
Total Revenue	**163,159**	**196,441**	**205,728**
Tax on gross gaming revenues	(45,368)	(55,506)	(59,071)
Municipality tax	(2,771)	(3,545)	(3,762)
Revenue per income statement	**115,020**	**137,390**	**142,895**

* Amounts reflect the operations of the Group for each period as if the acquisition by the Company of Queen Romania Ltd., the parent holding company of the Casino Palace operations, which occurred on 13 June 2007, had occurred at the beginning of the reporting period starting 1 January 2007, as described in more detail in note 1 to the Group's consolidated financial statements included elsewhere in this document.

** 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 2009, 2008 and 2007 calendar years was 26 per cent., 27 per cent. and 29 per cent., respectively, of the estimated assessable profit for the year. Israeli income tax will be reduced in 2010 to 25 per cent. For Greece-based projects, normal income taxation for the 2009, 2008 and 2007 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, therefore, subject to the said tax and the Company is looking into the possibility and advisability of modifying its holdings structure. 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 from gambling. The Company does not expect the applicable tax rate to change for its 2010 fiscal year. The Casino Palace restaurant in the Company's is subject to a 16 per cent. tax rate applied to profits before tax.

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		
	2009	**2008**	**2007***
Revenues	115,020	137,390	142,895
Operating costs			
Cost of revenues	(65,458)	(58,614)	(54,918)
Selling and marketing expenses	(17,335)	**(16,101)	(14,911)
General and administrative expenses	(22,057)	**(23,329)	(19,959)
Other operating expenses	(6,272)	(366)	(492)
Share of results of associated company	(658)	(2,203)	(1,351)
Operating profit	**2,240**	**36,777**	**51,264**
Investment income	843	3,000	4,933
Finance costs	(1,258)	(2,992)	(3,195)
Foreign exchange loss	1,158	(384)	(61)
Profit before tax	**2,973**	**36,401**	**52,941**
Tax	(9,787)	(13,382)	(15,407)
Profit for the year	**(6,804)**	**23,019**	**37,534**
Other Comprehensive income			
Exchange differences arising on translation of foreign operations	(2,431)	53	(666)
Total Comprehensive income (loss) for the year	**(9,235)**	**23,072**	**36,868**
Attributable to:			
Equity holders of the parent	(8,293)	13,367	25,138
Minority interests	1,489	9,652	12,396
	(6,804)	**23,019**	**37,534**
Total Comprehensive income (loss) for the year Attributable to:			
Equity holders of the parent	(10,209)	14,369	24,488
Minority interest	**974**	**8,703**	**12,380**
	(9,235)	**23,072**	**36,868**
Earnings per share			
Basic (¢)	(2.3)	3.8	7.6
Diluted (¢)	(2.3)	3.8	7.5

* The 2007 amounts reflect the 12 months operations for the group as if the restructuring described in Note 1of the financial reports had occurred at the beginning of the reporting period starting 1 January 2007.

** Reclassifications – See Note 2.20 of the financial reports.

Year Ended 31 December 2009 to Year Ended 31 December 2008

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 €115.0 million for the year ended December 31, 2009 compared to €137.4 million for the same period in 2008, a decrease of €22.4 million or 16.3% and gross gaming revenues amounted to €155.0 million for the year ended December 31, 2009 compared to €190.8 million in 2008, a decrease of €35.8 million or 18.8%. For the year ended December 31,2009, approximately 65.6%, 20.6%, 11.2% and 2.6% of QLI's gross gaming revenues were derived from Casino Loutraki, Casino Rodos, Casino Palace and Casino Beograd, respectively. Net gaming revenues and gross gaming revenues decreased primarily as a result of the current global economic crises that reduced the average win per visit across the Group operations. Of the total gross revenues amounting to €163.2 million for the year ended December 31, 2009, €8.1 million was derived from other revenues, compared to €5.7 million in the same period in 2008. The increase of €2.4 million is mainly attributable to the SaSaZu operation in Prague.

As from April 1st 2009, Casino Beograd revenue is consolidated 100% in QLI financial statements and increased QLI gross gaming revenue by 4.1 Million Euro.

Net revenues amounted to €28.5 million for the three months ended December 31, 2009 compared to €31.6 million for the same period in 2008, a decrease of €3.1 million or 9.8% and gross gaming revenues amounted to €37.4 million for the three months ended December 31, 2009 compared to €44 million for the same period in 2008, a decrease of €6.6 million or 15%. For the three months ended December 31, 2009, approximately 64%, 20.3%, 11.5% and 4.2% of QLI's gross gaming revenues were derived from Casino Loutraki, Casino Rodos, Casino Palace and Casino Beograd respectively. Net gaming revenues and gross gaming revenues decreased primarily as a result of the current global economic crises that reduced the average win per visit across the Group operations. Of the total gross revenues amounting to €40.1 million for the three months ended December 31, 2009, €2.7 million were derived from other revenues, compared to €1.1 million in the same period in 2008. The increase of €1.6 million is mainly attributable to the SaSaZu operation in Prague.

Casino Beograd revenue in the 4th quarter is consolidated 100% in CHL financial statements and increased QLI gross gaming revenue by €1.2 Million Euro.

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 consumables expenses.

Cost of revenues amounted to €66.5 million for the year ended December 31, 2009 compared to €58.6 million in 2008, an increase of €7.9 million or 13.5%. The increase in cost of revenues is primarily attributable to 5.7 million from the consolidation of Casino Beograd as from the 2nd quarter 2009 (until March 31, 2009 Casino Beograd results were included in the company financial statements under the equity method) and the increase in Prague operational expenses of €3.9 million that began operating in the 1st quarter of 2009, that were setoff by decline in cost of revenue in Casino Loutraki and Casino Palace.

Cost of revenues amounted to €18.1 million for the three months ended December 31, 2009 compared to €14.2 million in 2008, an increase of €3.9 million or 27.5%. The increase in cost of revenues is primarily attributable to €1.1 million from the consolidation of Casino Beograd for the first time since the 2nd quarter 2009 (until March 31, 2009 Casino Beograd results were included in the company financial statements under the equity method) and €2.1 million increase in Prague operation that began operating in the 1st quarter 2009 and increase of €0.4 million in casino Rhodes

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 €17.3 million for the year ended December 31, 2009, compared to €16.1 million in 2008, an increase of €1.2 million or 7.5%. The increase in selling and marketing expenses is primarily attributable to €0.6 million from as first time consolidation of Casino Beograd and 0.2 million selling and operational expense in Prague operation.

Selling and marketing expenses amounted to €5.1 million for the three months ended December 31, 2009 compared to €3.9 million in 2008, an increase of €1.2 million or 23.5%. The increase is primarily attributable to marketing programs in all of our projects in order to attract players.

General and administrative expenses

General and administrative expenses consist primarily of the headquarter's 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 €22.1 million for the year ended December 31, 2009 compared to €23.3 million in 2008, a decrease of €1.2 million. The decrease in general and administrative expenses is primarily attributable to a decrease in expenses with respect to staff cost, professional services and BOD fee.

General and administrative expenses amounted to €5.4 million for the three months ended December 31, 2009 compared to €6.5 million for the same period in 2008, a decrease of €1.1 million. The decrease in general and administrative expenses is primarily attributable to decrease in expenses with respect to BOD fee and donation.

Other operating expenses

Other operating expenses consists primarily impairment losses on investment property and gain losses on selling fixed assets.

Other operating expenses amounted to €6.3 million for the year ended December 31, 2009 compared to €0.4 million in 2008, an increase of €5.9 million. The increase in other operating expense is primarily attributable to impairment losses as a result of valuation made on Casino Palace fixed assets of €1 million and €4.4 million losses recognised as a result of obtaining control in Casino Beograd and €0.6 million impairment losses made as a result of casino

Rhodes.

EBITDA

QLI's consolidated EBITDA amounted to €21.2 million for the year ended December 31, 2009 compared to €47.8 million for the same period in 2008. The decrease in the EBITDA of €26.6 million is primarily attributable to the decrease of €22.4 million in net revenues and the increase in cost of revenue that is primarily attributable to the new operation in Prague and the consolidation of the results of Casino Beograd.

QLI's consolidated EBITDA amounted to €3.3 million for the three months ended December 31, 2009 compared to €8.9 million for the same period in 2008. The decrease in the EBITDA of €5.4 million is primarily attributable to the decrease of €3.1 million in net revenues and the increase in cost of revenue that is primarily attributable to the new operation in Prague and the consolidation of the results of Casino Beograd.

Share of results of associates

Share of results of associates consists of an interest in Grand Casino D.o.o. The results of Grand Casino D.o.o are 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 €0.8 million for the year ended December 31, 2009 compared to €3 million in 2008, a decrease of €2.2 million. The decrease in investment income is primarily attributable to the reduction in interest rates accrued on bank deposits.

Investment income for the three months ended December 31, 2009 decreased by €0.2 million compared to the same period in 2008. The decrease in investment income is primarily attributable to the reduction in interest rates accrued on bank deposits.

Finance costs

Finance costs consist primarily of interest on loans.

Finance costs amounted to €1.3 million for the year ended December 31, 2009 compared to €3 million in 2008, a decrease of €1.7 million. The decrease is primarily attributable to the decrease of €1.2 million finance costs on bank loans as a result of reducing the capital bank loans decrease finance cost on shareholders loans and losses on revaluation of derivative instrument that were in 2008.

Finance costs amounted to €0.3 million for the three months ended December 31, 2009 compared to €0.7 million for the same period in 2008, a decrease of €0.4 million. The decrease is primarily attributable to the decrease in finance cost on 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 gains amounted to €1.2 million for the year ended December 31, 2009 compared to foreign exchange losses of €0.4 million in 2008. The foreign exchange gains are attributable to the strengthening of the Euro against the RON, Serbian Dinar and the NIS.

Foreign exchange loss amounted to €0.8 million for the three months ended December 31, 2009 compared to foreign exchange gains of €2.2 million for the same period in 2008. The foreign exchange loss are attributable to the strengthening of the Euro against the RON and the NIS.

Tax

Taxes amounted to €9.8 million for the year ended December 31, 2009 compared to €13.4 million in 2008, a decrease of €3.6 million. The decrease in taxes is primarily attributable to the decrease of €6 million in current tax as of the decline in profit before tax and deferred tax income of €1 million that were offset by €3.4 million one off tax applied in Greece on 2008 profit before tax.

Taxes amounted to €4.8 million for the three months ended December 31, 2009 compared to €2.8 million for the same period in 2008, an increase of €2 million. The increase in taxes is primarily attributable to the decrease in current tax as of the decline in profit before tax in our projects that primarily was offset by one off tax applied in Greece during the period.

Profit / (Losses)

Losses amounted to €6.8 million for the year ended December 31, 2009 compared to net profit of €23 million for the same period in 2008 a decrease of €29.8 million.

The losses are primarily attributable to the decrease of €26.6 million in the EBITDA as mentioned above and the increase in other operating expenses and one off tax applied in Greece.

Losses amounted to €12.0 million for the three months ended December 31, 2009 compared to net profit of €5.3 million for the same period in 2008 a decrease of €17.3 million.

The losses are primarily attributable to the decrease of €5.4 million in the EBITDA as mentioned above and the increase of €5.6 million in other operating expenses as a result of impairment losses of €1.7 million and losses of €4.4 million recognised as a result of obtaining control in casino Beograd, and €3.8 taxes on previous years and one off tax applied the Greece projects.

Cash and Funding Sources

QLI's principal sources of liquidity are cash provided by operations and loans under two loan facilities from banks provided to Club Hotel Loutraki SA and Rhodes Casino S.A. As at December 31, 2009, QLI's consolidated cash and cash equivalents were €31 million.

Cash Flow Statement Data
The table below summarizes the consolidated cash flow for the year and three months ended December 31, 2009 and 2008:

(000' Euro)	**For the three months ending 31 December**		**For the year ending 31 December**	
	2009	2008	2009	2008
Cash flow from (used in) operating activities	3,631	3,730	10,812	27,797
Cash flow used in investing activities	(26,071)	(12,523)	(29,360)	(27,997)
Cash flow used infinancing activities	(947)	(9,331)	(8,460)	(21,165)
Net decrease in cash and cash equivalents	(23,387)	(18,124)	(27,008)	(21,365)
Foreign exchange rate	3,233	3,555	1,991	2,369
Cash and cash equivalents beginning of the period	51,214	71,584	57,015	76,011
Cash and cash equivalents end of the period	31,060	57,015	31,060	57,015

Operating Activities

QLI's consolidated net cash flow from operating activities amounted to €10.8 million for the year ended 31 December 2009. The cash inflows from operating activities is primarily attributable to the profit before tax of €3 million and adjustments of €22.5 million primarily attributable to €10.5 million depreciation and amortisation and €4.4 million loss recognised on obtaining control in an associate , that were offset by €2.4 million decrease in receivables and €10.8 million income tax and interest paid.

For the period of three months ended December 31, 2009 QLI's consolidated net cash flow from operating activities amounted to €3.6 million.

Investing Activities

For the year ended December 31, 2009 QLI's consolidated net cash outflow used for investing activities amounted to €29.4 million. The net cash outflow in the year ended December 31, 2009 is primarily attributable to €21 million cash outflow for for investment in Beograd casino during 2009 and €3 million net cash used for acquisition of subsidiary that was offset by €1.1 million cash inflow from repayment of long term receivables and realization of trading investment of €3.8 million cash inflow.

For the three months ended December 31, 2009, QLI's consolidated net cash used in investing activities amounted to €26.1 million. The net cash outflow, is primarily attributable to €21 million net cash used in acquisition of subsidiary

Financing Activities

QLI's consolidated net cash outflow used for financing activities amounted to €8.5 million for the year ended December 31, 2009. The net cash outflow used for financing activities is primarily attributable to €2.6 million dividends paid to minority shareholders, €3.6 million share profit paid to the Municipality of Loutraki and €1.9 million repayment of Casino Rhodes bank loan.

QLI's consolidated net cash used in financing activities amounted to €0.9 million for the three months ended December 31, 2009. The net cash outflow used for financing activities is primarily attributable to €1 million used for repayment of Casino Rhodes bank loan.

Critical Accounting Policies

The critical 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, 2009
Please refer to the transactions described in section 7 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 and Miri Lent-Sharir.

7. Disclosure Regarding the Remuneration of the Auditor

Remuneration for audit services, for services related to the audit and for tax services for 2009 is €105 thousand for Israel and for the overseas subsidiaries.

Section C- Financial Reports

QUEENCO LEISURE INTERNATIONAL LTD

FINANCIAL STATEMENTS

AS AT DECEMER 31, 2009

QUEENCO LEISURE INTERNATIONAL LIMITED

FINANCIAL STATEMENTS

CONTENTS

Deloitte.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
QUEENCO LEISURE INTERNATIONAL LTD.

We have audited the accompanying consolidated statements of financial position of Queenco Leisure International Ltd. ("the Company") and its subsidiaries ("the Group") as at 31 December 2009 and 2008 and the related consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated cash flows statements of the Group for the years ended 31 December 2009, 2008 and 2007. These financial statements are the responsibility of the Company's management and Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel including those prescribed by the Auditors' (Mode of Performance) Regulations (Israel), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management and Board of Directors, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009 and 2008, and the consolidated results of operations, changes in equity and cash flows of the Group for the years ended 31 December 2009, 2008 and 2007 in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 31 to the financial statements as to certain disagreements the Company encountered with the co-shareholder of 50% in Vasanta in relation with the performance, substance and interpretation of various resolutions adopted at such meetings (some of which affect the decision making process at CHL).

The said have resulted in, among others, to several legal proceedings served against the Company and others. In addition, a motion to approve a derivative claim by a company indirectly controlled by Vasanta, requesting monetary remedies of US$50.5 million was also served against the Company. Such note also describes proceedings initiated by the Company against the co-shareholder in Vasanta with respect to the disagreements between the parties.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu

Israel, 28 March 2010

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QUEENCO LEISURE INTERNATIONAL LTD

Consolidated Statements of Comprehensive Income (Loss)

(In thousands of €)

	Notes	Year ended 31 December		
		2009	2008	2007(*)
Revenues	4	115,020	137,390	142,895
Operating costs				
Cost of revenues	5	(66,458)	(58,614)	(54,918)
Selling and marketing expenses	6	(17,335)	(**)(16,101)	(14,911)
General and administrative expenses	7	(22,057)	(**)(23,329)	(19,959)
Other operating expenses	8	(6,272)	(366)	(492)
Share of results of associated company	16	(658)	(2,203)	(1,351)
Operating profit		**2,240**	**36,777**	**51,264**
Investment income	9	843	3,000	4,933
Finance costs	10	(1,258)	(2,992)	(3,195)
Foreign exchange gain (loss)		1,158	(384)	(61)
Profit before tax		**2,983**	**36,401**	**52,941**
Tax	11	(9,787)	(13,382)	(15,407)
Profit (Loss) for the year		**(6,804)**	**23,019**	**37,534**
Other comprehensive income				
Exchange differences arising on translation of foreign operations		(2,431)	53	(666)
Total comprehensive income (loss) for the year		**(9,235)**	**23,072**	**36,868**
Profit (loss) for the year attributable to:				
Equity holders of the parent		(8,293)	13, 367	25,138
Minority interests		1,489	9,652	12,396
		(6,804)	**23,019**	**37,534**
Total comprehensive income (loss) for the year attributable to:				
Equity holders of the parent		(10,209)	14,369	24,488
Minority interests		974	8,703	12,380
		(9,235)	**23,072**	**36,868**
Earnings (loss) per share				
Basic (¢)	13	(2.3)	3.8	7.6
Diluted (¢)	13	(2.3)	3.8	7.5

(*) The 2007 amounts reflect the 12 months operations for the Group as if the restructuring described in Note 1 had occurred at the beginning of the reporting period starting 1 January 2007

(**) Reclassifications – See Note 2.20

Consolidated Statements of Financial Position

(In thousands of €)

	Notes	As at 31 December 2009	As at 31 December 2008
Non-current assets			
Intangible assets	14	11,313	8,233
Property, plant and equipment	15	126,146	108,322
Investment property	33	3,940	6,994
Associated company	16	-	11,435
Deferred tax asset	17	2,118	2,043
Other long term receivables	18	8,174	12,144
Total non-current assets		**151,691**	**149,171**
Current assets			
Inventories	19	1,053	760
Investments	20	4,841	9,107
Trade and other receivables	21	6,758	4,470
Cash and cash equivalents	22	31,060	57,015
Total current assets		**43,712**	**71,352**
Total assets		**195,403**	**220,523**
Current liabilities			
Accounts payable		(6,695)	(4,941)
Current tax liabilities		(5,089)	(5,352)
Other current liabilities	23	(21,988)	(23,012)
Bank overdraft and loans	24	(17,093)	(16,958)
Total current liabilities		**(50,865)**	**(50,263)**
Net current assets (liabilities)		**(7,153)**	**21,089**
Total assets less current liabilities		**144,538**	**170,260**
Non-current liabilities			
Long-term bank loans	24	(6,634)	(8,536)
Other long-term liabilities	25	(4,113)	(7,286)
Deferred tax	17	(1,313)	(1,795)
Provision for retirement benefits	26	(5,848)	(5,340)
Total non-current liabilities		**(17,908)**	**(22,957)**
Net assets		**126,630**	**147,303**

Consolidated Statements of Financial Position (Cont.)

(In thousands of €)

	Notes	2009	2008
Shareholders' equity			
Share capital	27	62,512	62,512
Share premium		130,998	130,998
Translation reserve		914	2,830
Other reserves	1,2.4	(14,080)	(7,950)
Accumulated deficit	28	(79,158)	(71,495)
Equity attributable to equity holders of the parent		**101,186**	**116,895**
Minority interest		**25,444**	**30,408**
Total Equity		**126,630**	**147,303**

The financial statements were approved by the board of directors and authorised for issue on 28 March, 2010. They were signed on its behalf by:

Ron Be'ery
Executive Chairman of the Board

Itay Koppel
Chief Financial Officer

28 March, 2010

Consolidated Statements of Changes in Equity

(In thousands of €)

	Notes	Share Capital	Share Premium	Translation reserve	Other reserves	Accumulated deficit	Parent	Minority Interest	Total Equity
Balance as at 1 January 2007		**44,173**	**84,827**	**2,478**	**-**	**(86,049)**	**45,429**	**11,599**	**57,028**
Translation differences				(650)	-	-	(650)	(16)	(666)
Costs relating to the Romanian transaction under common control		-	-	-	-	(136)	(136)	-	(136)
Capital issue		7,175	46,171	-	-	-	53,346	-	53,346
Expense resulting from grant of share options		-	-	-	-	954	954	-	954
Issuance of shares in relation to the Romanian transaction under common control		11,164	-	-	-	(11,164)	-	-	-
Conversion of capital notes to equity (*)		-	-	-	-	-	-	9,816	9,816
Purchase of minority interest		-	-	-	-	-	-	5,468	5,468
Dividend (**)		-	-	-	-	(8,752)	(8,752)	(3,553)	(12,305)
Profit share due to the municipality of Loutraki	12	-	-	-	-	-	-	(4,669)	(4,669)
Profit for the year		-	-	-	-	25,138	25,138	12,396	37,534
Balance as at 31 December 2007		**62,512**	**130,998**	**1,828**	**-**	**(80,009)**	**115,329**	**31,041**	**146,370**
Translation differences		-	-	1,002	-	-	1,002	(949)	53
Expense resulting from grant of share options		-	-	-	-	2,224	2,224	-	2,224
Reverse of expense resulting from options granted to former employees		-	-	-	-	(1,070)	(1,070)	-	(1,070)
Loss on cashflow hedge		-	-	(86)	-	-	(86)	-	(86)
Release of cashflow hedge to fixed asset		-	-	86	-	-	86	-	86
Exercise of option for purchase of minority interest (Note 2.4)		-	-	-	(7,950)	-	(7,950)	-	(7,950)
Profit share due to the municipality of Loutraki	12	-	-	-	-	-	-	(4,205)	(4,205)
Dividend (**)		-	-	-	-	(6,007)	(6,007)	(5,131)	(11,138)
Net income for the year		-	-	-	-	13,367	13,367	9,652	23,019
Balance as at 31 December 2008		**62,512**	**130,998**	**2,830**	**(7,950)**	**(71,495)**	**116,895**	**30,408**	**147,303**

(*) Capital notes held with Milimor and Shachar Hamillenium (parent companies)

(**) Representing 1.7 ¢ and 4 ¢ per share for 2008 and 2007, respectively

Consolidated statements of changes in equity (Cont.)

(In thousands of €)

	Notes	Share Capital	Share Premium	Translation reserve	Other reserves	Accumulated deficit	Parent	Minority Interest	Total Equity
Balance as at 1 January 2009		**62,512**	**130,998**	**2,830**	**(7,950)**	**(71,495)**	**116,895**	**30,408**	**147,303**
Translation differences		-	-	(1,916)	-	-	(1,916)	(515)	(2,431)
Expense resulting from grant of share options		-	-	-	-	810	810	-	810
Reverse of expense resulting from options granted to former employees		-	-	-	-	(180)	(180)	-	(180)
Fair value of Put/Call options (Note 1)		-	-	-	(6,130)	-	(6,130)	(1,729)	(7,859)
Profit share due to the municipality of Loutraki	12	-	-	-	-	-	-	(1,623)	(1,623)
Dividend		-	-	-	-	-	-	(2,586)	(2,586)
Net loss for the year		-	-	-	-	(8,293)	(8,293)	1,489	(6,804)
Balance as at 31 December 2009		**62,512**	**130,998**	**914**	**(14,080)**	**(79,158)**	**101,186**	**25,444**	**126,630**

Consolidated Cash Flow Statements

(In thousands of €)

	Notes	Year ended 31 December		
		2009	**2008**	**2007(*)**
Net cash from operating activities	29	**10,812**	**27,797**	**46,280**
Investing activities				
Interest received		767	2,635	4,801
Purchases of property, plant and equipment		(12,067)	(24,013)	(9,983)
Proceeds on sale of property, plant and equipment		79	341	-
Purchase of other intangibles		(214)	(73)	(28)
Advanced on fixed assets		-	(2,509)	-
Investment in an associate		(1,200)	(1,376)	(9,754)
Increase in other long-term receivables		-	(168)	-
Realisation of (Purchases) of trading investments		3,783	(735)	(7,923)
Instalments for the acquisition of a subsidiary		(2,964)	(2,964)	(714)
Repayment of other long-term receivables		1,125	-	-
Investment in a subsidiary net of cash acquired		(18,669)	-	-
Loan to associated company		-	-	(7,585)
Purchase of additional interest in joint venture entity		-	-	(2,153)
Sale of interest in joint venture entity		-	865	-
Net cash used in investing activities		**(29,360)**	**(27,997)**	**(33,339)**
Financing activities				
Dividends paid to minority shareholders		(2,586)	(5,131)	(3,402)
Dividends		-	(6,007)	(8,752)
Purchase of additional interest in joint venture entity		-	(**) (7,950)	-
Repayments of borrowings		(1,900)	(12,420)	(11,730)
Repayments of other long term liabilities		(397)	(1,245)	3,285
Issue of shares, net of expenses		-	-	53,346
Share of profits paid to Municipality of Loutraki		(3,562)	(4,371)	(4,361)
Increase (decrease) in bank overdrafts		(15)	15,959	(250)
Net cash used in financing activities		**(8,460)**	**(21,165)**	**28,136**
Net increase (decrease) in cash and cash equivalents		(27,008)	(21,365)	41,077
Effect of foreign exchange rate changes		1,053	2,369	(305)
Cash and cash equivalents at beginning of the year		57,015	76,011	35,239
Cash and cash equivalents at end of the year		**31,060**	**57,015**	**76,011**
Tax cash flow	22	(10,402)	(18,323)	(14,717)
Interest paid		(877)	(1,212)	(1,208)

(*) The 2007 amounts reflect the 12 months operations for the Group as if the reorganisation described in Note 1 had occurred at the beginning of the reporting period starting 1 January 2007.

(**) Restated – see Note 2.21

NOTE 1- GENERAL INFORMATION

Queenco Leisure International Ltd (formerly Resido Tourism, Development and Vacationing (2002) Ltd) (the “Company” or "QLI") was incorporated in Israel on 9 September 2002 by Milomor Ltd. ("Milomor") and (Y.Z) Queenco Ltd. ("Queenco") (Israeli public companies whose shares are listed for trading in the Tel-Aviv stock exchange), who held, equally, the entire issued and paid up capital of the Company. The Company commenced its operating activities at the end of 2002. The Company's address is 11 Menachem Begin road, Ramat Gan, Israel.

In November 2004, all Milomor's holdings in the Company’s shares were transferred to Shachar HaMilenium (1991) Ltd.,(as of then) an Israeli public company whose shares were also listed for trading on the Tel-Aviv Stock Exchange ("Shachar HaMilenium") in exchange for Shachar HaMilenium's shares. As a result, Shachar HaMilenium, became a subsidiary of Milomor and held 50% of the Company’s shares. In March 2007, Queenco acquired all of Milomor's holdings in Shachar HaMilenium.

The Company's ultimate controlling shareholder is Mr. Yigal Zilka.

The Company’s main activity is investment, through Israeli and foreign companies, (together, “the Group”), in tourist projects, including casinos and hotels, currently mainly in Greece, Romania, Serbia and the Czech Republic. The activities in Greece are in the city of Loutraki and Rhodes Island. The activities in Romania are currently in the city of Bucharest. The activities in Serbia are in the city of Belgrade. The activities in the Czech Republic are in the city of Prague. The Company provides advisory services to part of the projects.

Up until the end of 2002, Milomor and Queenco held their share of the tourist operations in Loutraki, through a private Israeli company, equally owned by them. Such activities in Greece were transferred to the Company's subsidiary by its shareholders for a total consideration, from all investors, of € 405 million at the beginning of 2003. The assets and liabilities transferred were recorded at their book value at the date of the transfer. The difference between the book value and the agreed consideration, totalling € 305 million, was charged directly to equity, resulting in an increase in accumulated deficit.

In November 2006 the Company's ultimate controlling shareholders (as of then) decided to restructure their holdings and to transfer their controlling interest in a Romanian tourist and casino project in Bucharest to the Company. Under this reorganisation it was agreed that the Romanian project would be transferred to the ownership and control of the Company for 62,500,050 newly issued shares of the Company representing 25% of the Company’s equity prior such an issuance. This transaction was accounted for as a re-organisation of entities under common control (Note 2.1(ii)). The transaction was completed on 13 June 2007.

In June 2007, Resido Rhodes Ltd, a subsidiary of the Company, signed an agreement to exchange € 9.8 million of parent loans for capital notes. These capital notes are considered equity instruments and the transaction was conditional on a successful public offering of the Company.

On 3 July 2007, the Company completed an Initial Public Offering of Global Depositary Receipts representing the Company's shares on the London Stock Exchange. Approximately € 53 million net of transaction costs was raised.

Project in Loutraki

The Company indirectly holds, effectively, as at 31 December 2009, 34.1% interest in Club Hotel Loutraki S.A. ("CHL"), a company incorporated in Greece. This holding is mainly through the holding of 50% of the shares of an Israeli company (“Vasanta”). Vasanta meets the definition of a jointly controlled entity under IAS 31.

On 30 September 2007, the Company purchased 6% of the equity of an Israeli Company ("Dasharta"), a subsidiary of Vasanta, and as a result, purchased corresponding 6% economic interest in Agastia (see below), from a minority interest.

(in thousands of Euro unless otherwise stated)

On 23 June 2008, the Company granted an option to Club Hotel Group (the holder of the other 50% interest in Vasanta) for the purchase of half of the economic interests that QLI had acquired from the minority interest on 30 September 2007. This option was exercised on 20 August 2008. As of the date of these accounts, the 6% of the issued share capital of Dasharta are registered, formally, under the name of Yodan Trust Company Ltd. Checks provided to the Company by the Club Hotel Group for the exercise of the option in an aggregate amount of € 4 million have been already cashed. Upon the payment of additional checks provided by the Club Hotel Group, Club Hotel Group's rights in the 3% of Dasharta's shares (out of the 6%) will be vested.(See also Notes 9, 18 and 21).

78% of the equity of CHL is held by Powerbrook Spain S.L, a company controlled indirectly by Vasanta and the parent company of CHL ("PBS") . Following the exercise in 2008 of a call option granted to Agastia, an holding company controlled by Vasanta, Agastia has monitory rights to 98.75% of the profits of PBS, until accumulated free cash flow (as defined in shareholders' agreement) reaches additional € 267 million (as at 31 December 2009). Once accumulated free cash flow has reached this level, the third party shareholder (Casino Austria) has rights to 12.5% of additional profits, and related share in PBS's equity. The cash consideration for the exercise of the call option was € 15 million. Pursuant to the exercise of the call option described above, and the decrease in the holdings of Casino Austria, the Company is of the opinion, based on the shareholders agreement, that Casino Austria is entitled to appoint only one board member (rather than the two currently serving in PBS's board of directors (see also Note 31 as to disagreements with the co-shareholder in Vsanta).

See below under "Project in Belgrade" regarding an irrevocable offer received by Vasanta with respect to PBS shares.

Through a Ministerial decision dated 14 February 1995, a consortium ("koinopraxia") comprising of CHL and ATEKL S.A. (a company wholly owned by the Municipality of Loutraki) were awarded a licence to operate a casino in the Loutraki area, near Athens. Through an agreement (the "Agreement") between the two parties, it was agreed that the management and control of the casino operations shall rest with CHL. and the profit sharing arrangement would be as follows:

	CHL	**ATEKL S.A.**
First 7½ years	88%	12%
Thereafter to 15th year	86%	14%
Thereafter to 38th year	84%	16%
Thereafter to 50th year	50%	50%

After the 50th year the casino licence reverts wholly to ATEKL S.A. Any reference to the Municipality in this report should be strictly interpreted as reference to ATEKL S.A., which is effectively its participating arm in this business arrangement. The casino commenced operations on 14 September 1995.

In accordance with the gaming licence agreement CHL was obliged to construct a hotel. The construction of the hotel was completed and the hotel commenced operations on 24 July 2002. The ownership of the hotel will transfer to ATEKL S.A. on 15 February 2033 in accordance with an agreement dated 24 May 2002.

During September 2007 the exclusivity period for the Loutraki casino license ended. As at the date of these accounts, the Greek gaming committee has neither awarded any new licenses nor indicated that it intends to issue additional licenses.

Project in Rhodes

The Company holds, through Israeli and foreign companies under its control, 91.6% of the issued and paid up share capital of the Greek company known as Rhodes Casino S.A. (the "Rhodes Casino"), which has a license from the Greek Government, for an unlimited period, commencing 10 June 1996, for operating a casino and hotel in the city of Rhodes. The financial statements of the Rhodes Casino are fully consolidated.

The Rhodes Casino operates a casino on the island of Rhodes under the casino operation license ("the License") granted by the Hellenic State through a company controlled by it and in which the Rhodes Casino is entitled to 80% of the profits. The Hellenic State has guaranteed through Law 2206/1994 that no other casino operation license shall be granted apart from those mentioned in the respective law for a period of twelve years. The period of twelve years for the Company commenced on 2 April 1999 when the Hellenic State verified the completion of the casino construction, and approved the final issuance of the license and the effective commencement of operations.

The casino operates in a building that has a rental agreement from the Municipality of Rhodes up to the year 2026. According to the License, the Rhodes Casino had to renovate the existing building into a luxurious hotel. The hotel renovation was completed and operations commenced on 1 May 2002.

In September 2007 Rhodes Casino signed an MOU with a local Greek company and Emporiki Bank in regards to the building of a marina and a residential project on Rhodes Island. This agreement is designed to fulfil the investment obligation within the terms of the casino license. Under this MOU, Emporiki Bank resolved to provide finance of € 59 million through non-recourse loans. During December 2007 the Gaming Committee met to decide on the proposal outlined in the MOU. Due to opposition from Rhodes Municipality, the Gaming Committee did not opine on whether the MOU fulfilled the aforementioned obligation. As such, according to the legal advisors of the Group, it is expected that an extension will be granted to allow Rhodes Casino and Emporiki Bank more time to identify suitable projects in order to satisfy the obligation. As per the opinion of the legal advisors of the Rhodes Casino, the chances of the revocation of the license as a result of the above are remote.

Projects in Romania

Following the completion of the reorganisation described above, The Company holds, through Israeli and foreign corporations under its control, 83.3% of the issued and paid up share capital of a Romanian company known as Queen Investments Inc. S.R.L. (the "Palace Casino"), which has a license from the Romanian Government, for operating a casino and hotel in the city of Bucharest. This licence needs to be annually renewed. The financial statements of the Palace Casino are fully consolidated and as if the reorganisation described above had occurred at the beginning of the earliest reporting period presented: 1 January 2007 (see also Note 2.1 (*ii*)).

The Palace Casino provides gaming services. The major source of the Palace Casino's revenues is derived from gaming operations. A subsidiary of the Palace Casino is its provider of food and beverage for casino players and also holds a separate restaurant within the same building where also the casino is located.

In 2006, a building was acquired for a total of € 1.9 million near the casino in Bucharest. Such building was initially designated for the construction of a boutique hotel near the casino. Following reconsideration, management has decided to change it plans and to offer the asset for sale while leasing it to a third party until such a sale is consummated. As a result and 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. As at 31 December 2009, the building is presented as investment property.

In October 2007 Queen Investments Inc. S. R. L. ("Queen Investments") attained concession rights over a historic building in Constansa for a period of 49 years. The Company, trough Queen Investments, intends to renovate and operate the building as "Casino Constansa". Queen Investments has entered into contractual obligations of approximately € 0.1 million per annum in this respect. There is a further obligation to invest € 10 million in the project. Queen Investments is currently examining its ability of changing or terminating its liabilities with respect to the project

In 2008, land was acquired for a total of € 1.6 million, near the planed 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 it plans and to offer the land for sale. As a result and based on a evaluation performed by an independent appraisal, an impairment charge of € 0.6

million was recorded in the Statement of Comprehensive Loss for the year ended 31 December 2009. As at 31 December 2009, the land is presented as investment property.

Project in Belgrade

In December 2005, Grand Casino d.o.o Belgrade (hereinafter: "the Serbian Company") won a tender for the acquisition of a license for the exclusive operation of a casino for a period of 10 years in Belgrade, the capital of Serbia. In its bid, the Serbian Company undertook to pay the amount of € 18 million in return for the license and also to transfer a total of at least € 18 million in turnover taxes to the state of Serbia during the ten years of casino operations.

On 31 December 2008, CHL, entered into an agreement with Casino Austria AG ("CAAG") for the purchase from CAAG of 51% of the shares of a Serbian Company (the "Purchased Shares"), for a purchase price of Euro 42 million (CHL held, prior to the closing of the transaction, 39% of the shares of the Serbian Company). At the beginning of March 2009, all conditions for the closing were met and the Serbian Company's financial information is consolidated starting 31 March 2009. Until that date, the Group's proportional share (39%) of the Serbian Company was included in the financial statements under the Equity Method. The Company has received a legal opinion stating that the resolution of the board of directors of CHL dated 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 resolution, Therefore, the Company views the Belgrade transaction as valid.

Casino Austria International Holding GmbH ("CAIH"), an affiliate of CAAG, has additionally 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 as defined. This option expired on 20 June 2009.

In addition, Vasanta's board of directors resolved, at its meeting on 28 April 2009, to accept the irrevocable offer that it received from CAIH, (the "Offer") to enter into an agreement pursuant to which CAIH will have an option (the "Call Option") to purchase from PBS and Vasanta will have an option (the "Put Option") to cause PBS to issue and sell to CAIH, ordinary shares of PBS constituting 11.74% of the fully diluted share capital of PBS. The call option expired on 31 August 2009. On 3 September 2009, Vasanta received a letter from CAIH extending the exercise period of the Put Option until 31 March 2010.

The exercise price of the Put Option is Euro 49.5 million. In addition, Vasanta's board of directors resolved that, upon exercise of the Put option, PBS, a company controlled by Vasanta, will be responsible for the payment of Euro 5.25 million to Casino Austria Greece GmbH ("CAGG"), resulting from certain outstanding amounts related to transactions between CAGG and Agastia Holdings Ltd., a 50% indirect subsidiary of the Company, during 2002.

There is no assurance that the Put option will be exercised.

This transaction has been accounted for by the purchase method of accounting. As a result, an impairment charge of € 8,717 thousand was recorded by CHL representing the loss from deemed disposal of CHL's 39% holdings in the Serbians Company prior to the transaction. The Groups 50% share in such charges is included in other operating expenses in the statement of comprehensive loss for the year ended 31 December 2009.

(in thousands of Euro unless otherwise stated)

Assets acquired and liabilities assumed at 31 March 2009:

Net assets acquired	
Property, plant and equipment	15,594
Intangible assets	4,377
Inventories	65
Trade and other receivables	6
Trade and other payable	(1,613)
	18,429
Fair value of Put/Call options (Note 1)	7,859
Cancellation of intercompany balance	(7,619)
Total consideration	18,669
Satisfied by:	
Cash	21,000
	21,000
Net cash outflow arising on acquisition:	
Consideration	21,000
Cash and cash equivalents acquired	(2,331)
	18,669

The additional acquisition of the 51% of the shares of the Serbian Company contributed a loss of € 2,299 thousand to the Group's results of operations for the period between the date of acquisition and 31 December 2009.

If the acquisition had been completed on the first day of the 2009 financial year, Group revenues for the year ended 31 December 2009 would have been € 116,268 thousand and Group loss would have been € 7,164 thousand.

In September 2006, CHL acquired a company which owns the asset in which the casino is located for a consideration of € 15 million. The Serbian Company leases the asset for a period of 10 years. This asset was designated as an investment property until control was acquired over the operations of the Serbian Company and as a fixed asset since then.

Grand Casino d.o.o. underwent a soft opening on 30 June 2007 and fully opened during February 2008.

Project in Prague

The Company has opened on March 2009, an entertainment centre in the city of Prague, the Czech Republic. The entertainment centre includes a restaurant and a club. Total investment by the Company in the project was € 10.7 million.

Real estate in Bulgaria

The Company holds, through a wholly owned Israeli subsidiary, 70% interest in a private company registered in Bulgaria. The financial statements of the company in Bulgaria are fully consolidated in the Group's consolidated financial statements.

The company in Bulgaria has the right to be registered as the owner of certain real estate properties in Bulgaria. Those assets were initially designated for future use as a tourist project, and accordingly were presented until 31 December 2008 as part of the Group's fixed assets.

Following reconsideration, management has decided to change it plans and to offer the assets for sale. As a result, as at 31 December 2009, the assets were presented as an investment property under the cost method of accounting in an amount of € 1.6 million.

The fair value of the assets as of such date, based on an evaluation performed by an independent appraisal, is approximately € 5.2 million.

Land in Cambodia

In February 2007, a foreign interest 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.

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. With this regard, the Group has contacted a local Cambodian entity to help the Group in the obtainment of the needed permits for the tourist project, for 10% of the projects rights, subject to the obtainment of 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 these accounts, 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.

Financial statements under International Financial Reporting Standards ("IFRS")

The Company prepares its financial statements under IFRS as adopted by the EU.

At the date of authorisation of these financial statements, the main following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IAS 17 Leases
IAS 28 (R) Investments in Associates
Amendments to IAS 39 Financial Instruments: Recognition and Measurement
Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations
Amendments to IAS 32 Financial Instruments: Presentation
IFRIC 17 Distributions of Non-cash Assets to Owners

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

NOTE 2- SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are set out below:

2.1 Basis of Presentation

(i) General

The consolidated financial statements have been prepared in accordance with IFRS. IFRS comprise standards and interpretations approved by the International Accounting Standard Board ("IASB") and Standing Interpretations Committee and IFRIC interpretations by the IASB that remain in effect.

The consolidated financial statements are presented in Euro as the majority of the operations of the Group are denominated in Euros. Thus, the Euro is the Group's presentation currency.

(ii) Effect of reorganisation on financial information

As explained in Note 1, the reorganisation involved entities under common control. Therefore these consolidated financial statements have been prepared to reflect the financial position and results of operations for the year ended 31 December 2007 as if the reorganisation had taken place on 1 January 2007, the earliest period presented in these financial statements.

The reorganisation has been reflected by combining the balance sheets of the combining entities. The offsetting entry was recorded in accumulated deficit, which was then eliminated upon legal issuance of the 62,500,050 shares on 13 June 2007.

2.2 Use of Estimates

The preparation of the accompanying consolidated financial statements in accordance with IFRS requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the stated amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2.3 Basis of consolidation

(i) Subsidiaries

Subsidiaries are those entities controlled, directly or indirectly, by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities in which the Company has a direct or an indirect significant influence, but not control, over the financial and operating policies. Associates are included in the consolidated financial statements under the equity method of accounting under which the investment is initially stated at cost and increased or decreased by the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iii) Jointly controlled entities

Jointly controlled entities are those entities over whose activities the Group has joint control under contractual arrangement. The financial statements include the Group's proportionate share of the jointly controlled entities' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

(iv) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised gains arising from intra- Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.4 Business Combinations

The acquisition of subsidiaries until March 2008 was accounted for using the purchase method of accounting, under IFRS 3. According to IFRS 3, the cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority’s proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

See below for the early adoption of new and revised standards.

Purchase of minority interest and increase in stake in a consolidated and in a proportionally consolidated entity

Until March 2008, in the event of the increase of a stake in a consolidated and in a proportionally consolidated entity whilst retaining control or joint control, the Group applied purchase accounting to the portion of the assets newly acquired. The proportion of the fair value of assets acquired was assessed and the purchase price was allocated according to the fair value of these assets. Any unallocated consideration was allocated to goodwill. See below with respect to the early adoption of IFRS 3 (Revised) and of IAS 27 (Revised).

Adoption of new and revised standards

The Group has elected to adopt the following from 1 April 2008, in advance of their effective dates (effective for accounting periods beginning on or after 1 July 2009):

- IFRS 3 (Revised) Business Combinations; and
- IAS 27 (Revised) Consolidated and Separate Financial Statements

The principal changes to the Standard are:

- A greater emphasis on the use of fair value, potentially increasing the judgement and subjectivity around business combination accounting, and requiring greater input by valuation experts;

- Focussing on changes in control as a significant economic event – introducing requirements to remeasure interests to fair value at the time when control is achieved or lost; and

- Focussing on what is given to the vendor as consideration, rather than what is spent to achieve the acquisition. Transaction costs, changes in the value of contingent consideration, settlement of pre-existing contracts, share-based payments and similar items will generally be accounted for separately from business combinations and will generally affect profit or loss.

The adoption of IAS 27 (Revised) has changed the Group's policy with respect to transactions with non controlling interests (minority interests) resulting in the recognition directly in equity of the impact of all transactions between controlling and non-controlling shareholders not involving a loss of control. The acquisition of a minority interest in PBS which falls within the scope of IAS 27 (Revised), resulted in a recognition directly in equity of excess cost of € 7,950 thousand. In the past, the Group has accounted for the purchase of minority interests using purchase accounting. Consequently the fair value of purchased assets was recognised in the financial statements and goodwill or negative goodwill recognised as appropriate. However IAS 27 (Revised) requires accounting for increases or decreases in a parent's ownership interest that does not result in a loss of control, as equity transactions of the consolidated entity. This change in accounting policy has been applied prospectively, in accordance with the transitional provisions of IAS 27 (Revised).

In addition, the Group applied the revised standards on the acquisition of controlling interest in Casino Belgrade by using the Discounted Cash Flow model (DCF) and discount rate of 13.1%, resulting in a charge of € 4,358 thousand for the loss on deemed disposal with respect to CHL's 39% holdings in the Serbian Company prior to the transaction (see also Note 1).

2.5 Foreign currency

(i) Foreign currency transactions

The New Israeli Shekel ("NIS") is the Company's functional currency. The Euro is the Group's presentation currency, due to the majority of the Group's activities being denominated in Euro.

Transactions in foreign currencies, currencies other than those of each of the functional currencies of Group entities, are translated to the functional currency of the relevant entity within the Group at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of each of the Group's entities at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency of each of the Group's entities at foreign exchange rates ruling at the dates that the fair values were determined. Non-monetary items, which are measured in terms of historical cost in a foreign currency, are translated using the exchange rate at the date of the transaction.

(ii) Financial statements of entities whose functional currency is other than the Euro

The Group's operating entities use the currency of the country in which they are domiciled as their functional currency, as this best reflects the economic substance of the underlying events and circumstances relating to that entity. Each entity within the Group translates its foreign currency transactions and balances into its functional currency as described in 2.5(i).

For consolidation purposes, the following translation process from each functional currency into the presentation currency of the Group is applied:

- The assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Goodwill and fair value adjustments arising on the acquisition of an acquired company are treated as assets and liabilities of the acquired company. These items are translated at the closing rate.

- The income statements are translated at average exchange rates for the year, weighted for the importance of economic events during the year for each functional currency.

- The exchange differences arising from the translation are taken directly to equity

(in thousands of Euro unless otherwise stated)

- The exchange differences arising on a monetary item that forms part of a net investment in a foreign operation is taken directly to equity in the consolidated financial statements. On disposal of a foreign entity, accumulated exchange differences are recognised in the income statement as a component of the gain or loss on disposal.

2.6 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group is consolidating its business segments into one reporting segment based on the respective provisions of IAS 14 (up to and including 2008) and IFRS 8 (since 2009).

Geographical information:

Revenues reported in the financial statements derive from the Company's country of domicile (Israel) and foreign countries based on the location of the customers, are as follows:

	Year ended December 31,		
	2009	**2008**	**2007**
Israel	120	57	18
Greece	92647	115,185	123,316
Romania	16,205	22,103	19,478
Other foreign countries	6,048	45	83
	115,020	137,390	142,895

The carrying amounts of non-current assets (fixed asset, investment property and intangible assets) in the Company's country of domicile (Israel) and in foreign countries based on the location of the assets are as follows:

	Year ended December 31,	
	2009	**2008**
Israel	1,338	854
Greece	91,158	96,467
Romania	6,241	5,839
Other foreign countries	32,662	20,389
	131,399	123,549

2.7 Revenue recognition

Gaming revenue is the net win from gaming activities, which is the difference between gaming wins and losses, and is stated net of direct tax on gross gaming revenue as required by IAS 18.

Other revenues are measured at the fair value of the consideration received or receivable and represent amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and special tax on entrance tickets.

Interest income is accrued on a time basis on the principal outstanding.

(in thousands of Euro unless otherwise stated)

2.8 Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is charged on a straight-line basis at the following annual rates, which are estimated to write the assets off over their estimated useful life.

Classification	**Rate**
Building and building installations	3% - 20%
Casino gaming electric and electronic equipment	15% - 25%
Casino gaming tables and accessories	10% - 30%
Vehicles	15%
Computers	30%
Furniture and equipment	10% - 30%

2.9 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets, are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets.

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

2.10 Leases

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable or receivable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

2.11 Provisions for retirement benefits

The Group has not established any separate retirement benefit plan for its retiring employees as their pension liability is primarily covered by state or other sponsored funds. Employees are required to contribute a certain percentage of their salaries to those funds with the employer also contributing a defined portion. Such contributions are expensed as incurred for as required by IAS19. Upon retirement, the funds are liable for paying retirement benefits.

Israeli law and labour agreements determine the obligations of the Group to make severance payments to dismissed employees of its Israeli companies and to employees leaving employment under certain other circumstances. The obligation for severance pay benefits, as determined by Israeli law, is based upon length of employment and the employee’s most recent salary. The liability is substantially covered through insurance policies.

The Group has no obligations upon retirement of personnel of the Palace Casino in Romania.

Upon retirement, personnel of the CHL and Rhodes Casino, are entitled to a retirement payment which is equal to 40% of the amount that would be payable in case of involuntary termination calculated according to the provision of Greek Labour Law, which takes into account the employees compensation on retirement and the length of service with the Greek companies. For this unfunded defined benefit retirement benefit plan the cost of providing the benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date.

Actuarial gains and losses which exceed 10% of the present value of the Group's pension obligations, are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past-service cost.

2.12 Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. A deferred tax asset is only recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profits will be available against which unused tax losses can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

2.13 Investments

Investments held by the Group are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

The fair value of investments available-for-sale is their quoted bid price at the balance sheet date. If a fair value cannot be determined reliably, investments available-for-sale are stated at cost.

Available-for-sale investments are recognised / de-recognised by the Group on the date of transfer of the investments.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less selling costs.

2.15 Intangible Assets

Intangible assets other than goodwill are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

In Loutraki, the gaming license has been amortised over a period of 12 years ended in 2007 and the donation (see Note 14) has been amortised over the remaining period of exclusivity of the gaming licence, which was 5 years (at the year the donation was made) ended in 2007. In the Rhodes Casino, the gaming license is amortised over a period of 12 years ending in 2011. In Belgrade, the gaming license is amortised over a period of 10 years ending in 2015.

2.16 Impairment

The carrying amounts of the Group's noncurrent assets, other than deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible fixed assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amounts of the cash generating units (CGU's) are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units.

An impairment loss is reversed, except in respect to goodwill, if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

2.17 Fair Value

The Group's financial assets and liabilities consist mainly of cash and banks, receivables and payables. Fair value represents the amount at which an asset could be exchanged or liability settled on arms length basis. Where in the opinion of management, the fair values of financial assets and liabilities differ materially from their book values; such fair values are disclosed in the notes to the financial statements.

(i) Foreign currency risk management

The Group generates revenues and pays expenses mainly in Euro and Romanian Lei (until toward the end of 2007, also in US dollars). Wherever possible, contracts are drawn in Euro. In all other contracts the currency risk is assessed, and where considered necessary, hedging into Euro is undertaken or local currencies depending upon the currency of the contract expenditure.

(ii) Interest rate risk management

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 that are invested to earn interest income, and by arrangements with financial institutions for borrowing facilities to be available at market rates in the case of short-term cash shortages. Surplus funds are placed with "A" grade financial institutions and in money market securities.

(iii) Credit risk management

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

2.18 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its historical depreciated cost at the balance sheet date. . Depreciation is charged on a straight-line basis at the annual rates of 0%-4%, which are estimated to write the assets off over their estimated useful life.

2.19 Share based payment

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the year.

Fair value was measured by use of a binomial model for options granted in 2009 and in 2008 (Black &.Scholes model for options granted in 2007) The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

2.20 Reclassifications

Following examinations made by CHL's management CHL's management has decided to change the allocation of certain professional services in CHL, amounting in 2008, in CHL, to € 1,182 thousand and to present them under Selling and Marketing expenses rather than as General and Administrative expenses as previously presented in 2008.

2.21 Restatement

The consolidated cash flow statement for the year ended 31 December 2008 was restated in order to reflect the correction of an error in the presentation of the payment of € 7,950 thousand made following the exercise of an option for the purchase of minority interest as part of cash from operations and not, as appropriate, as part of the cash used in financing activities. As a result, cash from operations and cash used in financing activities increased to Euro 27,797 thousand and Euro 21,165 thousand, respectively (from the Euro 19,847 and Euro 13,215 thousand, respectively previously reported).

NOTE 3- Critical accounting judgements and key sources of estimation uncertainty

Critical judgements and estimations in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

Judgments with respect to provisions and contingent liabilities including those with respect to tax, legal proceedings and actuarial assumptions in respect of the calculation of retirement provisions. See Note 31 for further details of these provisions.

(in thousands of Euro unless otherwise stated)

There are key management assumptions, regarding the valuation of the share options granted, including expected volatility, and the risk free rate (see Note 34 for further details).

In addition, management applies judgements in its examination of the existence of indications for impairments and for the impairment charges recorded.

NOTE 4- REVENUE

	Year ended 31 December		
	2009	2008	2007
Gross gaming revenue	**155,022**	**190,771**	**199,266**
Food and beverage revenue	4,336	2,354	2,588
Entrance tickets (net)	1,447	1,047	1,030
Hotel revenue	1,340	1,470	1,806
Rental revenue	155	115	135
Sundry revenue	859	684	903
Total other revenue	**8,137**	**5,670**	**6,462**
Total Revenue	**163,159**	**196,441**	**205,728**
Tax on gross gaming revenues	(45,368)	(55,506)	(59,071)
Municipality tax	(2,771)	(3,545)	(3,762)
Revenue per income statement	**115,020**	**137,390**	**142,895**

NOTE 5- COST OF REVENUES

	Year ended 31 December		
	2009	2008	2007
Staff costs	39,499	37,833	33,037
Food and beverage	2,686	2,083	2,063
Maintenance	893	456	628
Rent	1,861	1,700	1,405
Utilities	1,785	1,543	1,498
Amortisation	1,286	873	1,187
Depreciation	10,434	7,558	7,864
Greek Tourist Organisation – duties	954	965	959
Serbian Lottery Duties and fees	249	-	-
Other	6,811	5,603	6,277
Total	**66,458**	**58,614**	**54,918**

(in thousands of Euro unless otherwise stated)

NOTE 6- SELLING AND MARKETING EXPENSES

	Year ended 31 December		
	2009	2008	2007
Advertising and marketing expenses	16,026	14,739	13,940
Junketeers	489	470	273
Staff costs	820	892	698
Total	**17,335**	**16,101**	**14,911**

NOTE 7- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December		
	2009	2008	2007
Staff costs	11,002	11,084	8,351
Audit fees	637	642	485
Other professional services	4,894	4,140	5,486
Gratuities, donations	966	1,422	1,122
Bank charges	200	218	141
Other costs	4,358	5,823	4,374
Total	**22,057**	**23,329**	**19,959**

NOTE 8- OTHER OPERATING EXPENSES

	Year ended 31 December		
	2009	2008	2007
Loss from deemed disposal on obtaining control in an associate (Note 1)	4,358	-	-
Impairment of fixed assets	1,672	-	-
Other costs	242	366	492
Total	**6,272**	**366**	**492**

NOTE 9- INVESTMENT INCOME

	Year ended 31 December		
	2009	2008	2007
Gain on marketable securities	76	-	132
Interest on bank deposits and loans granted	767	3,000	3,356
Profit on purchase of minority interest	-	-	2,890
Loss on grant of derivative instrument	-	-	(1,445)
Total	**843**	**3,000**	**4,933**

(in thousands of Euro unless otherwise stated)

On 30 September 2007, the Company purchased 6% of the shareholding in Dasharta, a jointly controlled entity from a minority interest. Dasharta is the company that indirectly holds PBS. This represented a purchase of 3% of a minority interest in Loutraki and increased its proportionally consolidated holding in the same project by 3%. See note 2.4 for further details of the accounting treatment. After the Purchase Price Allocation was completed in January 2008, it was determined that the investment had been bought at a discount to fair value, resulting in negative goodwill. This has been recognised as a profit in 2007.

Both in the acquisition contract and in announcements to the Public, QLI declared its intentions to make an offer to QLI's partner in the Loutraki project (the owner of the other 50% in Vasanta), to purchase half of the additional investment in the Loutraki project that QLI had purchased, at half of the consideration that QLI had paid for the full investment. The loss on the grant of this derivative instrument has been recognised immediately at fair value. Since then, and until the exercise of the offer, the derivative instrument has been revalued at the end of each reporting period , and the loss is recognised in the Income Statement. See also Notes 1 (Project in Loutraki) and 10 for more details.

Details of the consideration, assets and liabilities purchased, and results of the purchase price allocation are displayed below:

Total consideration (*)	11,567
Additional interest in net assets purchased (**)	5,557
QLI share of fair value adjustments	
Licence	8,886
Building	2,228
Client base	753
Deferred tax	(2,967)
Total fair value purchased	**14,457**
Negative goodwill	**2,890**

(*) The total consideration consists of an initial payment of € 3.5 million and € 2.3 million annually for four years, commencing September 2008.

(**) Net assets consist of 6% of the shares in Dasharta and a Shekel denominated capital note with a face value of € 14.8 million (as at the date of the transaction). This capital note represents a loan to Agastia and is eliminated upon consolidation.

NOTE 10 - FINANCE COSTS

	Year ended 31 December		
	2009	**2008**	**2007**
Interest on borrowings	1,258	2,510	2,936
Loss on revaluation of derivative instrument (*)	-	482	259
Total	**1,258**	**2,992**	**3,195**

* See Note 9 for more details.

(in thousands of Euro unless otherwise stated)

NOTE 11 - TAX

	Year ended 31 December		
	2009	**2008**	**2007**
Current tax	7,150	13,180	15,991
In respect of prior years	3,569	99	92
Deferred tax (Note 17)	(932)	103	(676)
	9,787	**13,382**	**15,407**

In Israel, normal income taxation for the year ended 31 December 2009 is calculated at 26% (2008: 27%, 2007: 29%) of the estimated assessable profit for the year. On 25 July 2005 an amendment to the Israeli tax law was approved by the Israeli parliament. This amendment states that the corporate tax rate will be reduced in subsequent tax years as follows: in 2009 26% and thereafter 25%. On July 23, 2009 an additional amendment was approved according to which rates imposed on Israeli companies will be further reduced, in a phased manner, from the 25% in 2010 to 18% in 2016.

Based on an agreement reached with the Israeli tax authorities in 2002, the Company paid the tax authorities an amount of approximately € 3 million as taxes with respect to the transfer to it of the holding the casino in Loutraki. This payment covers Vasanta's tax liability with respect to the Company's taxable income resulting from the operations in Loutraki up to an amount of € 405 million.

The Company has at 31 December 2009 a net operating loss carried forward in an amount of approximately € 9.9 million for which no asset was recorded.

For Greece based projects, normal income taxation for the year ended 31 December 2009 was calculated at 25% (2008: 25%, 2007: 25%) of the estimated assessable profit for the year.

As part of a new tax reform in Greece, corporate tax rates will be reduced, in a phased manner, from the mentioned 25% in 2009 to 20% in 2014 and thereafter.

In addition, dividends paid by a Greek company to a non-EU shareholder or to a Greek shareholder will be subject to a 10% withhold tax in Greece. Such withhold tax will apply also to any other payment to shareholders, board members, employees and more.

As per the holding structure, to the best knowledge of the Company, such withholding tax will not apply on its holding in CHL. However, such a withholding tax will apply on the Group's holding in the Rhodes Casino (held by another Greek company). The Group is in a process of evaluating the situation and the possibility and feasibility of a change in the holding structure.

In October 2009 a joint venture owned by CHL (the."JV") and the tax authorities in Greece reached an agreement regarding a tax assessment for the years 2007 and 2008. According to the agreement, the JV agreed to pay an additional tax for the years 2007 and to 2008 which is lower by Euro 1.2 million from the amount provided by it with respect to such years. Tax provisions in CHL were adjusted accordingly, resulting in a tax income of € 610 thousand in the Company's consolidated financial statements for year ended 31 December 2009

According to a tax law issued at the end of 2009 in Greece, a special one-off tax was applied on the 2008 taxable income of companies in Greece. The tax is applicable also to CHL and the Rhodes Casino and was calculated on a scaled basis on the taxable income of 2008. As a result, the Company's 2009 consolidated statement of comprehensive loss, includes a tax charge €3.4 million with respect to such tax.

For Romanian based projects, the Group pays tax depending on the activity undertaken. During years 2007-2009, the Casino is subject to the greater of 16% of gross profit and 5% of income from gambling. The income from gambling is represented by the income obtained at table games and slot machines. The Restaurant in 2009 is subject to 16% tax rate applied to gross profit (as in 2008 and 2007)

See also Note 31 with respect to tax contingencies in Greece and in Romania.

The charge for the year can be reconciled to the profit per the income statement as follows:

(in thousands of Euro unless otherwise stated)

	Year ended 31 December		
	2 0 0 9	**2 0 0 8**	**2 0 0 7**
Profit before tax:	**2,983**	**36,401**	**52,941**
Tax at the Israeli corporation tax rate of 26% (2008: 27%; 2007: 29%)	776	9,828	15,353
Tax effect of share of results of associated company	171	595	(392)
Tax effect of expenses that are not deductible in determining taxable profit	2,675	1,442	1,425
Losses for which no deferred tax asset was recognized	2,984	2,683	188
Effect of lower tax rate on interest income	(43)	(124)	-
Tax effect of change in future tax rates	(279)	215	-
Tax effect of utilisation of tax losses not previously recognised	(22)	(224)	(1,252)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(44)	(1,132)	(7)
Effect of tax for prior years (*)	3,569	99	92
Tax expense for the year	**9,787**	**13,382**	**15,407**
Effective tax rate	**228.1%**	**36.6%**	**29.1%**

(*) The effect of tax for prior year includes in 2009 the amount of € 3,417 thousand for the one- time special tax contribution in Greece mentioned above. The 2009 effective tax rate excluding such tax is 108.4%.

Taxation for other jurisdictions, which was immaterial for all periods presented, is calculated at the rates prevailing in the respective jurisdictions, as described above.

NOTE 12 - SHARE OF PROFITS OF THE MUNICIPALITY OF LOUTRAKI

The share of profits of the Municipality of Loutraki has been computed at the agreed rate as noted in Note 1. There are certain disputes over the basis of computation, particularly in connection with the expenses that should be incurred by each party participating in the joint venture, and the fact that the Municipality has not provided all the property it undertook to provide in terms of the Agreement. Refer Note 31.

(in thousands of Euro unless otherwise stated)

NOTE 13 - EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

Earnings

	Year ended 31 December		
	2009	2008	2007
Earnings (loss) for the purposes of basic and diluted earnings per share being net profit (loss) attributable to equity holders of the parent	(8,293)	13,367	25,138
Number of shares used for EPS calculation (*)	353,365,670	353,365,670	332,765,020
Number of shares used for diluted EPS calculation (*)	353,365,670	353,365,670	333,800,369

* The number of shares used for the EPS calculation reflects the 62,500,050 shares issued on 13 June 2007 for the Romanian assets as if they had been issued on 1 January 2007 because this was accounted for as a reorganisation of entities under common control.

NOTE 14 - INTANGIBLE ASSETS

	Gaming Licences	Goodwill	Other intangibles	Total
Cost				
Balance as at 01 January 2008	**20,170**	**2,273**	**1,038**	**23,481**
Additions	32	-	41	73
Disposals	-	-	(2)	(2)
Transfer	58	-	(67)	(9)
Exercise of an option granted to the other shareholder in a jointly controlled entity (*)	(4,543)	-	(528)	(5,071)
Exchange differences	(11)	-	(9)	(20)
Balance as at 31 December 2008	**15,706**	**2,273**	**473**	**18,452**
Additions	52	-	162	214
Acquisition through business combination (Note 1)	7,935	-	-	7,935
Exchange differences	(220)	-	(2)	(222)
Balance as at 31 December 2009	**23,473**	**2,273**	**633**	**26,379**

(in thousands of Euro unless otherwise stated)

Accumulated amortisation				
Balance as at 01 January 2008	**9,080**	**-**	**655**	**9,735**
Amortization for the year	785	-	118	903
Disposals	-	-	(2)	(2)
Transfers	397	-	(406)	(9)
Exercise of an option granted to the other shareholder in a jointly controlled entity (*)	(189)	-	(206)	(395)
Exchange differences	(7)	-	(6)	(13)
Balance as at 31 December 2008	**10,066**	**-**	**153**	**10,219**
Amortization for the year	1,246	-	99	1,345
Acquisition through business combination	3,559	-		3,559
Exchange differences	(55)	-	(2)	(57)
Balance as at 31 December 2009	**14,816**	**-**	**250**	**15,066**
Net book value as at 31 December 2009	**8,657**	**2,273**	**383**	**11,313**
Net book value as at 31 December 2008	**5,640**	**2,273**	**320**	**8,233**

In accordance with the agreement with the Municipality of Loutraki, CHL was obliged to construct a convention centre on Municipality owned property as a donation to the Municipality of Loutraki. As the donation served as an integral part in securing the casino licence, the cost of the construction was capitalized and amortised on a straight line basis over the remaining period of the exclusivity of the gaming licence which was the five- year period ending in 2007. This figure has been included within the cost of gaming licences.

(*) For more details see Note 9 above.

(in thousands of Euro unless otherwise stated)

NOTE 15 - TANGIBLE FIXED ASSETS

	Land, Building & Installations	Casino Gaming Electric &Electronic Equipment	Furniture And Equipment	Vehicles	Assets Under Construction	Total
Cost						
Balance as at 01 January 2008	**103,633**	**19,010**	**24,718**	**795**	**2,849**	**151,005**
Additions	17,353	2,063	2,518	236	1,843	24,013
Disposals	-	(594)	(99)	(214)	-	(907)
Transfers	6,577	2,480	(1,126)	163	(2,164)	5,930
Exercise of an option granted to the other shareholder in a jointly controlled entity (*)	(4,885)	(771)	(926)	(29)	-	(6,611)
Exchange differences	(899)	(369)	(34)	-	(172)	(1,474)
Balance as at 31 December 2008	**121,779**	**21,819**	**25,051**	**951**	**2,356**	**171,956**
Additions	1,829	3,176	2,469	1,384	3,209	12,067
Disposals	-	-	(8)	(181)	-	(189)
Acquisition through business combination (Note 1)	12,889	2,485	2,784	-	-	18,158
Reclassification from other long term receivables	-	-	-	2,509	-	2,509
Reclassification from Investment property	7,500	-	-	-	-	7,500
Reclassification to Investment property	(3,635)	-	-	-	(1,741)	(5,376)
Transfers	(746)	(778)	734	(7)	(35)	(832)
Exchange differences	(698)	(219)	(246)	(13)	(1,089)	(2,265)
Balance as at 31 December 2009	**138,918**	**26,483**	**30,784**	**4,643**	**2,700**	**203,528**
Accumulated Depreciation						
Balance as at 01 January 2008	**24,679**	**12,481**	**20,147**	**552**	**474**	**58,333**
Additions	3,491	2,159	1,679	111	-	7,440
Disposals	-	(382)	(43)	(125)	-	(550)
Acquisition through business combination						
Reclassification						
Transfers	(62)	3,801	(2,375)	89	(474)	979
Exercise of an option granted to the other shareholder in a jointly controlled entity (*)	(716)	(576)	(685)	(26)	-	(2,003)
Exchange differences	(291)	(251)	(21)	(2)	-	(565)
Balance as at 31 December 2008	**27,101**	**17,232**	**18,702**	**599**	**-**	**63,634**

(in thousands of Euro unless otherwise stated)

	Land, Building & Installations	Casino Gaming Electric &Electronic Equipment	Furniture And Equipment	Vehicles	Assets Under Construction	Total
Additions	5,268	2,648	2,448	81	84	10,529
Disposals	-	-	(1)	(51)	-	(52)
Acquisition through business combination	1,275	725	564	-	-	2,564
Reclassification from Investment property	506	-	-	-	-	506
Reclassification to Investment property	(1,017)	-	-	-	(419)	(1436)
Impairment	608	-	-	645	419	1,672
Transfers	(64)	(620)	(146)	(2)	-	(832)
Exchange differences	(195)	(138)	1,151	(2)	(19)	797
Balance as at 31 December 2009	**33,482**	**19,847**	**22,718**	**1,270**	**65**	**77,382**
Net book value as at 31 December 2009	**105,436**	**6,636**	**8,066**	**3,373**	**2,635**	**126,146**
Net book value as at 31 December 2008	**94,678**	**4,587**	**6,349**	**352**	**2,356**	**108,322**

The land includes 2,864 square metres situated in Livathaki, Loutraki of which 940 square metres is given to the municipality of Loutraki to widen the road, secure the building permit and to secure access to the property.

(*) For more details see Note 9 above.

NOTE 16 - ASSOCIATED COMPANY

	As at 31 December 2008
Cost of investment in associated company	15,128
Share of post acquisition profit (loss)	(4,011)
Elimination of intercompany transactions	318
Total	**11,435**

In 2005, CHL acquired 39% interest in Grand Casino d.o.o, a company incorporated in Belgrade, whose principal activity is casino gaming. Grand Casino d.o.o was awarded a casino gaming licence in Belgrade in December 2005. Gaming operations commenced on 30 June 2007. In accordance with the acquisition agreement CHL's share of losses in the associate was 43.33% while the share of profits is 39%.

See Note 1 regarding the acquisition of additional 51% in Grand Casino d.o.o, completed in March, 2009.

Details of the associated company are as follows:

Balance sheet

	As at 31 December 2008
Total assets	54,289
Total liabilities	5,620
Net assets	48,669

Profit and loss

	Year ended 31 December		
	2009(*)	**2008**	**2007**
Gross revenue	2,496	15,127	3,167
Loss before income tax	(2,712)	(9,724)	(6,894)
Income tax	676	(779)	-
(Loss) for the period	**(2,036)**	**(10,503)**	**(6,894)**
Group's share of associates loss	**(658)**	**(2,203)**	**(1,351)**

(*) For the three months ended 31 March 2009, until control was acquired.

NOTE 17 - DEFERRED TAX ASSET

	As at 31 December	
	2009	**2008**
Net deferred tax assets:		
Balance beginning of year	2,043	2,465
Exercise of an option granted to the other shareholder in a jointly controlled entity	-	(83)
Movement for the year	75	(339)
Balance end of year	2,118	2,043
Net deferred tax assets comprise:		
Accrued liabilities	422	363
Restructuring asset (*)	754	764
Provision for retirement benefit	928	839
Owned fixed assets and license fees	14	140
Total deferred tax assets	**2,118**	**2,106**
Deferred tax liabilities		
Owned fixed assets and license fees	-	(60)
Capitalised finance leases	-	(3)
Net deferred tax assets	**2,118**	**2,043**

	2009	2008
Net deferred tax liabilities:		
Balance beginning of year	(1,795)	(3,473)
Exercise of an option granted to the other shareholder in a jointly controlled entity	-	1,442
Acquisition through business combination	(375)	-
Movement for the year	857	236
Balance end of year	(1,313)	(1,795)
Net deferred tax liabilities comprise:		
Accrued liabilities	6	44
Provision for retirement benefit	224	216
Provisions	34	34
VAT provision	134	134
Deferred tax assets	**398**	**428**
Deferred tax liabilities		
Owned fixed assets and license fees	(484)	(628)
Fair value adjustment in respect of intangible assets	(1,086)	(1,414)
Debt forgiveness	(141)	(181)
Net deferred tax liabilities	**(1,313)**	**(1,795)**

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets and liabilities are offset and included net only when their release will be offset against one another either because they arise in the same entity for tax purposes, because of tax law in the relevant tax jurisdiction or because assets and liability in different tax entities arise because of the same event.

(*) Following the transfer of the project in Loutraki to the Group in January 2003, the Company reached an agreement with the Israeli tax authorities that resulted in a one-off payment of NIS 15 million (approximately € 3 million). This resulted in a NIS 7 million (approximately € 1.4 million) deferred tax asset arising from temporary differences regarding the transfer of the project. This asset has been amortised as temporary differences have been realised.

NOTE 18 - OTHER LONG TERM RECEIVABLES

	As at 31 December	
	2009	**2008**
Advances for the acquisition of fixed assets	-	2,509
VAT receivable	3,188	3,388
Loan to Agastia (*)	3,132	3,109
Jointly controlling shareholder in Vasanta (Note 1)	1,030	2,009
Other	824	1,129
	8,174	**12,144**

(*) The loan is linked to the dollar and carried interest of LIBOR+2% per annum. The repayment date has not been determined.

NOTE 19 - INVENTORIES

Comprised, for all periods presented, of food and beverage and hotels' consumables and cleaning materials.

NOTE 20 - INVESTMENTS

	As at 31 December	
	2009	**2008**
Short-term deposit (*)	715	938
Money market funds	4,126	8,169
	4,841	**9,107**

(*) Of the above, € 715 thousand is placed with Piraeus Bank, a related party of CHL. Interest rate is 2% per annum. Such amount is used as a guaranty for the payment of a current maturity of a long term liability.

NOTE 21 - TRADE AND OTHER RECEIVABLES

	As of 31 December	
	2 0 0 9	2 0 0 8
Jointly controlling shareholder in Vasanta- current maturity (Note 1)	1,086	1,086
Accrued interest and prepayments	2,598	929
Trade receivables	562	701
Income tax paid in advance	356	68
Advance to related party	162	124
Other receivables from related parties	211	1,047
Other	1,783	515
Total	**6,758**	**4,470**

NOTE 22 - CASH AND CASH EQUIVALENTS

	As at 31 December	
	2 0 0 9	2 0 0 8
Cash on hand	7,155	8,992
Cash at banks	18,848	33,033
Time deposits	5,057	14,990
Total	**31,060**	**57,015**

Of the above amounts 2009: € 4,977 thousand; 2008: € 20,300 thousand; was placed with Piraeus Bank, a related party of CHL, interest rates vary from 0.5% to 1.7% per annum as at 31 December 2009.

In addition, approximately € 3,377 thousand is represent cash on hand that is restricted for use as per the casinos' licenses

NOTE 23 - OTHER CURRENT LIABILITIES

	As at 31 December	
	2 0 0 9	2 0 0 8
Parent companies	62	63
Liability to the Municipality of Loutraki	1,233	3,169
Employee related liabilities	6,119	6,189
Taxes and duties	5,426	5,853
Accruals and provisions	3,012	2,199
Related Parties	1,038	314
Customer prepayments and chips	833	473
Short-term portion of long-term liabilities	2,875	2,838
Cheques payable	268	403
Other	1,122	1,511
Total	**21,988**	**23,012**

NOTE 24 -BANK LOANS

Short term credit

	As at 31 December	
	2 0 0 9	**2 0 0 8**
Consisting of:		
Overdraft and short term credit (*)	15,043	15,058
Bank loans falling due within one year	2,050	1,900
Total	**17,093**	**16,958**
Bank Loans – in Euro	**8,684**	**10,436**
Less: Total falling due within one year	(2,050)	(1,900)
Total long-term portion	**6,634**	**8,536**

The terms of repayment as of 31 December are as follows:

	2 0 0 9	**2 0 0 8**
Within one year	2,050	1,900
In the second year	2,200	2,050
In the third year	2,260	2,200
In the fourth year	2,174	2,260
In the fifth year and after	-	2,026
Total	**8,684**	**10,436**

Bank Loans – in Euro

The loan was granted to the Rhodes Casino.

The loan bears effective interest of EURIBOR +2.25% per annum spread + 0,6% contribution Law 128/75 (3.84% as at 31 December 2009) .The loan is repayable in 16 instalment (. September and December of each year) commencing on 31 December 2005 with the last instalment due on 30 September 2013.

The loan is secured by a pledge of the shares of the Rhodes Casino with a right of the lender to vote in case Rhodes Casino is in default.

(*) The short term loan above amounts 2009: € 15,000 thousand; 2008: € 15,019 thousand; is from Piraeus Bank, a related party of CHL, interest rate: 2.8% per annum as at 31 December 2009.

A pledge

Pursuant to the Share Pledge Agreement dated 8 August 2003, there is a pledge for the favour of BAWAG, not yet removed, on 69.322.500 shares, i.e. 78% of the share capital of "Club Hotel Loutraki, S.A.", owned by PBS.

Interest rate risk

Total interest costs for 2009 were € 1,006 thousand (2008: € 1,736 thousand; 2007: € 1,728 thousand). Interests were EURIBOR + 0.6-2.85%. If interest rates were 1% higher during 2009, these would have increased to € 1,318 thousand, and if interest rates had been 1% lower these would have decreased to € 695 thousand.

Liquidity risk

The Group has € 17 million falling due within 2010 and additional €6.6 million falling due after 2010. The majority of the amount falling due in 2010 (€ 15 million) derives from CHL. As to the best knowledge of the Company, CHL intends to manage liquidity by funding the repayment from cash flow from operating activities, and if necessary by obtaining bank credit.

NOTE 25 - OTHER LONG TERM LIABITIES

	As at 31 December	
	2009	2008
Fair value of cash settled stock options	81	-
Consideration for Casino Rhodes	693	1,340
Consideration for the purchase on minority interest (Note 1)	4,267	6,259
Other (payment terms yet not determined)	1,947	2,525
Total	**6,988**	**10,124**
Less: Short-term portion	(2,875)	(2,838)
Other long-term liabilities	**4,113**	**7,286**

Consideration for Casino Rhodes represents the present value of the outstanding consideration due for the purchase of 36.96% of Rhodes Casino S.A. purchased on 10 September 2004. Consideration for the purchase on minority interest represents the present value of outstanding consideration due for the purchase of 6% in Dasharta, on 30 September 2007.

As at 31 December 2009, the present value of the .other long-term liabilities is repayable as follows:

30 August 2010	2,875
30 August 2011	2,085
	4,960
Less: portion falling due within one year	(2,875)
Total	**2,085**

The present value has been determined using a rate of 4.68%-5.23% per annum.

NOTE 26 - PROVISIONS FOR RETIREMENT BENEFITS

Israeli law and labour agreements determine the obligations of the Group to make severance payments to dismissed employees of its Israeli companies and to employees leaving employment under certain other circumstances. The obligation for severance pay benefits, as determined by Israeli law, is based upon length of employment and the employee’s final salary. The liability is substantially covered through purchased insurance policies.

According to Greek Law, the Group is obliged to indemnify those of its employees and lawyers on retainer who are either dismissed without cause or retire. The amount payable is dependent on the employee’s final salary and the years of service. This retirement portion equals 40% of the amount payable on dismissal and represents an unfunded benefit plan.

The Group's liability with respect to employees in Romania and Serbia is immaterial..

The movement in the net liability in the current period is as follows:

	Year ended 31 December		
	2009	2008	2007
At 1 January	5,340	4,835	3,990
Amounts charged to income	910	981	1,044
Liabilities acquired through business combinations	57	-	215
Exercise of an option granted to the other shareholder in a jointly controlled entity	-	(306)	-
Benefits paid directly by the Company	(368)	(170)	(414)
Exchange differences	(91)	-	-
Balance 31 December	**5,848**	**5,340**	**4,835**

Amounts recognised in the income statement are as follows:

	Year ended 31 December		
	2009	2008	2007
Service cost	471	633	619
Interest cost	182	195	172
Extra payments	257	153	253
Total	**910**	**981**	**1,044**

The amount included in the balance sheet is as follows:

	As at 31 December	
	2009	2008
Present value of obligation	4,375	4,004
Unrecognised actuarial gain	1,497	1,361
Unrecognised past service cost	(24)	(25)
Net liability recognised in balances	**5,848**	**5,340**

The key assumptions used are as follows:

	Year ended 31 December		
	2009	2008	2007
Discount rate	5.21%	5.7%	4.8%
Expected rate of salary increases – depending on salary level	1.5%-2.5%	4%-4.5%	4.5% - 5.0%
Inflation	2.5%	2.5%	2.5%

The expected rate of salary increases for December 2009 takes into account the CHL's and Casino Rhodes's commitments to a 10% increase upon completion of 3, 6, 9 and 12 years services for employees earning less than or equal to an average of € 2.5 thousand per month as at 31 December 2009.

Defined Contribution Plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The Group has not established any separate retirement benefit plan for its retiring employees as their pension liability is primarily covered by state sponsored funds. Employees are required to contribute a certain percentage of their salaries to those funds with the employer also contributing a defined portion. Payments made to state sponsored funds are dealt with as payments to defined contribution plan as the Group's obligations and limited to the contribution paid. Upon retirement, the state funds are liable for paying retirement benefits.

Note 27 - SHARE CAPITAL

	As at 31 December	
	2009	2008
Number of ordinary shares, 1 New Israeli Shekel par value each:		
Authorised	500,000,000	500,000,000
Issued and fully paid as at 01 January	353,365,670	353,365,670
Issued and fully paid as at 31 December	353,365,670	353,365,670

NOTE 28 - NON DISTRIBUTABLE RESERVES

In accordance with Greek corporate legislation, which applies to CHL and the Rhodes Casino, an amount of 5% of the annual profits, as legally defined, must be transferred to a statutory reserve in the Greek entities from which no dividend can be distributed. This obligation ceases when the reserve equals to one third of the issued share capital. The legal reserve may be distributed only upon the dissolution of the Greek companies or can be utilised to offset accumulated losses. The total non-distributable reserves in CHL and in the Rhodes Casino are approximately € 18 million as at 31 December 2009.

NOTE 29 - NOTES TO THE CASH FLOW STATEMENTS

	YEAR ENDED 31 DECEMBER		
	2009	**2008**	**2007**
Profit before tax	**2,983**	**36,401**	**52,941**
Adjustments for:			
Depreciation of property, plant and equipment	10,529	7,672	8,315
Increase (decrease) in provisions	880	503	670
Loss on sale of property, plant and equipment	59	16	-
Amortisation of intangible assets	1,345	903	1,219
Impairment	1,672	-	-
Loss from deemed disposal on obtaining control in an associate (Note 1)	4,358	-	-
Investment income	(843)	(3,000)	(4,933)
Finance costs	1,258	2,992	3,195
Foreign exchange loss (gain)	(1,158)	384	61
Profit from negative goodwill	-	-	(1,445)
Expense relating to grant of share options	711	1,154	954
Share of results of associates	658	2,203	1,351
Operating cash flows before movements in working capital	**22,452**	**49,228**	**62,328**
Decrease (increase) in inventories	(237)	(19)	(196)
Decrease (increase) in receivables	(2,360)	668	(399)
Increase (decrease) in payables	2,236	(*) (2,545)	472
	22,091	**47,332**	**62,205**
Cash generated by operations			
Income taxes paid	(10,402)	(18,323)	(14,717)
Interest paid	(877)	(1,212)	(1,208)
Net cash from operating activities	**10,812**	**27,797**	**46,280**

*** Restated – see Note 2.21**

Increase in interest in proportionally consolidated entity

	2009	2008	2007
Consideration paid	-	-	3,500
Less: cash received	-	-	(1,347)
Investment in subsidiary	-	-	2,153

Investment in a subsidiary net of cash acquired

	2009	2008	2007
Consideration paid	(21,000)	-	-
Less: cash received	2,331	-	-
Investment in subsidiary	(18,669)	-	-

NOTE 30 - CAPITAL COMMITMENTS

(a) Commitments

In accordance with the terms of the casino licence and the agreement with the Municipality of Loutraki, CHL has undertaken to construct a 700-berth marina within 42 months after being granted the necessary permits and licences. CHL has handed to the relevant authorities its plans which however, are delayed by the archaeological committee. CHL Management estimates the cost of construction of the marina will amount to approximately € 35 million.

Management anticipate that if the archaeological committee bid to abandon plans to the marina are successful, CHL will be obligated under an alternate commitment.

See Note 1 with respect to commitments in Romania.

(b) Operating lease commitments

	As at 31 December		
	2009	2008	2007
Within one year	1,224	1,409	336
In the second to fifth years inclusive	3,542	4,784	1,322
Total	4,766	6,193	1,658

NOTE 31 - CONTINGENT LIABILITIES

THE COMPANY

The Company encountered certain disagreements with the co-shareholder of 50% in Vasanta. Such disagreements resulted in, inter alia, the frequent and lengthy convening of shareholders meetings and board meetings of the companies directly and indirectly controlled by Vasanta as well as the 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 companies directly and indirectly controlled by Vasanta, the decision making process at such boards of directors, the flow of information to the shareholders of the companies and the distribution of dividends by such companies to their respective shareholders.

As of the date of these accounts, the Company has been encountering difficulties in obtaining part of the information from CHL that is needed by the Company.

The said have resulted in several legal proceedings served against the Company as well as proceedings initiated by the Company against Club Hotel Group and (to the best knowledge of the Compnay), B.A.T's ultimate controlling shareholder, Mr. Moshe Bublil,and other disputes such as :

1. A dispute related to the amendment of the article of association of CHL upon which all board resolutions passed by simple majority and according to the Company was improperly adopted.
2. A dispute as to the presence of Vasanta`s representative in the board of directors of PBS. The Company believes that this resolution was never been duly passed.

In addition, dividend in an amount of € 10 million distributed by CHL to PBS and in which the Company's share is € 5 million, was not further distributed to the Company.

Legal Proceedings served against the Company and others:

(a) On January 20, 2010 the Company, the Company's wholly-owned subsidiary QLI Management and a third party a 8.53% shareholder in Dasharta, a company controlled by Vasanta ("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 meeting with respect to the need to appoint another director in Dasharta in order to solve 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, the court rejected B.A.T.'s request for provisional remedies.

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 on those meetings were duly passed, valid and in accordance with Dasharta's Bylaws and that there is no ground for an approval of a derivative claim.

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

(b) On January 31, 2010 the Company, QLI Management and Mr. Zilkha, the controlling shareholder of the Company and the representative of QLI Management in its capacity as a director of Agastia, a company indirectly controlled by Vasanta ("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 rejects the forgoing claims and filed an opposition on March 21, 2010, stating that the claim has no legal ground due to various reasons including: (1) the Company and Mr. Zilkha have operated in the gaming industry many years prior to their joint holding of Agastia; (2) the

Company and Mr. Zilkha have operated casinos other than through Agastia; and (3) there are no restrictions on competition between the Company, Mr. Zilkha and Agastia.

As for B.A.T.'s additional claim, the Company stated that it had received no such purchase offer.

According to the Company's legal counsels' opinion, due to the strength of the Company's arguments, the likelihood of an unfavourable outcome against the Company is less than 50%.

(c) The Company, QLI Management and Mr. Beery, the Company’s Chairman, were served with a motion to issue restraining orders, filed with the Tel Aviv District Court by Mr. Nisan Khakshouri (the ultimate shareholder of 8.53% in Dasharta) and a company owned by him.

The motion was filed against 20 respondents, including Mr. Moshe Bublil and companies controlled by him, various companies from the Club Hotel group, certain Israeli companies through which certain shareholders of the Loutraki Casino hold their shares therein, PBS, CHL, various directors in the foregoing companies (including Mr. Be`ery) and others (collectively, the "Respondents").

On February 15, 2010, the court rejected Khakshouri's request for provisional remedies. In addition, a request to cancel the restraining orders has been filed.

Legal Proceedings initiated by the Company:

On January 18, 2010, QLI Management, 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 PBS, in which Agastia holds 87.5%. Such amendments relate to (i) the amending of PBS's articles such that the number of directors of PBS shall be reduced from nine to five and that the required majority for the adoption of resolutions by the board of directors of PBS 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 PBSk, and (iii) amending of PBS's articles in a way that all free and remaining cash flow shall be distributed to PBS's shareholders on annual basis.
QLI Management claimed that failure by B.A.T to cooperate with QLI Management 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 PBS and (ii) the Company's inability to cause PBS to distribute free cash flow to its shareholders, including to the Company (through its indirect holdings in PBSk).
According to the legal counsels`s opinion, at this stage it is not possible to assess the outcome of the motion.

GENERAL TAX CONTINGENCIES

According to Greek tax legislation and practice, a company’s tax position is only finalised after its books and records have been examined by the tax authorities and are found to be adequate and accurate. The methods employed by the tax authorities in their examinations are largely subjective within the regulatory provisions of the tax legislation framework and the tax audit approach is oriented towards form rather than substance. On the basis of the above it is not uncommon to disallow certain expenditure and assess additional tax thereon or question in certain areas the reliability of the accounting books and records as a basis for determining the taxpayer’s final taxable income.

The taxation system in Romania is at a continuous stage of development and is subject to varying interpretations and to constant changes, which may be retroactive. Although the actual tax due on a transaction may be minimal, penalties can be significant as they may be calculated based on the value of the transaction and are at a minimum 0.10% per day but can be well in excess of this. In Romania, tax periods remain open for tax audits for 5 years.

CLUB HOTEL LOUTRAKI

(a) As noted in Note 12 there are certain disputes over the basis of computation of the share of profits of the Loutraki Municipality in CHL, particularly in connection with the deductibility of certain expenses in order to arrive at the profit on which the Municipality is entitled to its share and interest for late payment. No provision has been made for any additional amount that the Company may agree to pay for the period January 1999 to 31 December 2009 as CHL Management believes it will be insignificant.

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(b) There is a claim representing 371 employees against CHL who claim that CHL should include tips in their night and weekend/public holiday salary rates. The claim is retroactive from 1 January 1998 and up to 31 December 2003. The hearing was tried on the 23 March 2007, and was rejected. In 2009, 515 Employees (included are also 371 employees from the initial case) made the same claim for the period from 1 January 2004 and up to 31 December 2004. Since the initial case was rejected, no provision has been made by CHL.

(c) Several other lawsuits are pending against CHL amounting to € 1,465 thousand mainly relating to claims by former employees. CHL has provided an amount of € 600 thousand based on its legal advisor opinion.

(d) The Group has given ATEKL cheques amounting to € 6,000 thousand security for its share of profits.

(e) There are claims by three individuals totaling € 190 thousand for being refused entry to the Casino, three claims by individuals for an amount of € 395 thousand for suffering injuries in the casino hall and one claim for € 685 thousand for unfair loss. No provision has been made, as the Company's lawyer believes that the claims have remote chances of being successful.

(f) There is a claim from the company "Ernesto Schwartzer Project Management Ltd" the project manager of the construction of the hotel for an amount of € 1,695 thousand. No provision has been made, as the Company's lawyer believes that this claim has remote chances of being successful.

(g) The Joint Venture is subject to a tax audit for the year ending 31 December 2009 .CHL SA is subject to a tax audit from 1 January 2006 to 31 December 2009.

(h) There is a claim from Municipality of Loutraki (DAET) of € 1,773 thousand regarding the computation of its share of profits as the Municipality claims prior year tax audit differences related to years 2002 to 2004 should not be included in their share of profits. No provision has been made, as the Company's lawyer believes that this claim has remote chances of being successful.

(i) There are two claims by the former financial director of JV DAET - CHL S.A. via his company "Financial Management Consultants Euro Ltd" owned for a total amount of € 6,998 thousand. The latter claims that certain financial consulting services provided to CHL S.A. and JV DAET - CHL S.A. during the years 1999 to 2006 were not paid. In addition there is a claim by the former financial director for further damages amounting € 4,125 thousand. No provision has been made, as the Company's lawyer believes that this claim has remote chances of being successful.

CASINO RHODES

(a) Casino Rhodes was subject to a Tax Audit on its 1999 and 2000 accounting periods.

In the course of the Tax Audit, the Tax Auditors noted various tax penalties that were imposed on Rhodes Casino in 2000, 2001 and 2002 in relation to the 1999 and 2000 accounting periods relating to the Code of Books and Records Code (P.D. 186/1992) as so significant and rendered the Casino Rhodes's accounting books for the audited accounting periods "inadequate and inaccurate" and, hence, referred this issue to the Special Ministry of Finance Committee that is competent to administratively rule on the adequacy and accuracy of taxpayers' accounting books.

The Ministry of Finance Committee issued Decision 20/2005 and concluded that the Casino Rhodes's accounting books for the 1999 and 2000 accounting periods could not be considered as inaccurate, but were inadequate.

On 29 December 2005, the Tax Auditors issued their Tax Audit Report and assessed additional taxes and penalties amounting to € 16 million based on rejection of the Casino Rhodes's books as "inadequate" and determined taxable profits based on a Net Profit Rate on Revenues thereby rejecting any assessable losses

Casino Rhodes disagrees with the assessment and has appealed against these Assessments with the Athens Administrative Court of First Instance. Casino Rhodes's legal advisors have concluded that the legal validity and reasoning of the counter arguments available to Rhodes Casino to support its appeal, lead to the conclusion that Rhodes Casino has substantial legal argumentation and good chances to achieve the cancellation of the tax assessments in question by the Greek Administrative Courts in the course of the tax litigation process, hence no provision has been made.

Casino Rhodes remains subject to a tax (income and VAT) audit for the period 2001 through to 31 December 2009. Consequently any additional liability and the repercussions (financial and/or other), if any, are carried out, cannot be determined with reasonable accuracy.

The Tax Authorities issued an order dated October 3, 2006 to commence the tax audit of, a subsidiary of Casino Rhodes, for the years 2001-2002. To date the tax audits is currently in progress.

(b) A claim by 66 employees requesting in total € 434 thousand in respect of employer contributions for social security funds deducted from tips paid to them. No provision has been made as the outcome of the case cannot be determined.

(c) One claim by an individual amounting to € 300 thousand for being refused entry to the casino. The court hearing was set for 3 June 2010.

(d) Several other lawsuits are pending against Rhodes Casino mainly relating to claims by former employees requesting to hire them back. No provision has been made, as the outcome of the claims cannot be determined.

(e) According to the License granted by the Hellenic State, the license holder is committed to:

(i) Pay a special annual duty of € 587 thousand to the Hellenic Tourism Organisation (EOT).

(ii) Pay a gaming tax to the Hellenic State equal to the 30% of revenues from gaming operations.

(iii) To realise investments amounting to €58.7 million on the island of Rhodes and to participate in the shareholding of Rodon Development Company, which in turn will propose and manage these investments. The Ministry of Development – Casinos Directorate has granted an extension for these investments up to 13 September 2007.

The opinion of the Casino Rhodes's attorney and management is that in this respect Emporiki Bank, the previous major shareholder, has retained the obligation to finance these investments. As such, according to the legal advisors of the Group, it is expected that an extension will be granted to allow Rhodes Casino and Emporiki Bank more time to identify suitable projects in order to satisfy the obligation. As per the opinion of the legal advisors of the Rhodes Casino, the chances of the revocation of the license as a result of the above are remote.

(iv) To create approximately 336 new job positions. The Gaming Committee with a letter dated 18 July 2006 informed Casino Rhodes that they need to employ 336 employees by the end of 30 September 2006. The number of employees as of 31 December 2009 amounts to 294. The Company appealed against the Gaming Committee decision as the interpretation of this requirement by Rhodes Casino and its legal advisor is that Rhodes Casino needs to create a total of approximately 336 positions comprising full time, part time and seasonal positions at any one point in time. The final decision of the appeal has not been issued yet, however a draft decision was issued in favour of the company, stating that the company is oblige to employee 366 part and full time employees. Casino Rhodes's lawyer's opinion is that there is no risk that the casino licence may be revoked as a result of the above.

(f) The Rhodes Casino has leased from the Municipality of Rhodes the building in which the casino and the hotel are located, for a period up to 31 December 2026. Monthly rent is computed as 2% of casino gross revenue, hotel and other sundry revenue. Annual rent cannot be less than € 147 thousand adjusted annually based on inflation (since 1997). The related amounts have been accrued in the accompanying financial statements.

PARUGE

A claim by a subcontractor in a total amount € 400 thousand was filed against the Company with respect to the construction of the amusement centre in Prague. Based on the legal advisor's opinion, the Group has provided an amount of € 50 thousand for this claim.

NOTE 32 - RELATED PARTIES

(a) Transactions and amounts due to/due from related parties are as follows:

	Sale (Purchase) of Services	Amounts due from/(due to) Related Parties
For the year ended 31 December 2009		
Y.Z. Queenco (*)	(95)	86
Shachar HaMillenium (*)	-	(63)
Queen (*)	(75)	67
Queen (*)	104	-
Mr Yigal Zilka (**)	-	9
Mr Yigal Zilka (**)	(703)	(513)
Total	**(769)**	**(414)**
For the year ended 31 December 2008		
Y.Z. Queenco (*)	(87)	82
Shachar HaMillenium (*)	-	(63)
Queen (*)	57	22
Windview limited	-	(60)
Mr Yigal Zilka (**)	(316)	(294)
Total	**(346)**	**(313)**
For the year ended 31 December 2007		
Y.Z. Queenco (*)	(338)	(684)
Shachar HaMillenium (*)	(17)	(611)
Milimor (*)	63	(309)
Queen (*)	-	(60)
Windview limited	257	15
Total	**(35)**	**(1,663)**

(*) Controlling shareholder
(**) Ultimate controlling shareholder

The holding company and ultimate holding company respectively of the Group are Shachar HaMillenium Ltd. and Y.Z. Queenco Ltd. whose shares are listed for trading on the Tel Aviv Stock Exchange.

(b) Compensation of key management personnel

The remuneration of directors' and other members of key management during the following years were:

	2009	2008	2007
Short-term compensation of key management	1,102	1,145	1,041
Compensation to the Chairman of the board with respect to prior year	304	105	-
Share based compensation of key management	608	1,100	821
Board of directors fees	123	90	28
Total	**2,137**	**2,490**	**1,890**

The Chief Executive Officer, Chief Finance Officer, Chief Operations Officer and the Chairman of the Board of Directors are considered as key management personnel.

(c) Other related party transactions

Transactions with banks who are related parties to CHL are described in Note 21.

For shre based payments see Note 34.

NOTE 33 – INVESTMENT PROPERITES

Cost	
Balance as at 01 January 2008	**7,950**
Exercise of an option granted to the other shareholder in a jointly controlled entity (*)	(450)
Balance as at 31 December 2008	**7,500**
Reclassification to Tangible fixed assets	(7,500)
Reclassification from Tangible fixed assets	5,376
Balance as at 31 December 2009	**5,376**
Accumulated amortisation	
Balance as at 01 January 2008	**298**
Amortization for the year	225
Exercise of an option granted to the other shareholder in a jointly controlled entity (*)	(17)
Balance as at 31 December 2008	**506**
Reclassification to Tangible fixed assets	(506)
Reclassification from Tangible fixed assets	1,436
Balance as at 31 December 2009	**1,436**
Net book value as at 31 December 2009	**3,940**
Net book value as at 31 December 2008	**6,994**

(*) For more details see Note 9 above.

Fair value	
At 31 December 2009	7,574
At 31 December 2008	10,471

The fair value of the Group’s investment properties at 31 December 2009 has been arrived at on the basis of a valuation carried out to that date by independent appraisals. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

NOTE 34 – SHARE BASED PAYMENTS

Equity-settled share option scheme

In April 2007, it was resolved that subject to the completion of the listing of the Company's securities on the London Stock exchange, the Company's ultimate controlling shareholder, will be granted with stock options, exercisable at the listing price, representing 3% of the Company's equity following the completion of the reorganisation mentioned in Note 1 and the listing. Stock options representing a further 2.5% of the Company's equity after the reorganisation and listing were granted to senior management and directors (as of then), exercisable at 80% of the listing price, contingent on the same terms as the aforementioned options. Toward the end of 2008, certain senior management staff has left the Group and as a result, a portion of the options granted to them was not vested at the time they left, and was forfeited.

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 Board of Directors Chairman ("Chairman "). In addition to the stock options for an amount of shares equal to 1.3% of the Company’s issued share capital granted to the Chairman, stock options for an amount of shares equal to 0.3% of the Company’s issued share capital were granted to one of the Company's senior management. The total value of the benefits embodied in the stock options granted is €0.5 million. 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). The Chairman may sell the vested stock options to the Company at a price that correlates to the increase in the market price of the Company's parent company's shares.

As part of the abovementioned stock option plan dated August 2009, the Company, during January 2010, granted stock options to three seniors management 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.

Details of the share options outstanding during the year are as follows.

	2009		2008	
	Number of share options	**Weighted average exercise price (in €)**	**Number of share options**	**Weighted average exercise price (in €)**
Outstanding at beginning of period	2,222,803	11.55	2,056,590	12.73
Granted during the period	571,745	4.2	742,068	8.00
Forfeited during the period	(970,167)	8	(575,855)	11.20
Outstanding at the end of the period	1,824,381	10.73	2,222,803	11.55
Exercisable at the end of the period	501,055	13.71	262,904	13.59

	Outstanding at 31 December 2009			Exercisable at 31 December 2009	
Exercise Prices (€)	**Number of outstanding GDR options**	**Weighted average Remaining life**	**Weighted average Exercise price (€)**	**Number of exercisable GDR options**	**Exercise price (€)**
		(in years)			
4.2	742,068	5.25	8.00	-	4.2
11.2	358,975	4.00	11.20	65,438	11.20
14.0	1,121,760	4.00	14.00	560,880	14.00
	1,824,381		10.73	501,055	13.71

The inputs into the Binomial model are as follows:

	2009 €	2008 €
Weighted average share price	2.73-3	7.8
Weighted average exercise price	4.2	8
Expected volatility	41%	37%
Expected life	6	6
Risk-free rate	2. 5%-2.75%	3.92%
Expected dividends	0%	0%

Expected volatility was determined by calculating the historical volatility of QLI's parent company's (Y.Z. Queenco) share price over the previous 1 year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The group recognised total net expense of € 711 thousand, € 1,154 thousand and € 954 thousand related to equity-settled share-based payment transactions in 2009, 2008 and 2007, respectively.

NOTE 35 – FINANCIAL RISK MANAGEMENT

Foreign exchange risk

The Group generates revenues and pays expenses mainly in Euro and in Romanian Lei (up toward to end of 2007 also in US dollars). Wherever possible, contracts are drawn in Euro. In all other contracts the currency risk is assessed, and where considered necessary, hedging into Euro is undertaken or local currencies depending upon the currency of the contract expenditure.

The Group has limited exposure to foreign exchange risk which arises from its short-term deposits in Euro and in NIS in group companies whose functional currency differ from the Euro .. Sensitivity to exchange rates is analysed below in terms of the profit or loss that would be recorded due to a movement in exchange in the most significant currencies:

	Profit / (loss)
5% increase in NIS / €	(239)
5% decrease in NIS / €	239
5% increase in RON / €	23
5% decrease in RON / €	(23)
5% increase in € / $	(84)
5% decrease in € / $	84

Credit risk

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

Significantly all current receivables are due within 30 days.

Credit risk associated with non-current receivables, primarily relates to the VAT receivable. The Group has a right to offset this against future VAT payable. There is a certain risk associated with the ability of the Group to claim this amount. The Group cannot at this time quantify this risk however believe it to be immaterial.

Interest rate risk

The Group has a total of net € 2.3 million unlinked and non interest bearing liabilities as at 31 December 2009. This is principally an obligation relating to acquisition of the minority interest in Dasharta net of an asset regarding the exercise of an option to acquire 50% of the shares purchased in Dasharta. . The non-discounted payments are included in Notes 18 and 25.. Consequently the Group considers that it has little interest rate exposure.

For interest rate risk on bank loans see Note 24.

Liquidity risk

The Group does not have liquidity risk as it has positive cash balances at all times in order to meet all its commitments as and when they fall due.

Fair value disclosures

Carrying amounts for all financial instruments as at 31 December 2008 approximate fair value.

Capital management

The Company views its capital as equity plus bank loans. The Company aims to invest in projects that provide target returns on the capital invested. The Company has not decided on what level of leveraging it considers acceptable, as at the date of these financial statements this is not relevant, however if this becomes relevant the Board of Directors will discuss this issue.

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**.**