Chairman's Statement

We are delighted to present our financial results for the 12 months to 31 December 2007. These are our first full year results since our successful admission to the Main Market of the London Stock Exchange in July 2007.

The Company delivered a strong financial performance in 2007. Net revenues increased by 19.2% to €142.9m (2006: €119.9m), reflecting our ability to grow gaming revenues through increases in win per visit and visit numbers and increase ancillary sales from our first-rate complementary guest services such as hotels, restaurants and conference facilities. The growth in revenues translated into a 19.9% increase in EBITDA to €62.0 million (2006: €51.8 million), with EBITDA margins improving to 43.4%.

Basic and diluted pro forma EPS was up 38.1% to 7.6¢ (2006: 5.5¢) and earnings per GDR (each GDR representing 10 ordinary shares) increased to 76¢ (2006: 55¢).

In line with the strategy stated at the time of the IPO, no dividend was declared for the period under review. However, the Board is committed to generating value for our shareholders, and so we are currently giving careful consideration to paying a dividend in the future.

The Group was established to exploit gaming opportunities in emerging markets, and currently operates four casinos, which together have 1,640 slot machines and 164 gaming tables, and employs around 3,000 people. Our largest casino, Club Hotel Casino Loutraki, attracted well over 1 million visits during 2007 and is Greece's leading casino by drop and win. Our strategy is to continually improve our established highly cash generating market leading casinos in Greece and Romania and use them as a base from which to expand our casino portfolio in emerging markets. The Company's objective is to become the leading entertainment and gaming company in its chosen markets by providing superior gaming experiences, products and services

The growth in licensed gaming in emerging markets has provided an opportunity on which we believe the Company is ideally positioned to capitalise, as we have the necessary management and gaming experience to first identify and then pursue new gaming projects. The Company is seeking new opportunities in regulated markets (and on other markets which the Company expects to be regulated in the near future) with strong economic growth but a limited gaming market, where there may be an opportunity to establish a strong or even exclusive position. The Company's operations are generally located in landmark properties in prime locations and the availability of such property is another key consideration.

By following this strategy, the Company has developed a strong pipeline of new projects and is currently at various stages of development on several new casino projects. During 2007, the Company made significant progress on this pipeline, most notably with the grand opening of Casino Beograd on 8 February 2008.

Over the next two years we expect to complete a number of new project developments: we continue to make good progress in the development of our nightclub and gaming hall in Prague, and expect to open the development in the summer of 2008; we have secured another parcel of land in Sihanoukville, Cambodia and look forward to drawing up the plans for the development later this year; and in Constanta, Romania we expect to start the renovation of a historic building this year which we intend to operate as "Casino Constanta".

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

The Company continues to deliver solid and sustainable growth in all of its core operations as well as seek out new opportunities to roll out our casino model. The Company has a robust business model, and we remain positive that we can benefit from the resilient nature of a growing worldwide gaming sector, which we anticipate will continue to enhance our own revenues into 2008, enabling us to generate significant shareholder value.

Yigal Zilkha
Chairman, Queenco Leisure International Limited
April 30, 2008

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.queencoleisure.com.

TABLE OF CONTENTS

Section A- Description of the Company's Business

CHAPTER 1- THE COMPANY'S BUSINESS AND ITS DEVELOPMENT

"€"-	Euro
"Financial reports"-	The financial reports of the Company as at December 31, 2007 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.

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 casino developer and operator incorporated in Israel. The Group currently operates two casinos in Greece, one in Loutraki (located approximately 80 km from the centre of Athens) ("**Casino Loutraki**") and one on the island of Rhodes ("**Casino Rodos**"), as well as one casino in the centre of Bucharest, Romania ("**Casino Palace**"). One of the companies within the Group is part of a consortium (along with Casino Austria Greece GmbH ("**Casino Austria**") which has won a bid to operate a casino in Belgrade, Serbia, which, according to the terms of its gaming license, is to be the only casino within Belgrade's city centre. The casino underwent a soft opening on June 30, 2007 and fully opened during February 2008. The Group currently operates approximately 1,600 slot machines and 160 gaming tables across its existing operations. In addition to operating casinos, the Group has a number of complementary businesses at its casino locations, such as hotels and restaurants at its Greek operations and a restaurant in Bucharest. The Group's total gross revenue amounted to €205.7 million in 2007, €172.6 million in 2006 and €149.7 million in 2005 with gross gaming revenues from Casino Loutraki, the Group's flagship operation, accounting for approximately 70 per cent.

The Group is currently pursuing a number of new projects. The Group is developing an entertainment center and slot machine hall with approximately 60 slot machines in Prague, which the Company anticipates will be open for business during the second half of 2008. The Group intends to develop this further into a full casino once the regulatory regime regulating gaming in the Czech Republic becomes more developed. The Group is at various stages of planning additional development projects in a number of other markets, which the Company considers to be very lucrative, including Romania, Bulgaria and Cambodia.

The Group recently finished refurbishing and expanding the Loutraki casino and is planning a substantial expansion of its casino operations in Bucharest. Upon completion of the expansion of the casino operations in Bucharest, which is expected to occur by the end of 2009, the Group expects to have in operation approximately 1,900 slot machines and 200 gaming tables.

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 2007, the Group employed approximately 2,600 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 then has been operated (via a number of holding companies) by Queen Romania Ltd. ("**Queen Romania**").

On 26 April 2007, the Company entered into a share purchase and allocation agreement (the "**Romanian SPA**"), pursuant to which it agreed to purchase the entire issued share capital of Queen Romania from Fredy Robinson and Yigal Muli in consideration for the allocation of 31,250,025 shares to each of the sellers. This transaction was completed on 13 June 2007.

On 13 June 2007, Queen Romania became a wholly owned subsidiary of the Company.

The Company itself was incorporated in 2002 and acquired its interests in the Loutraki and Rhodes operations from Resido Fibi in January 2003 as a result of a group restructuring. In 2004, the Group purchased real estate assets in Bulgaria, with the intention of developing additional casinos. In 2005, the operations in Loutraki were expended, with the opening of a new casino hall. In December 2005, Grand Casino d.o.o. Beograd, a Serbian company in which the Company holds (via Club Hotel Loutraki S.A. ("**CHL**")) a 15.3 per cent. interest, was granted a ten-year licence for the exclusive operation of a casino in Belgrade. As aforementioned, this casino underwent a soft opening on June 30, 2007 and fully opened during February 2008. In 2007, the Group also secured a lease over a building in Prague, which it intends to use for an entertainment center and slot machine hall, both expected to be opened in the second half of 2008.

On 12 April 2007, the Company's shareholders approved the acquisition of Queen Romania from its owners. This transaction was completed on 13 June 2007.

The Group entered into two agreements for the purchase of two pieces of lands in Cambodia as more fully described in Section 3.3 below. The first piece of land, located in Sihanoukville, a coastal area of south-west Cambodia, was purchased on February 2007 by a foreign interest of the Group. The current designation of this land is for agriculture, however the Group expects that the designation of the land can be changed for tourism purposes. The second piece of land was purchased on February 2008 by a wholly owned foreign company of the Company. This piece of land is designated for the establishment of 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 Shachar Hamilenium Ltd. ("**Shachar**") (which was delisted from the Tel Aviv Stock Exchange during March 2008 and is wholly owned by Y.Z. Queenco Ltd. ("**Y.Z. Queenco**")), with 28.3 per cent., and Y.Z. Queenco (listed on the Tel Aviv Stock Exchange)**,** with 35.4 per cent. In addition, Mr. Robinson holds 6.8 per cent. and Yigal & Muli Ltd. **("Yigal Muli"),** a company in which Mr. Zilkha holds 84.5 per cent., holds 9.1 per cent. in the Company.

Current Operations

The Company currently operates two casinos in Greece (one in Loutraki , one on the island of Rhodes), one in the centre of Bucharest, Romania and one in Belgrade, Serbia. The following table sets out key information relating to each of the Group's three currently operative casinos (not including the casino in Belgrade as it only began operating in February 2008).

Operation	Gaming positions	Casino floor area	Annual visitors (2007)	No. of hotel rooms	Facilities
Loutraki	1000 slot machines 80 tables	5,500m^2	1,125,000	273 rooms (including 17 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	177,000	33 suites	Historic building, five star boutique, dining rooms, two restaurants, bar, outdoor swimming pool, 24-hour butler service.
Bucharest	108 slot machines 25 tables	550m^2	116,000		Historic building, gourmet French restaurant, live sport televised coverage, live entertainment

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

	Year ended 31 December		
	2007	2006	2005
	€'000	€'000	€'000
Loutraki	139,838	116,851	103,334
Rhodes	39,629	33,326	28,244
Bucharest	20,159	16,356	13,190
Total	**199,626**	**166,533**	**144,768**

2.1. Operations in Greece

2.1.1. Casino Loutraki

Holdings

Pursuant to the acquisition by the Company of Mr. Yair Karni's entire holdings in CHL on September 30, 2007 (as more fully described in Section 4.1 below), the Company now holds an indirect 40.3 per cent. economic interest in CHL. CHL has a joint venture arrangement with Dimotiki Anonymi Touristiki Etaireia Tourismou Loutraki S.A. **("DAET"),** a corporate arm of the local municipality. CHL currently holds an 86 per cent. interest in this joint venture. According to the joint venture agreement, such interest will decrease over time (see Group Structure under Section 4).

Operations

Casino Loutraki is the flagship operation of the Group, accounting for approximately 70 per cent. of the Group's gross revenues. Casino Loutraki is located approximately 80 kilometers from the centre of Athens and a new motorway allows visitors to reach the casino from the centre of Athens in less than an hour. Loutraki is a seaside resort town, known for its natural mineral springs. The operation was constructed on land contributed by DAET.

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. At the end of 2007, 1,000 slot machines were in operation. In May 2007, the casino received approval from the Greek gaming board to operate 25 additional gaming tables..

Casino Loutraki operates 24 hours a day, seven days a week, 363 days a year, and employs approximately 1,900 people. Various improvements have recently been made to the casino, including a new casino hall, which was opened in 2005 to mark the casino's tenth anniversary. The casino hall includes 80 gaming tables and since 2004 the number of slot machines has increased from 700 to 1,000. Subject to obtaining all the required permits, CHL is planning to add 15 gaming tables during 2008. Visits to the casino increased to approximately 1,125,000 visits in 2007 (an increase of 14.3 per cent. compared to 2006) and win per visit also increased over that period, suggesting that each player is spending more per visit. Certain key operating statistics relating to Casino Loutraki for the last three fiscal years are set out below:

	2007	2006	2005
Total win (€m)	275.3	233.7	206.7
Total drop (€m)	1192.5	996.7	925.8
Number of tables	80	70	70
Number of slot machines	1000	972	927
Average daily win (€'000s)	758.4	643.8	569.3
Average daily visits	3,060	2,711	2,548
Average win per visit (€)	245	237.4	223.5

In addition to the main gaming areas, the casino includes a VIP room, with separate bar and dining facilities. The Company is also planning to create a "VVIP" area, which will include a number of gaming tables, and will be accessed through a private entrance separate from the main entrance to the casino.

The Loutraki operation includes a five-star hotel with 273 rooms, including 17 luxury suites, indoor and outdoor swimming pools, a gym, spa, two bars and three restaurants. In order to support the casino's plans to attract "VVIPs", seven additional luxury suites are being built and all existing suites are planned to be upgraded.

Market share

The Company believes that Casino Loutraki is the leading casino in Greece, measured by drop and win revenues. In 2007, Casino Loutraki accounted for 35.4 per cent. of the total win revenues in Greek casinos. The Company believes that its closest competitors in the Greek market, Casino Mont Parnes and Hyatt Thessaloniki, accounted for 24.6 per cent. and 22.9 per cent., respectively, in 2007.

Casino Loutraki faces growing competition from Casino Mont Parnes, which, together with Casino Loutraki, are the only licensed casinos in the Attica region. Casino Mont Parnes is located approximately 30 kilometers from the centre of Athens. Its location in the mountains means that journey time from certain parts of Athens may be longer to Casino

Mont Parnes than to Casino Loutraki, particularly in the winter months. The current majority shareholder in Casino Mont Parnes is the Greek government, which holds a 51 per cent. stake.

Regulation

Casino Loutraki's license was one of twelve casino licenses that were permitted for grant and which included two licenses in the Attica region, one of which is the license in Loutraki. The same law provided that, for a period of twelve years which ended in 2006, the Greek State would not grant any other casino operating licenses anywhere in Greece. Of the twelve available licenses, only nine were awarded, including the Casino Mont Parnes license in Athens and the Loutraki license. The remaining three licenses (including the second license within Attica) were not issued by subsequent legislation in 2004. No further licenses have been issued to date. In order for new licenses to be granted, new legislation must be enacted.

Casino Loutraki's operating license was awarded to the joint venture between CHL and DAET (the **"Loutraki JV")** in February 1995 for an indefinite period (with the license reverting to the corporate entity representing the Loutraki municipality after 50 years). During September 2007, the exclusivity period for the Loutraki casino license ended. As at the date of this annual report, the gaming committee has neither awarded any new licenses nor indicated that it intends to issue additional licenses.

Although there is no formal announcement regarding new licenses after the expiration of the exclusivity period, the grant of a new casino license close to Athens would affect the income of the state, in terms of gaming tax collected, from Casino Loutraki. In particular, in 1996 the Hellenic Republic, the Loutraki JV and Club Hotel Loutraki S.A. entered into an agreement pursuant to which, during the period in which (a) there is only one casino operating in the Attica region and (b) such single casino is not located on the Athens – Corinth motorway, the Hellenic Republic's annual gaming levy entitlement will be increased from 20 per cent. to 33 per cent. on Casino Loutraki's gross gaming revenues. If a new casino license is granted within Attica or if a casino (new or existing) is permitted to operate from a location on the said motorway, such levy will be reduced to 20 per cent.

Under the terms of its license, Casino Loutraki is required to make an annual contribution of €733,675 to the Greek national tourist board **("EOT").** In addition, a 33 per cent. annual tax (on gross gaming revenues) is payable to the Greek Gaming Committee, as well as an additional two per cent. annual tax (on total revenues, including hotel, food and beverage) to the local municipality. Furthermore, a €12.48 fee is payable to the government for each casino entry ticket issued. In order to recoup this cost, Casino Loutraki charges entrants an admission fee of €15. However, in certain specific cases (such as in the case of a "high roller"), the casino may waive this fee and bear the cost itself. The terms of the license also include an obligation on the Loutraki JV to build a hotel and a marina. Loutraki JV satisfied its obligation to build a hotel in July 2002. However, the marina has not been built to date because the proposed construction has been denied approval by the Central Archaeological Council (whose consent is required).

2.1.2. Casino Rodos – Rhodes

Holdings

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

Operations

The casino is located on the island of Rhodes, a European resort island with a permanent population of approximately 120,000. The site also includes a five-star boutique hotel with 33 suites, a restaurant, an outdoor swimming pool and a 24-hour butler service. The casino operates 364 days a year, 24 hours a day. Casino Rodos employs approximately 310 people. Casino Rodos offers 310 slot machines, which are upgraded on a regular basis, and 34 gaming tables (including American roulette, blackjack, five stud poker and mini punto banco), and includes a private gaming room in addition to the main gaming floor. Certain information for the last three fiscal years is set out below:

	2007	2006	2005
Total win (€m)	39.3	33.3	28.2
Total drop (€m)	182.6	151.5	125.3
Number of tables	34	34	34
Number of slot machines	310	310	310
Average daily win (€'000s)	108	92	78
Average daily visits	488	446	432
Average win per visit (€)	221	205	180

In 2007, the casino received an average of 488 visitors per day, of which 58.2 per cent. were Rhodes residents and 23.1 per cent. were tourists from mainland Greece. Casino Rodos is more dependent on tourism than the Group's other operative casinos and as a consequence visitor figures were adversely affected by declining tourism levels experienced by the Greek islands beginning in 2004.. However, the casino has experienced improved figures for average daily visits of 9.2 per cent. in 2007 compared to 2006.

Because Casino Rodos is located on an island, the results of operations of Casino Rodos fluctuate based on season, with gross revenues peaking in the summer season. However, seasonal variation in the casino's results of operations is limited to a certain extent because a large percentage of the casino's patrons are residents of Rhodes (approximately 56 per cent. of the casino's patrons per annum on average) who continue to visit the casino in the winter months.

The casino and hotel are located in an historic building situated within walking distance of Rhodes' town centre, on a beachfront property. The building is leased to Rhodes Casino Company by the municipality of Rhodes. The lease is due to expire in 2026, but according to the terms of the lease, either party may request that the lease term be extended, by giving notice to the other party at least two years prior to the expiry of the original term. Under the terms of the lease, the parties must agree on the terms of such extension at least one year prior to the expiry of the original term.

Market share

Casino Rodos is the only casino licensed to operate on the island of Rhodes.

The Company expects this to significantly increase the number of Turkish citizens who visit the casino and the frequency of their visits. In 2007, according to the Hellenic Casino Association, Casino Rodos had a 5.7 per cent. share of total drop revenue of all Greek casinos.

Almost 81.0 per cent. of Casino Rodos' customers were Greek nationals in 2007, the majority of whom were residents of Rhodes. In 2007, Israeli customers accounted for approximately 7.1 per cent. of the total customer base and Italians accounted for approximately 3.5 per cent.

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 on the island.

Prior to the Group's investment in the casino, and in connection with the original tender for an operating license in respect of a casino on the island of Rhodes, Commercial (Emporiki) Bank of Greece, which participated in the share capital of Rhodes Casino Company through its wholly owned subsidiary, committed to the Greek gaming board that together with the Rhodes Casino Company, it would, through a subsidiary, "materialize viable investment plans" on the island in an amount of at least 20 billion Greek Drachmas (approximately €59 million). Accordingly, when the casino operating license was granted to the Rhodes Casino Company, it contained an obligation on the license holder to "effectuate investments in the amount of 20 billion Greek Drachmas". This commitment by Emporiki Bank was repeated when it disposed of its shares in Rhodes Casino Company to the Group, although the exact extent of Emporiki Bank's obligations is unclear. Emporiki Bank has reconfirmed such commitment in a number of letters since that date. The deadline for consummation of the investments was extended to 13 September 2007. In September 11, 2007, Rhodes Casino signed an MOU with a local Greek company and Emporiki Bank in regards to the construction of a marina and a residential project on Rhodes Island. This agreement is designed to fulfill the foregoing investment commitment. Under this MOU, Emporiki Bank resolved to finance € 56 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 the Rhodes Municipality, the Gaming Committee did not opine on whether the MOU fulfilled the aforementioned commitment. Therefore, 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 commitment.

2.2. Operations in Romania

2.2.1. Casino Palace – Bucharest

Holding

The Company has an indirect 83.3 per cent. economic interest 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 in Bucharest. In addition, Queen Investments holds 99 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.

Operations

The casino and restaurant are located in the Vernescu Mansion, which is one of Bucharest's most historic buildings, built in 1821 and the former home of the Union of Writers. 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 25 gaming tables (including roulette, poker, blackjack, dice and punto banco) as well as 108 slot machines and two electronic roulettes spread over an area of approximately 550m^2. In addition, the casino offers live sports coverage and live entertainments. The Casa Vernescu restaurant is accessible by the general public as well as by casino guests.

Operating statistics for the Casino Palace for the last three fiscal years are set out below:

	2007	2006	2005
Total win (€m)	20.2	16.4	13.2
Total drop (€m)	91.7	74.1	60.5
Number of tables	25	25	22
Number of slot machines	108	106	98
Average daily win (€'000s)	55	45	36
Average daily visits	318	300	287
Average win per visit (€)	174	150	126

As illustrated above, there has been a significant increase in average win per visitor over the last three years, suggesting a shift towards more affluent clients. The casino is focusing on retaining the loyalty of its existing customer base, rather than attracting a large number of new visitors. The Company believe that an increased number of visitors (particularly if these visitors are not "high-spending" gamblers) does not necessarily increase revenue, as it can lead to a reduced average drop, and increased costs in serving these visitors.

The number of slot machines and tables has been increased to cope with the increase in visitors. In addition, the casino has introduced electronic roulette machines. The casino experiences peak activity at weekends and in the evenings, with a slight increase in visitors during the months of December to February. The casino and restaurant have, in aggregate, approximately 450 employees.

Market share

Approximately 85 per cent. of the casino's customers live within 200 km of Bucharest, and approximately 60 per cent. are of Romanian nationality. The remainder are mainly business people visiting Bucharest.

Romania has experienced a positive trend in economic growth, particularly in 2005 and 2006. Over the last three years Casino Palace has seen an increase in the daily number of visitors from an average of 253 in 2004 to 318 in 2007, which the Company believes is largely attributable to higher disposable income levels, an improved reputation of gaming generally and casinos in particular and the implementation of Casino Palace's marketing plan.

Casino Palace's main competitors in Bucharest are the Platinum Casino and the two Grand Casinos, each of which are located in major hotels. However, because approximately 85 per cent. of Casino Palace's customers are resident in Bucharest and the surrounding area, Casino Palace is not dependent on tourism and therefore may not be significantly disadvantaged by not being located in a hotel. No studies have been undertaken of the Romanian casino market, so it is not possible to estimate the casino's market share with any certainty. However, the casino's management estimates that Casino Palace has a market share of at least 15 per cent.

Regulation

A license is required before a casino can operate in Romania, as well as individual authorisations for the gaming tables and for each slot machine. Each license is granted for a period of one year, with renewal subject to technical examination of the gaming tables and slot machines by a government representative.

Gaming tax in Romania is linked to the number of slot machines and tables, rather than gaming revenues. The principal tax component in respect of tables and slot machines is a fixed sum and therefore a significant proportion of increase in revenue is translated into an increase in profit.

According to Queen Investments' Romanian legal advisors, the Romanian Government has initiated procedures to amend the current gambling legislation. The Company's legal advisors have informed the Company that to date there is no indication as to the proposed law that will be transmitted to the Romanian Government for its review. According to Romanian law, the Romanian Government has a mandate to either adopt, amend or reject the proposed law and, in accordance with the Government's decision, the proposed law would then be transferred to the relevant organs for the purpose of proceeding with the legislation process until the receipt of all necessary approvals required by Romanian law. As of the date of this report, Queen Investments cannot provide estimations as to if and when the proposed law would be approved, and to the extent that it is approved, as to its final form. Accordingly, Queen Investments cannot estimate the influence the proposed law would have on its financial results.

Security

The premises at all of the Group's operations are secured mainly by two systems. The first of these monitors the entrances and exits of the premises, as well as the open areas of each casino. In addition, a separate surveillance system monitors all gaming table in order to resolve disputes if necessary and to uncover any fraud.

2.3. Casino Beograd, Belgrade

Operations

On 16 December 2005, following a bid process, Grand Casino d.o.o., a consortium comprising CHL, Casinos Austria International and Drzavna Lutrija Srbije (the Serbian state-owned lottery operator) was awarded a 10 year license to operate the city of Belgrade's only licensed casino, Casino Beograd. Grand Casino d.o.o underwent a soft opening on June 30, 2007 and fully opened during February 2008. CHL (in which the Company has a 40.3 per cent. economic interest) has an economic interest of 39 per cent. in the project, Casino Austria owns 51 per cent. 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 2 million. Casino Beograd's intention is to create a landmark entertainment centre in Belgrade, combining fine dining, bars and games of chance in an elegant setting. The site is expected to include a 5,500m^2 entertainment centre with three restaurants, two bars and a ballroom. The casino area now contains 220 slot machines and 25 gaming tables.

Until December 31, 2007, CHL invested in the Casino approximately €27.3 million.

Market

Revenue from casino games in Serbia amounted to RSD 259.8 million (approximately €3.2 million) in 2007. In addition to casinos, a number of lotteries also operate in Serbia. Under the Casino Beograd's license, the government is required to close down the five casinos currently operating in Belgrade. The Company expects that the government will fulfill its obligation and as a result the casino will not be subject to any direct local competition. Another casino operator has been granted a license to operate a casino approximately 20km from the centre of Belgrade, and it is expected that this casino will open in 2008. There are slot machines centers in Serbia, estimated to consist of approximately 15,000 slot machines, which may present competition for Casino Beograd.

Regulation

The license granted to Casino Beograd provides exclusivity within a 15 km radius of the City Parliament building in Belgrade for ten years.

3. PROPOSED PROJECTS

The Company has a pipeline of projects in various stages of development and various projects currently under consideration.

Before investing in new projects, the Company researches the target market, focusing on the legal, regulatory and competitive environment. An analysis is undertaken of the potential return on investment, as well as the anticipated risks. If potential is identified from preliminary checks, local counsel, researchers and tax advisers are usually appointed to examine the opportunity in further detail. The Company often looks for landmark buildings located in highly sought-after areas. Once a decision to make an investment has been made, the Company considers which investment vehicles will be used, taking into account tax and legal considerations, as well as the preferences of joint venture partners.

Details of the proposed projects are set out below:

3.1. Prague, Czech Republic

Planned operations

The Company is in the process of forming an amusement centre in the city of Prague, in the Czech Republic. The amusement centre will include a club and gaming centre containing 60 slot machines. Total investment in the project is estimated at € 5 million. Total investment in the project at December 31, 2007 was € 2.3 million. The intention is to establish the Group's brand in the city through the entertainment centre and gaming centre and, once established, open a casino as soon as the regulatory regime becomes more developed. A lease for five years with eight options to renew for five years each has been secured pursuant to a Memorandum of Understanding, which was signed between the Company and Delta Climatizer s.r.o, relating to a building in the centre of the city.

Market

The concept of a combined entertainment centre /gaming centre does not exist in the city.

Regulation

The Group will not be able to commence operations of the gaming centre until a license to operate slot machines is granted, although the entertainment center may be opened in advance.

Constanta, Romania

In October 2007, Queen Investments attained concession rights over a historic building in Constanta for a period of 49 years. The Group intends to renovate the building and operate it as "Casino Constanta". Queen Investments has entered into contractual obligations of approximately € 140,000 per annum in this respect. There is a further obligation to invest at least € 10 million in the project.

The building, which is intended to house the casino (covering 801m^2 and located on the beachfront) was built in 1909, originally as a venue for theatre and opera shows, concerts, scientific sessions and gambling rooms. In 1956, it was declared a national architectural treasure.

As Romania's second largest city, Constanta has a population of approximately 310,000. The Port of Constanta is the main Romanian port and the largest on the Black Sea. Constanta is the preferred destination for summer holidays in Romania given its beachfront and cultural attractions.

3.2. Sofia and Varna, Bulgaria

The Group has purchased two assets in Bulgaria during the year 2004. 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 Black Sea. These properties are currently leased to third parties, although to date they have not provided significant revenues. The Group intends to develop a casino in Sofia, and a slot machine hall in Varna, although no concrete plans have been made for either site yet. The Company is also investigating other opportunities in Bulgaria, which may lead to further projects in Bulgaria in the near future.

Whilst the economy of Bulgaria fell dramatically in the 1990s, in 1997 an ambitious economic reform package was agreed with the International Monetary Fund and the World Bank and thereafter the economy began to stabilize. Bulgaria joined the European Union on 1 January 2007 and is expected to adopt the Euro between 2010 and 2012.

Sofia has a population of almost 1.25 million, making it the 15th largest city in the European Union. It offers many cultural tourist attractions, as well as a lively nightlife.

Varna is the largest city on the coast of the Black Sea, and the third largest city in Bulgaria. 61 per cent. of the city's revenue derive from trade and tourism. The tourist resorts in Varna received considerable investment in the 1990s and early 2000s, with a total capacity of over 60,000 beds in 2006. Varna is Bulgaria's only international cruise destination.

3.3. Sihanoukville, Cambodia

On February 2007, a foreign interest of the Group contracted to acquire a 48 hectare parcel of land in Sihanoukville, a coastal area of south-west Cambodia for a total consideration of $13.5 million. The current designation of the land is for agriculture, however the Group expects that the designation of the land can be changed for tourism purposes.

During February 2008, a wholly owned subsidiary of the Company entered into an agreement to purchase a 9 hectare parcel of land in an area which is located near the land purchased during February 2007 in consideration for $US 10 million. The land purchased also includes exclusive rights to develop the shoreline, which borders the land. The Company expects to begin the construction of the project on this land during the last quarter of 2008 and estimates that the construction will be completed within three years after commencement of construction.

Both of the lands purchased in Cambodia are designated for development of a destination beachfront resort, based around a casino, but which will also include, for example, hotels and conference centers. Cambodia is located between Thailand and Vietnam, neither of which currently permits gambling. Management believes that there is a demand for gambling in these countries, as evidenced by a number of low-quality casinos that have been established on the Cambodian borders. This development is dependent on the grant of appropriate gaming and building permits. The Group has initiated the required procedures for obtaining such permits.

4. GROUP STRUCTURE

The following chart sets out the corporate structure of the Group:

Name of Subsidiary	Jurisdiction of Incorporation	Percentage of direct or indirect ownership
Vasanta Investments Ltd.	Israel	50%
Dasharta Holdings Ltd.	Israel	53%
Agastia Holdings Ltd.	Israel	53%
Powerbrook Spain S.L.	Spain	39.7%(1)
Club Hotel Loutraki S.A.	Greece	31%(1)
Evmetron S.A.	Greece	31%(1)
Loutraki Casino S.A. – Club Hotel Loutraki S.A.	Greece	26.66%
Grand Casino d.o.o. Belgrade	Serbia	12.09%(1)
Bulgaria Development & Tourism Ltd.	Israel	100%
Kohav Ltd.	Bulgaria	70%
Resido Rhodes Ltd.	Israel	100%
Aineias S.A.	Greece	100%
Rhodes Casino S.A.	Greece	91.60%
Rhodes Development Company S.A.	Greece	73.28%
Queen Romania Ltd.	Israel	100%
Tempotest B.V.	Netherlands	83.33%
Queen Investment SRL	Romania	83.33%
Casa Vernescu SRL	Romania	82.5%

Name of Subsidiary	Jurisdiction of Incorporation	Percentage of direct or indirect ownership
Town Club s.r.o.	Czech Republic	100%
Metropol Club s.r.o	Czech Republic	100%
(Wyokka s.r.o.) – Nadji Club s.r.o.	Czech Republic	100%
Nadji Entertainment S.A.	Czech Republic	23.03%(2)
Carolloid Holdings Ltd.	Cyprus	53%
Crown Development Holdings Limited	Cambodia	25.9%
Crown Estates Limited	Cambodia	39.21%(2)
Chock Beery Holdings Ltd.	Cyprus	100%
Resido Tourism Ltd.	Israel	100%
Resido Tourism Holding B.V.	Netherlands	100%
Resido Tourism Investment B.V.	Netherlands	100%

Note (1): Although holding 75 per cent. (by value) of the shares in Powerbrook Spain S.L., Agastia Holdings Limited is entitled to 97.5 per cent. of the profits, and therefore the Company has an effective financial interest of 51.67 per cent. in Powerbrook Spain S.L., 40.3 per cent. interest in CHL, a 34.66 per cent. interest in the Loutraki JV and 15.7 per cent. interest in Grand Casino d.o.o. Belgrade.

Note (2): The effective economic interest is 53 per cent. Shares held by a third party in Crown Development Holdings Limited are devoid of economic interest, and all voting rights attached to these shares have been transferred by proxy to Coralloid Holdings Ltd.

4.1. <u>Loutraki holding structure</u>

<u>Israeli holding companies</u>

CHL is held indirectly by Queenco through Vasanta Investments Ltd. **(“Vasanta”),** a joint venture with Club Hotel Investments (C.H.) Ltd. **(“CHI”).** CHI is a private company incorporated in Israel, whose ultimate beneficial owners are Mr. Moshe Bublil and Mr. Nissan Hakshouri. The relationship between the parties is governed by the by-laws of Vasanta. There are a number of holding companies below Vasanta in the structure, including Dasharta Holdings Ltd **(“Dasharta”),** in which a number of third parties hold interests totaling 8.53 per cent. On 30 September 2007, the Company purchased from Mr. Yair Karni, one of the minority shareholders, his and his controlled entities’ entire holdings in Dasharta. This represented a purchase of 4.6% of a minority interest in CHL and increased the Company’s proportionally consolidated holding in the same project such that

Company’s holdings increased from 35.7 per cent. to 40.3 per cent. The consideration for this acquisition was €12.5 million, €3.5 million of which was paid at the closing of the transaction and the remainder of which is to be paid in four annual equal installments, beginning in September 2008. As part of this transaction, Mr. Karni’s claim against the Company and other parties, which was filed with the Tel Aviv District Court in 2003, was removed. In addition, as part of the acquisition contract the Company stated that it intends to offer a bring along right to this transaction to the other shareholders of Vasanta as to up to 50% of the shares and rights that the Company had purchased from Mr. Yair Karni..

5. INVESTMENTS IN THE COMPANY’S CAPITAL AND TRANSACTIONS IN ITS SHARES.

On July 3, 2007, the Company completed a public offering of GDRs on the London Stock Exchange Main Listing ("Offering"). Under the Offering, (i) 40,865,420 shares underlying GDRs were offered by the Company and (ii) 31,250,020 shares underlying GDRs were offered by two of the Company’s shareholders, each share with a nominal value of 1.00 NIS (each GDR represents ten shares of the Company). The GDRs were sold for €14 each. The Company received proceeds of approximately €57.2 million from the Offering. The net proceeds received by the Company (after deducting commissions to the underwriters and other expenses related to the Offering, which totaled €3.9 million) totaled € 53.3 million.

6. DISTRIBUTION OF DIVIDENDS.

In the past, the Company did not pay regular dividends to its shareholders, and does not have a specific policy on dividend distribution. The Company focuses on expanding its operations. Consequently, other than dividends which have already been declared, including the dividend paid to Shachar and YZ Queenco, the Company does not expect to pay substantial dividends in the short to medium-term. Instead, the Company intends to reinvest net income in the continued growth of the Group’s operations.

Under Israeli law, the payment of dividends may be made only out of accumulated retained earnings or out of earnings accrued over the two most recent fiscal years, whichever is the higher, and in either case provided that there is no reasonable concern that the payment of a dividend will prevent the Company from satisfying current or foreseeable obligations as they become due.

CHAPTER 2- OTHER INFORMATION

7. 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 2007, 2006 and 2005, which have been reported on by Brightman Almagor & Co. and prepared in accordance with IFRS, and the notes thereto, all of which are included elsewhere in this Annual Report.

Consolidated statements of income
(In thousands of €)

	Year ended 31 December		
	2 0 0 7*	**2 0 0 6***	**2 0 0 5***
Revenues	142,895	119,858	103,328
Operating costs			
Cost of revenues	(56,838)	(48,874)	(44,016)
Selling and marketing expenses	(14,942)	(11,353)	(10,252)
General and administrative expenses	(18,008)	(16,258)	(15,614)
Other operating expenses	(492)	(861)	(1,267)
Share of results of associates	(1,351)	86	(5)
Operating profit	**51,264**	**42,598**	**32,174**
Investment income	4,933	1,188	1,247
Finance costs	(3,195)	(2,476)	(1,451)
Foreign exchange gain (loss)	(61)	(110)	609
Profit before tax	**52,941**	**41,200**	**32,579**
Tax	(15,407)	(14,761)	(11,313)
Profit for the year	**37,534**	**26,439**	**21,266**
Attributable to:			
Equity holders of the parent	25,138	17,241	13,154
Minority interests	12,396	9,198	8,112
	37,534	**26,439**	**21,266**
Earnings per share			
Basic *pro forma* (¢)**	7.6	5.5	4.2
Diluted *pro forma* (¢)**	7.5	5.5	4.2
Basic (¢)	7.6	9.1	21.0
Diluted (¢)	7.5	9.1	21.0

* The 2007, 2006 and 2005 amounts reflect the 12 months operations for the Group for each year as if the restructuring described in Note 1 had occurred at the beginning of the reporting period starting 1 January 2005.

** *Pro forma* earnings per share have been calculated as if the equity issue described in Note 1 and in Note 27 had been performed on 1 January 2005

Consolidated Balance sheets
(In thousands of €)

	As at 31 December	
	2 0 0 7*	2 0 0 6*
Non-current assets		
Intangible assets	13,746	5,290
Property, plant and equipment	92,672	85,589
Investment property	7,652	7,500
Interests in associates	13,019	212
Deferred tax asset	2,465	2,220
Other long term receivables	12,178	9,099
Total non-current assets	**141,732**	**109,910**
Current assets		
Inventories	782	574
Investments	8,894	863
Trade and other receivables	3,985	2,921
Cash and cash equivalents	76,011	35,239
Total current assets	**89,672**	**39,597**
Total assets	**231,404**	**149,507**
Current liabilities		
Accounts payable	(5,587)	(3,642)
Current tax liabilities	(11,314)	(10,224)
Other current liabilities	(25,974)	(37,376)
Bank overdraft and loans	(12,591)	(11,984)
Total current liabilities	(55,466)	(63,226)
Net current assets (liabilities)	**34,206**	**(23,629)**
Total assets less current liabilities	**175,938**	**86,281**
Non-current liabilities		
Long-term bank loans	(10,259)	(21,910)
Other long-term liabilities	(11,003)	(2,319)
Deferred tax	(3,471)	(1,034)
Provision for retirement benefits	(4,835)	(3,990)
Total non-current liabilities	(29,568)	(29,253)
Net assets	**146,370**	**57,028**
Shareholders' equity		
Share capital	62,512	44,173
Share premium	130,998	84,827
Translation reserve	1,828	2,478
Accumulated Deficit	(80,009)	(86,049)
Equity attributable to equity holders of the parent	**115,329**	**45,429**
Minority interest	31,041	11,599
Total Equity	**146,370**	**57,028**

* The 2007 and 2006 amounts reflect the balance sheets of the Group for 31 December of each year as if the reorganisation described in Note 1 of the Group's consolidated financial statements had occurred at the beginning of the reporting period starting 1 January 2005.

Consolidated cash flow statements
(In thousands of €)

	Year ended 31 December		
	2 0 0 7*	**2 0 0 6***	**2 0 0 5***
Net cash from operating activities	**46,280**	**35,941**	**30,999**
Investing activities			
Interest received	4,801	478	577
Dividends received from trading investments	-	-	39
Purchases of property, plant and equipment	(9,983)	(9,972)	(8,001)
Purchase of other intangibles	(28)	(27)	(34)
Investment in an associate	(9,754)	(20)	(220)
Proceeds on sale of marketable security	-	2,465	-
Money on deposit	-	(715)	-
Purchases of trading investments	(7,923)	(147)	-
Installments for the acquisition of a subsidiary	(714)	(714)	(714)
Loan to associate	(7,585)	(60)	(3,900)
Purchase of additional interest in joint venture entity	(2,153)	-	-
Investment in a subsidiary net of cash acquired	-	(7,500)	104
Net cash used in investing activities	**(33,339)**	**(16,212)**	**(12,149)**
Financing activities			
Dividends paid to minority shareholders	(3,402)	(3,776)	(3,313)
Dividends	(8,752)	-	-
Repayments of long term receivables	-	-	484
Repayments of borrowings	(11,730)	(13,325)	(5,000)
Receipt / (repayment) of other long term liabilities	3,285	(4,266)	(265)
Issue of shares, net of expenses	53,346	-	-
Repayments of capital notes	-	(246)	(5,609)
Repayments of obligations under finance leases	-	-	(18)
Share of profits paid to Municipality of Loutraki	(4,361)	(2,911)	(3,578)
Increase (decrease) in bank overdrafts	(250)	245	(1,215)
Net cash provided by (used in) financing activities	**28,136**	**(24,279)**	**(18,514)**
Net increase (decrease) in cash and cash equivalents	41,077	(4,550)	336
Effect of foreign exchange rate changes	(305)	590	(581)
Cash and cash equivalents at beginning of year	35,239	39,199	39,444
Cash and cash equivalents at end of year	**76,011**	**35,239**	**39,199**
Tax cash flow	(14,717)	(11,891)	(11,965)
Interest paid	(1,208)	(4,074)	(1,105)

The 2007, 2006 and 2005 amounts reflect the 12 months operations for the Group for each year 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 2005.

8. MARKET ENVIRONMENT AND INFLUENCE OF EXTERNAL FACTORS ON THE COMPANY'S ACTIVITY.

8.1. Volume and quality of customers

The Group's revenues are dependent upon the volume of customers that visit the Group's casinos and the win revenues derived from these customers. The majority of the Group's costs are fixed or semi-fixed and it is essential that each casino attract an adequate number of customers and maintain adequate levels of win spend in order to maintain suitable profitability levels. Because higher quality customers, or high-rollers, tend to have higher drop and win spend, the Group's revenues are directly impacted by the number of high quality customers it can attract. The Group's success in attracting a high volume and quality of customers at its casinos turns on a number of factors, including the location and relative accessibility of the casinos, the reputation of gaming generally, economic health and disposal income levels of the populations catered to, the quality and variety of gaming available at its casinos and competition from other casinos and other forms of entertainment. Another significant factor that impacts the Group's financial performance is the quality of services offered by the Group's casino bars, restaurants and hotels, such as quality of dining and entertainment experience, quality of accommodation and standard of luxury. The success of the Group's marketing strategies, including marketing efforts designed to attract high-rollers and other valued repeat customers, such as private gaming rooms, free transportation and loyalty programs, also impact the Group's financial performance.

8.2. Regulatory environment

The regulatory environments in the countries and regions in which the Group has established or plans to establish gaming operations have a significant impact on the manner in which the Group conducts its current operations and its ability to establish operations in new markets. One of the Company's strategies is to only conduct gaming operations in regulated markets. While regulated markets may be characterized by varying levels of regulatory stringency, all regulated gaming markets generally offer the benefit of stability and visibility for market participants and generally limit competition from additional potential legal gaming operators and also from illegal gambling operations. Greece has a relatively stringent regulatory gaming environment in which only nine gaming licenses have been granted nationwide. Gaming activities in Romania are regulated, although the regulatory environment is less stringent than in Greece. The licensing requirements and process in regulated markets can be onerous and present high barriers to entry for new participants. Such barriers to entry benefit the Group in the markets in which it has successfully obtained gaming licenses, such as Greece, Romania and Serbia, but is a potential disadvantage in those countries in which the Group is planning to establish new operations in the future. In addition, the Company's strategy of only establishing new operations in locations where gaming is regulated may prevent the Group from establishing new gaming operations in accordance with its project development timeline where gaming regulations of satisfactory stringency are not implemented as the Company anticipates.

8.3. Other market participants

The number and quality of market participants operating in the regions in which the Group's casinos are located can impact the Group's business both positively and negatively. The number of market participants is largely a function of the prevailing regulatory environment. While a significant number of casinos operating in relative proximity to one another can raise competition levels, which can result in a decrease in market share for the Group's casinos, it can also result in a larger total market which can lead to a greater volume of customers patronizing the Group's casinos as well as casinos operated by its competitors. Increased competition that is not accompanied by an increase in overall size of the casino visiting population can have an adverse effect on the Group's results of operations. In addition, an increase in the overall size of the gaming population may result in increased marketing costs for the Group resulting from increased marketing activities, which may be necessary to attract higher volumes of customers to its casinos. These general principles are true in each of the markets in which the Group currently operates and in the new markets in which it plans to establish gaming operations in the future.

8.4. Success of new projects

The Company's strategy involves establishing gaming opportunities in new markets. The Company is currently working on projects in Prague (Czech Republic), Constanta (Romania), Sofia and Varna (Bulgaria) and Sihanoukville (Cambodia). These projects are in various stages of planning and development. The Group's ability to establish itself in new markets will directly impact its ability to increase gross revenue, leverage off of the Group's management knowledge base, take advantage of economies of scale and realize investments made in these new markets.

8.5. Taxes

The Group's net profits are directly impacted by corporate income and gaming taxes applicable in the jurisdictions in which the Group has operations. In the Group's last three fiscal years incremental reductions have been introduced to the income tax rates applicable to the Group in Israel and its operations in Greece, which have resulted in greater net profit levels than would otherwise have been the case. In Israel, corporate income tax rate for the year ended 31 December 2007 was 29% (2006: 31%, 2005: 35%), decreasing to 27% in 2008, 26% in 2009 and 25% thereafter. Similarly, the corporate tax rate in Greece has been reduced from 35 per cent. in 2004 to 32 per cent. in 2005, 29 per cent. in 2006 and 25 per cent. in 2007. The corporate tax rate applicable to the Group's Romanian operations has remained unchanged: the Casino Palace is subject to a tax rate equal to the greater of 16 per cent. of profit before tax and 5 per cent. of income from gaming, and the restaurant is subject to a tax rate of 16 per cent. profit before tax. The reductions in applicable taxes have resulted in variations in the effective tax rate applicable to the Group, from 38.9 per cent. in 2004, to 34.7 per cent. in 2005, to 35.8 per cent. in 2006 and 29.1 per cent. in 2007. Corporate income tax and applicable gaming taxes in effect in new markets in which the Group intends to establish gaming operations will also impact the Group's profitability.

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

9. HUMAN RESOURCES

9.1. Employees.

The following table sets out information on the number of people employed within the Group as at 31 December 2005, 2006 and 2007, by location and work sector:

	2007	**2006**	**2005**
Company headquarters, Israel	8	8	8
Loutraki	1,893	1,794	1,669
Rhodes(1)	310	280	276
Bucharest	450	459	445
Belgrade management and casino operations	Approximately 400	3	-------
TOTAL	Approx 3,061	2,544	2,398

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

9.2. Directors and Management

Board of Directors

The current composition of the board of directors is as follows:

Name	Age
Yigal Zilkha	45
Dror Mizeretz	43
Effy Aboudy	40
Fredy Robinson	62
Miri Lent-Sharir	52
Mr. Nathan Nissani	61
Mr. Aharon Shatan	62
Mr. Zvi Heifetz	52

The principal business address of each member of the board of directors of the Company is 5 Shoham Street, Ramat Gan 52521, Israel.

Yigal Zilkha. Mr. Zilkha is the major shareholder in YZ Queenco Ltd., an Israeli company listed on the Tel Aviv Stock Exchange (which holds, directly and indirectly, approximately 64% of the Company's shares and has voting rights with respect to approximately 80% of the voting rights in the Company) **("YZ Queenco")** (YZ Queenco is also the owner of Shachar), holding indirectly approximately 45.48 per cent. of the Company. 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. In addition, prior to the Company's acquisition of the Romanian operations, Mr. Zilkha was the joint owner of Queen Romania Ltd., the holding company of the Romanian projects.

Dror Mizeretz. Mr. Mizeretz joined the Group in 2002 and is the Chairman of the board of YZ Queenco. Mr. Mizeretz is an Israeli-certified accountant, has an MBA from Tel Aviv University, and was previously a partner in an accounting firm.

On April 29, 2007 the Company announced that Mr. Mizeretz will end his tenure as Chief Executive Officer and leave the Board of Directors of the Company, and that Mr. Mizeretz had agreed to remain in such positions for up to six months, during which time the Company will search for a new Chief Executive Officer.

Effy Aboudy. Mr. Aboudy has worked for the Group for eight years. He is an Israeli certified accountant and has an MBA from Tel Aviv University. Mr. Aboudy was previously the financial controller of a company listed on the Tel Aviv Stock Exchange.

Fredy Robinson. Mr. Robinson has extensive experience in the construction business. He is a founder of Milomor Ltd., a major construction and civil engineering company whose shares are listed on the Tel Aviv Stock Exchange.

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.

Nathan Nissani. Mr. Nissani has been the Chairman of Dlite 2005 Ltd., an operator of crisp bread machines in Israel, since 2005. From 2004 until 2005, he was a consultant to the Ministry of Finance of the Government of Israel on the distribution of shares of Bank Leumi Ltd. From 2003 until 2004, Mr. Nissani was the President and CEO of Suny Electronics Ltd., a distributor of products of Samsung Electronics in Israel. Form 1999 until 2002, he was the Vice President of Operation of Partner Communication Company Ltd., an Israeli cellular operator. Mr. Nissani is currently a director of each of Willi Food Investments Ltd., G. Willi Food International Ltd. and Petro-Group Ltd. Mr. Nissani holds an LL.B. from Tel-Aviv University and various other professional certificates.

Aharon Shatan. Mr. Shatan was until recently a director of Y.Z. Queenco,. Mr. Shatan is the Active Chairman of the Board of Directors of Superplast 2003 Ltd., an Israeli private company. In addition, Mr. Shatan holds executive positions in two Israeli soccer teams.

Zvi Heifetz. Mr. Heifetz was a partner in a law firm specializing in corporate and international law for 15 years. During the years 2004-2007, Mr. Heifetz was the Israeli ambassador to United Kingdom. Mr. Heifetz was the President of Hed Artsi Ltd., an Israeli music production public company and a member of the Board of Directors of Matav Ltd., an Israeli public company. During the years 1994-2004, Mr. Heifetz acted as a Vice-Chairman of the Maariv Group, an Israeli media and publications group. Between 1989 and 1995 Mr. Heifetz acted as an external legal consultant for the Israeli Prime Minister's Office and before that, in 1988, he was a diplomatic representative of Israel in the U.S.S.R. Mr. Heifetz has served the Israeli Army for 7 years and holds the rank of Major. Mr. Heifetz holds an L.L.B from Tel Aviv University.

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 the 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 of directors currently consists of 8 directors.

All the directors (save 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 (save the two external directors) from office, elect directors in their place or fill any vacancy, however created, in the Company's board of directors. Vacancies on the board of directors, 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 of directors 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 of directors 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 of Directors. 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 with the Company or any entity controlling, controlled by or under common control with the Company. The term "affiliation" in this context includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; or
- service as an office holder.

The term "office holder" under the Companies Law is defined as a director, general manager, chief executive officer, deputy general manager, vice general manager, executive vice president, vice president, other manager directly subordinated to the general manager and any person assuming the responsibilities of the above positions without regard to such person's title.

Pursuant to the Companies Law, (1) each external director must have either an "accounting and financial expertise" or "professional qualifications" (as such terms are defined in the regulations promulgated under the Companies Law) and (2) at least one of the external directors must have an "accounting and financial expertise". The Companies Law prescribes certain qualifications with respect to the external directors, in addition to those described herein, including that no person can serve as an external director if the person's other position or business creates, or may create, a conflict of interests with the person's responsibilities as an external director or may otherwise interfere with the person's ability to serve as an external director. In addition, the Companies Law requires that where all members of the Board of Directors are of one gender, at least one external director must be of the other gender. No person can serve as a director in one company and be appointed as an external director in another company if at the same time a person who is a director in the latter company also serves as an external director in the former company.

The Company may not engage a former external director as an office holder or employ or receive services from that person, either directly or indirectly, including through a company controlled by that person, for a period of two years from the termination of his or her service as an external director.

External directors are elected by a majority vote at a shareholders' meeting, provided that either:

- such majority includes at least one-third of the shares of non-controlling shareholders present and voting at the meeting in favor of the election of the external director (disregarding abstentions); or

- the total number of shares of non-controlling shareholders present and voting against the election of the external director does not exceed one per cent 1 per cent. of the aggregate voting rights in the Company.

The initial term of an external director is three years and may be extended for an additional period of three years by a majority vote at a shareholders' meeting, subject to the conditions described above. External directors may be removed from office only by the same majority of shareholders as is required for their election, or by a court, and in each case only if such external directors cease to meet the statutory qualifications for their appointment or if they violate their fiduciary duty to the Company; or in other specific circumstances by a court. An external director is entitled to compensation as provided in regulations promulgated under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with services provided as an external director. The Company's Board of Directors has resolved that the compensation entitlements of its non-external directors who are not employed by us will also be determined in accordance with such regulations.

Ms. Miri Lent-Sharir and Mr. Nathan Nissani have been appointed as external directors.

<u>Committees of the Board</u>

To the extent such delegation is permitted under the Companies Law, the Company's Board of Directors may delegate its powers to committees of the Board of Directors as it deems appropriate, save for the following powers which, under the Companies Law, may not be delegated:

- determining the Company's general business policy;
- affecting a distribution with respect to the Company's share capital, including the payment of dividends or the repurchase of significant share capital, other than a repurchase of share capital pursuant to a framework pre-determined by the Board of Directors;
- determining the position of the Board of Directors on a matter which requires, according to the Companies Law, the approval of a general meeting of the Company's shareholders, or providing an opinion about the advisability of a special tender offer for the purchase of the Company's shares;

- appointing directors, to the extent the Board of Directors is authorized to appoint directors;
- approving the Company's financial statements;
- issuing share capital or securities convertible into share capital, or a series of debentures, other than the issuance of shares pursuant to the conversion of securities and other than specified issuances in connection with employee equity incentive plans; and
- approving transactions and acts requiring the approval of the Board of Directors pursuant to the provisions of the Companies Law.

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

The Company has appointed an audit committee, consisting of three directors, and a remuneration committee, consisting of one executive director, two external directors and one independent director.

Audit Committee

The Companies Law requires the Board of Directors of any public company to appoint an audit committee, comprised of at least three directors including all of the external directors, but excluding the following individuals:

- the Chairman of the Board of Directors;
- any controlling shareholder or any relative of a controlling shareholder; and
- any director employed by the Company or who provides services to the Company on a regular basis (other than as a board member).

The audit committee meets at least once every quarter. Additional meetings are held to review and discuss other matters as required under the committee's terms of reference or as otherwise required by the audit committee or the Board of Directors. The responsibilities of the audit committee under the Companies Law include the examination of irregularities in the management of the Company's business in consultation with the internal auditor and our independent accountants, and suggesting appropriate courses of action to amend such irregularities. In addition, the audit committee is responsible for approving specified related party transactions as required by the Companies Law.

The Company's audit committee consists of Ms. Miri Lent-Sharir, Mr. Nathan Nissani and Mr. Roni Shatan.

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", an office holder or an affiliate, or a relative of any of the foregoing, nor may the internal auditor be our independent auditor or its representative. An "interested party" is defined under the Companies Law as a holder of 5 per cent. or more of the company's ordinary shares, any person or entity that has the right to designate one or more directors, or any person who serves as a director or as the chief executive officer of the company or is otherwise an affiliate of the Company. 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 2007, the aggregate total remuneration paid to the executive directors of the Company (being Yigal Zilkha, Dror Mizeretz and Effy Aboudy) was €1,862,000 (reflecting the economic benefits of options and bonuses).

Remuneration of non-executive Directors

In the case of non-executive directors, the terms of their office are governed by appointment letters. The terms of service of the executive directors are governed by service agreements. Other than the external directors, each director holds office as a director until the end of the next annual general meeting following his or her appointment. Each of the non-executive directors receives a salary of €30,000 per annum.

The service contracts may be terminated on three months' notice.

Remuneration of Senior Management

In the year ended 31 December 2007, the aggregate total remuneration paid to the senior management of the Company who are not directors (being Muli Hirshberg , Avi Halifa and Sagit Amitay Altshuler) was €743,000 (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.

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 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.

Israeli law and labor 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 per cent. of the amount payable on dismissal and represents an unfunded benefit plan.

The Group has no liability with respect to the employees in Romania.

For the year ended 31 December 2007, the Group accrued an aggregate of €1 million as retirement benefits and incurred a net liability of €4.8 million.

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, 2007:

	Number of Shares	% of issued share capital
Yigal Zilkha(1)	160,715,909	45.48%
Muli Hirschberg(2)	5,276,005	1.49%
Fredy Robinson	23,953,238	6.78%

Notes:

(1) Held indirectly through his holdings in YZ Queenco and Yigal Muli.
(2) Held indirectly through his holding in Yigal Muli.

Option plans

On 22 April 2007, the directors of the Company approved the allocation of option warrants to certain of its directors and employees (the **"Employee Option Warrants").** The Option Warrants may be exercised into a number of shares equal to 2.5 per cent. of the share capital of the Company. The exercise price of the Option Warrants is 80 per cent of the offer price under the Offering which was €14 per GDR (the "**Offer Price**"). Each Employee Option Warrant may be exercised for a period of six years from the date of grant thereof. In the event that an option holder's employment is terminated, the options must be exercised within 120 days thereafter. The Employee Option Warrants were allocated in the following percentages:

Recipient of Employee Option Warrant	Percentage of total Employee Option Warrants
Effy Aboudy	46%
Dror Mizeretz	31%
Avi Halifa	11%
Sagit Amitay Altshuler	9%
Other employees	3%

In addition, on 22 April 2007, the directors of the Company approved the allocation of option warrants to Yigal Zilkha (the **"Zilkha Option Warrants").** The Zilkha Option Warrants relate to a number of shares equal to three per cent. of the share capital of the Company. The exercise price of the Zilkha Option Warrants is equal to the Offer Price. The Zilkha Option Warrants may be exercised in 20 per cent. tranches each year until 31 December 2012.

10. <u>TAXATION</u>

10.1. For details on tax regulations applicable to the Company, please refer to note 11 in the financial reports.

11. <u>REGULATORY ENVIRONMENT</u>

For information regarding Regulatory Environment please see Section 8.2 under Chapter 2.

12. <u>SIGNIFICANT AGREEMENTS</u>

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by a member of the Group within the two years immediately preceding the date of this annual report and are, or may be, material; or have been entered into at any time by any member of the Group and contain provisions under which any member of the Group has an obligation or entitlement which is, or may be, material to the Group as at the date of this annual report:

12.1. <u>Acquisition of Mr. Yair Karni's rights in CHL</u>

For details regarding this acquisition, see Section 4.1.

12.2. <u>License granted in respect of Casino Rodos</u>

A casino license was granted to Rhodes Casino Company, taking effect on 10 June 1996, entitling the licensee to operate a casino at the Grande Albergo delle Rose, on the Island of Rhodes, Greece. The material terms of the license are:

12.2.1. the licensee must operate a luxury hotel facility alongside its casino operation;

12.2.2. the Greek state must not grant any additional licenses on the island of Rhodes for a period of 12 years(subject to certain exceptions). It is unclear whether this twelve year period has expired;

12.2.3. during the operation of the casino, the licensee must employ approximately 336 employees;

12.2.4. the licensee must pay an annual levy of approximately €587,000 per year (excluding VAT) to the gaming authorities;

12.2.5. payment to the state of Greece of 30 per cent. of the income from gambling conducted at the casino;

12.2.6. the licensee must invest approximately €59 million in worthwhile investments on the island of Rhodes. The deadline for compliance with this term was 13 September 2007 (for further information in that respect please see Section 2.1.2 under the paragraph entitled "Regulation"); and

12.2.7. the licensee's employees and shareholders are prohibited from participating in gambling at the casino.

The license is personal and as such may not be assigned. Violation of the license terms may result in fines, the temporary suspension or revocation of the license. The term of the license is indefinite. For details regarding the Rhodes license investment obligations' fulfillment within the terms of the casino license, please see Litigation part under Section 13.

12.3. License granted in respect of Casino Loutraki

A casino license was granted to Loutraki JV, and took effect on 15 February 1995. It entitles the licensee to operate a casino within the boundaries of the municipality of Loutraki – Perachora. The material terms of the license are:

12.3.1. the Greek state must not grant any licenses for a period of 12 years from 1995 (subject to certain exceptions);

12.3.2. the license imposes the following salient financial obligations on the licensee:

12.3.2.1. during the operation of the casino, the licensee must maintain at least 740 jobs for residents of the region at all times;

12.3.2.2. the licensee must pay an annual levy of approximately €147,000 per year;

12.3.2.3. the licensee must pay 20 per cent. of the income from gaming to the Greek Ministry of Finance; and

12.3.2.4. the licensee must, at its own expense, construct a casino, hotel, parking lot, marina and conference centre.

The license is personal and as such may not be assigned. Violation of the license terms may result in fines, the temporary suspension or the revocation of the license.

In accordance with applicable law, two casino licenses had been provided for the Attica area although only one casino operated in the area. This led to the licensee and the Greek Ministry of Tourism entering into an amended license agreement, which, among other things, raised the rate of gaming proceeds paid to the Greek Ministry from 20 per cent. to 33 per cent. and increased the annual levy to €734,000 per year. The amended terms will only apply if only one casino operates in Attica and such sole casino is located outside of the traffic artery Athens-Korinthos highway (leading to Loutraki).

12.4. License granted in respect of Casino Palace

In Romania, casino licenses are granted annually, with license renewal subject to annual technical inspection of each gaming table and slot machine. The operator needs to obtain a general authorization to operate gaming tables, as well as slot machine authorization for each slot machine.

The relevant licenses for the operation of the casino are held by Queen Investments Inc S.R.L. The license is for a period of one year only.. The licenses can be revoked or suspended for breaches of Romanian gaming law.

Penalties for breaches of Romanian gaming law can be substantial. Special attention must be made to payment of taxes on time, the validity/renewal of gaming and technical inspection reports, fire prevention authorization and sanitary approval and the strict observance of terms of the license and the relevant gaming legislation.

12.5. Acquisition of Romanian Asset

For information regarding the acquiring of the Romanian asset please see description under Section 2. .

12.6. Acquisition of Prague Lease

In June 2006, the Company entered into a memorandum of understanding (which remains in effect as a binding agreement until such time as a new lease is put in place) in respect of a lease relating to a property in Prague. The term of the lease commenced on 1 July 2006, and is effective until 30 June 2011, with a right granted to the lessee to extend the term of the lease up to eight times, for a period of five years for each extension. The rent for such premises is €20,000 plus VAT, payable in advance on the first business day of each quarter. The rent shall be adjusted in accordance with the Euro cost-of-living index. In addition to the rent, the lessee is required to make an additional payment to the lessor of 2 per cent. of the turnover from the activities taking place in the premises which are the subject of the lease. In respect of the gaming centre, which is intended to operate on the premises, the turnover shall be the amount by which the "Net Win" (i.e. gross gaming revenue, less direct taxes) exceeds €700,000.

12.7. Acquisitions of two pieces of land in Cambodia

For details regarding these acquisitions please see Section 3.3.

12.8. Loan granted to Powerbrook Spain S.L.

On 17 July 2003, Powerbrook Spain S.L. ("**PBS**") entered into a loan agreement with Bank Fur Arbeit und Wirtschaft ("**BAWAG**") in respect of €74 million. Under the terms of this agreement, the shares held by PBS in CHL are pledged to BAWAG. This pledge, amongst other things, restricts PBS's ability to dispose of its shares in CHL. In addition to interest (which is calculated quarterly and based on 3 month EURIBOR plus one per cent.), BAWAG charges a management fee of 1 per cent. per annum on the outstanding loan amount. As of December 31, 2007, after the first four payments of the loan (in an aggregate amount of €54 million) , the remainder amount of the loan summed-up to €20 million. On June 30, 2008, with the repayment of the last installment, the loan will be paid in full and the pledge on the shares held by PBS will be canceled.

13. LITIGATION

Tax Audit in respect of Casino Rodos

There is a dispute between Rhodes Casino Company and the Greek tax authorities in respect of official charges imposed by the tax authorities, resulting from Rhodes Casino Company failing to maintain "adequate" company records. Additional taxes and penalties amounting to €16 million have been assessed. Rhodes Casino Company has disputed these taxes and penalties and, on the basis of legal advice, management believes that these charges will be cancelled. However, in the event that the assessments are not cancelled, or are only partially reduced, this may have a significant effect on the Group's financial position.

Failure to comply with license obligations

The license granted to Rhodes Casino Company required the license holder to undertake certain obligations. Of these obligations, there is a dispute as to whether the following have been complied with:

(a) Please see Section 2.1.2 under the paragraph entitled "Regulation" ;

(b) the license holder is required to create 336 jobs. As at 31 December 2007, Rhodes Casino Company had 310 employees. The potential consequence of a breach of this license condition is also a revocation of the license. The Greek gaming committee considers that the casino operating company is in breach of the license. However, management of Casino Rodos believes that the license obligation should be interpreted as a requirement to create 336 positions in total, including full-time, part-time and seasonal employees. Rhodes Casino Company has therefore challenged the Gaming Committee's interpretation of the license condition. The hearing of this appeal has been postponed until November 2008. Revocation of the casino license, for either of the reasons above, would have a significant effect on the Group's financial position.

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Removal of Mr. Yair Karni's action filed against the company and others.

As part of the acquisition by the Company of Mr. Karni's rights in CHL, as more fully described in Section 4.1 above, the claim filed by Mr. Karni against the Company and others during 2003 with respect to his rights in CHL was removed. As part of the acquisition contract, the Company declared its intentions to make an offer to the Company's partner in the Loutraki project (in Vasanta), to purchase half of the investment in the Loutraki project that the Company had purchased at half of the consideration that the Company had paid for the full investment.

Other than the foregoing matters, there are currently no governmental, legal or arbitration proceedings (including any such proceedings which are either pending, or that are threatened and known to the Company), which may have or have had in the last 12 months significant effect on the Group's financial position or profitability.

14. 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.

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.

Reputation of gambling may affect the Group's revenues

The Group's revenues are dependent on the number of customers and the average amount of money each customer spends in the Group's casinos (the "drop per admission"). The number of customers that visit the Group's casinos is in turn directly related to the reputation of gambling and the general public's perception of gambling in the markets in which the Group operates. Public sentiment towards the gambling industry can vary considerably, based on unpredictable and sometimes irrational factors and is considered by some to be a less-prestigious form of entertainment. Peaks in anti-gambling sentiment may occur from time to time and may cause significant damage to the industry as a whole. Adverse changes in the perception of gambling by the general public may lead to a decrease in demand for gambling services or increased regulatory restrictions.

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.

In Romania, certain legislative changes are currently being considered by the government. Details of proposed amendments were posted on the Ministry of Finance internet site in late 2006. Although the proposed legislation has not been passed into law and no specific information pertaining to this legislation has been formally announced, the Company believes that it is likely that legislation will be passed and that it will introduce tighter regulation in the Romanian gambling market by restricting the number of licenses that are granted. There can be no guarantee that Casino Palace would be granted a new license in such circumstances and the withdrawal of Casino Palace's existing license would have a material adverse effect on the Group's results of operation.

The Gaming market in Bucharest is competitive

The current lack of strict gaming regulation in Romania means that there is no restriction on the number of casinos in Bucharest. 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, substantially owned and managed by Regency Entertainment and located closer to the centre of Athens than Casino Loutraki. 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.

As stated above, Casino Loutraki's license was one of the twelve casino licenses established by a framework legislation which included two licenses in the Attica area, one of which is the license in Loutraki. Casino Loutraki's operating license was awarded to the operator of Casino Loutraki in February 1995 for so long as such operator remains in existence by a Ministerial Decision which stipulated the terms of the license. According to the framework legislation, the Hellenic Republic undertook, for a period of 12 years from the publication of such legislation, not to grant another casino license(except pursuant to the foregoing framework legislation). This period has expired. Whilst the authorities have not publicly indicated any intention to grant any further licenses to date, 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.

In addition, the Greek Organization of Football Prognostics **("OPAP"),** which operates the Greek national lottery, represents a substantial portion of the Greek gambling market (53 per cent. in 2004). Although the games developed by OPAP to date have not been shown to provide direct competition to Casino Loutraki or Casino Rodos, in the future they may give rise to greater competition, which could have a material adverse effect on the results of operations and financial condition of the Group.

Dependence on Loutraki

Approximately 70 per cent. of the gross gaming revenues of the Group in 2006 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 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.

The Group faces competition from illegal gaming

Illegal gaming is present in some of the jurisdictions in which the Group operates and is planning to operate. In the markets in which the Group currently operates or into which the Group is planning to expand, failure by relevant governmental authorities to implement the level of regulation necessary to enforce prohibitions on illegal gaming could affect the success of the Group's planned projects in these jurisdictions.

There is a 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.

Floor personnel attrition

Should the personnel attrition rate at the Group's casinos increase considerably (particularly as a result of labor or union disputes), it could lead to increased training expenses and affect the efficiency of casino operations. This is a particular concern in Romania, where recruitment of local staff by cruise shipping lines has contributed to a staff turnover of 10 per cent. in respect of staff employed in Casino Palace's live game operations.

Risks Related to the Group's Business

The Group may not be able to obtain 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 planned operations in Prague, Bulgaria, Constanta and Cambodia will require gaming licenses. The Company cannot predict with certainty that it will be able 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.

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

The Group's success depends to a significant extent upon the contributions of a number of the Group's key senior management and personnel. There can be no certainty that the Group will be able to retain its key personnel. Factors critical to retaining the Group's present staff and attracting and motivating additional highly qualified personnel include the Group's ability to provide these individuals with competitive compensation arrangements. The loss (whether temporary or permanent) of the services of any director, member of the senior management team or other key personnel, either at the Company level or within a local management team (such as the ending of Dror Mizeretz's tenure as Chief Executive Officer).), could have a material adverse effect on the business, financial condition or results of operations of the Group. The Group does not currently maintain "key person" insurance.

The Group may experience difficulties managing its planned expansion

The Group is currently in the process of upgrading and expanding Casino Loutraki and Casino Palace as well as actively developing new facilities in Belgrade and Prague and preparing to develop in other regions of Europe and Cambodia. The Group's planned expansion and development projects may lead to increased administrative and organizational challenges. Managing an increasing number of local gaming operations, many operating in different economic and regulatory environments, could ultimately lead to higher administrative costs, a reduced rate of expansion and other operational inefficiencies. If the Group is not able to manage its growth efficiently or successfully, the Group's results of operations and financial conditions could be damaged.

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 33 per cent. of revenues annually. Although many of the casino's visitors are inhabitants 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 inhabitants of the island 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.

There is a possibility that the Greek gaming committee may revoke the license in Rhodes

For details regarding this risk, please see Section 2.1.2 under the paragraph entitled "Regulation".

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.

Ongoing legal disputes may delay the expansion plans in relation to Casino Palace

The Group intends to expand the Bucharest operations by purchasing land to the rear of the Casino Palace and expanding the existing casino area. Queen Investments is in advanced stages of negotiations to purchase this land from the current owners. However, the ownership of the land has been in dispute over recent years. Although the Romanian court has ruled in favour of the selling owners (a decision which was upheld by the appeals court in February 2007), the ruling is not yet irrevocable. Whilst the legal dispute does not involve the Group, until the ruling becomes irrevocable, a purchaser cannot be definitively entered into the land register. If the ruling is overturned, the acquisition or lease of the land by Queen Investments may be delayed.

It is not possible to accurately predict the future performance of projects which are currently in development

The Group's intended development projects have no operating history and it is not possible to predict with any accuracy the future performance of these projects. Should the markets in which these projects are located prove to be less receptive to gaming, or running costs are higher than anticipated, it could have an adverse effect on the Group's results of operations and financial condition.

Risks Related to the Company's structure

Joint venture/minority shareholder risk in Loutraki

Casino Loutraki, together with several of the Group's planned investments, are held through 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. Because there can be no assurance that these third parties will continue to vote in favour of distributing Loutraki's dividends, the Company may not be able to ensure that dividends are distributed from the relevant projects through the Group to the Company.

Changes in tax laws or their interpretation could affect the Company's financial condition or prospects and the level of dividends that the Company is able to pay

The nature and amount of tax which members of the Group expect to pay and the relief expected to be available to any member of the Group are each dependent upon a number of assumptions, any one of which may change and which would therefore affect the nature and amount of tax payable and relief available. In particular, the nature and amount of tax payable is dependent on the availability of relief under tax treaties in a number of jurisdictions and is subject to changes to the tax laws or practice in Israel or any other tax jurisdiction affecting any member of the Group. Any limitation in the availability of relief under these treaties, or changes in the terms of any such treaty or any changes in tax law, interpretation or practice could increase the amount of tax payable by members of the Group, could affect the value of the investments held by the Company or affect the Company's ability to achieve its investment objective and alter the post-tax returns to the Company's shareholders. The level of dividends the Company is able to pay would also be likely to be adversely affected.

According to Greek tax legislation and practice, a company's tax position is only finalized 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 for the Greek tax authorities 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. Should the Greek tax authorities employ methods which are unfavorable to the Group, this may have an adverse effect on the Company's profits.

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 cent. per day but can be well in excess of this. In Romania, tax periods remain open for tax audits for 5 years. According to Romanian legislation if the destination of reserves issued by the Company will be changed then these reserves will be taxed.

The Company invests in various jurisdictions through subsidiaries, not all of which are tax resident in the same jurisdiction as the investments. It is intended that neither the Company nor any member of its Group should have any permanent establishment outside the country in which it is tax resident. If any member of the Group were treated as having a permanent establishment, or as otherwise having a taxable presence in any other country, income attributable to or effectively connected with such permanent establishment or taxable presence may be subject to tax in that other jurisdiction.

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$ and the Romanian 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.

There is no assurance that the Company will be able to pay dividends.

Under Israeli law, the payment of dividends may be made only out of accumulated retained earnings or out of the earnings accrued over the two most recent years, whichever is the higher, and in either case provided that there is no reasonable concern that the payment of a dividend will prevent the Company from satisfying current or foreseeable obligations as they become due. Accordingly, there can be no assurance that the Company will be able to pay regular dividends to its shareholders.

Changes in International Financial Reporting Standards

The International Accounting Standards Board **("IASB")** has proposed in principal the removal of the option of proportional consolidation for jointly controlled ventures under IAS 31. Under the proposed guidance, equity accounting will replace the option of proportional consolidation. The project in Loutraki is a jointly controlled venture that is currently consolidated under proportional consolidation. If the IASB proposal is adopted, then the Loutraki project will be consolidated under the equity method. This would have a significant effect on the presentation of the Group's financial statements but no effect on the net profit.

Risks Related to the Company's headquarter in Israel

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

Since the establishment of the State of Israel in 1948, a number of armed conflicts have occurred between Israel and its Arab neighbours. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, since October 2000, there has been a significant increase in unrest and terrorist activity in Israel, the West Bank and the Gaza Strip, including armed hostilities between Israel, the Palestinian Authority and other groups in the West Bank and Gaza Strip. During the summer of 2006, Israel was engaged in an armed conflict with Hezbollah, a Lebanese Islamist Shi'ite militia group and political party. This conflict involved missile strikes against civilian targets in northern Israel, and temporarily negatively affected business conditions in Israel. The election of representatives of the Hamas movement to a majority of seats in the Palestinian Legislative Council in early 2006 and the tension between the different Palestinian factions may create additional unrest and uncertainty in the region. Whilst the Group does not have any operations in Israel, the Company's headquarters are located in Israel and, accordingly, any further escalation in these hostilities, or any future armed conflicts, political instability or violence in the region, could have a negative effect on the Company's ability to effectively manage the Group from its headquarters.

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

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

Risks related to the conduct of business in emerging markets

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, such as in Cambodia. 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 neighbouring 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 proposing to operate 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.

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;
- experience in dealing with governments and regulations; and
- strategic relationship with a leading casino developer and operator.

3. **Strategy**

The Company's objective is to become the leading entertainment and gaming company in its chosen markets by providing superior gaming experiences, products and services. The Group will pursue the following strategies in order to accomplish this objective:

- capitalise on recent and planned expansions in order to maintain and enhance leading local positions;
- increase scope and scale of existing investments;
- implement focused marketing strategies;
- seek attractive investment opportunities in developing markets;
- capitalise upon the two-tier management structure and management experience to create a single management model across the Group;
- continue to focus on the leisure industry; and
- strengthen its brand.

4. **Presentation of Financial Information**

The Group's consolidated financial statements for the years ended 31 December 2007, 2006 and 2005 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.

As stated elsewhere in this report, on 13 June 2007, the Company acquired 100 per cent. of Queen Romania Ltd., the indirect owner of 83.33 per cent. of Queen Investments SRL, the operator of the Casino Palace and Restaurant Casa Vernescu, the Company's casino and restaurant operations in Bucharest, Romania. Prior to that time the controlling interest in Queen Romania Ltd. was held by Mr. Yigal Zilkha, the control shareholder of the Company, and by Mr. Fredy Robinson. The Group's consolidated financial statements for the years ended 31 December, 2007, 2006 and 2005 have been prepared as if the Company had acquired Queen Romania Ltd. at the beginning of the reporting period starting 1 January 2005, as described in more detail in note 1 to the Group's consolidated financial statements included elsewhere in this annual report.

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 2007 fiscal year, approximately 96.9 per cent. of the Group's total revenues consisted of gaming revenues, and approximately 70.2 per cent., 19.7 per cent. and 10.1 per cent. of gaming revenues were derived from Casino Loutraki, Casino Rodos and the Casino Palace, respectively.

The table below sets forth for each of the Group's 2007, 2006 and 2005 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		
	2007	**2006**	**2005**
Gross gaming revenue	**199,266**	**166,533**	**144,768**
Food and beverage revenue	2,588	2,707	2,119
Entrance tickets (net)	1,030	1,004	1,029
Hotel revenue	1,806	1,829	1,420
Rental revenue	93	58	64
Sundry revenue	945	435	253
Total other revenue	**6,462**	**6,033**	**4,885**
Total Revenue	**205,728**	**172,566**	**149,653**
Tax on gross gaming revenues	(59,071)	(49,555)	(43,573)
Municipality tax	(3,762)	(3,153)	(2,752)
Revenue per income statement	**142,895**	**119,858**	**103,328**

* 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 2005, 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 annual tax of 10 per cent. on revenue derived from the slot machines it operates.

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. In 2007, approximately 61.8 per cent. of the Group's total cost of revenue consisted of staff costs.

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.

Share of results of associates

Share of results of associates consists of the Group's share of profits or losses of its associated companies. The Group currently owns an interest in one associate company, a 39 per cent. interest held by CHL in Grand Casino d.o.o., a company incorporated in Belgrade, whose principal activity is casino gaming and which became fully operational during February 2008.

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 realised as a result of fluctuations in value of the Euro against the NIS, the Romanian lei 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 U.S. dollars, subjecting the Group to variation in the exchange rate between the Euro and the Romanian lei and U.S. dollar, 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 taxation for the 2007, 2006 and 2005 calendar years was calculated at 29 per cent., 31 per cent. and 34 per cent., respectively, of the estimated assessable profit for the year. An amendment to Israeli tax law passed on 25 July 2005 implements incremental tax reductions to 27 per cent. in 2008, 26 per cent. in 2009 and 25 per cent. thereafter. For Greece-based projects, normal income taxation for the 2007, 2006 and 2005 calendar years was calculated at 25 per cent., 29 per cent. and 32 per cent., respectively, of the assessable profit for the year. For Romania-based projects, the Group is taxed depending on the activity undertaken. During 2005, 2006 and 2007, the Casino Palace was 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 2008 fiscal year. The Casino Palace restaurant in the Company's 2006 and 2007 fiscal years was 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:

	Year ended 31 December		
	2007*	**2006***	**2005***
Revenues	142,895	119,858	103,328
Operating costs			
Cost of revenues	(56,838)	(48,874)	(44,016)
Selling and marketing expenses	(14,942)	(11,353)	(10,252)
General and administrative expenses	(18,008)	(16,258)	(15,614)
Other operating expenses	(492)	(861)	(1,267)
Share of results of associates	(1,351)	86	(5)
Operating profit	**51,264**	**42,598**	**32,174**
Investment income	4,933	1,188	1,247
Finance costs	(3,195)	(2,476)	(1,451)
Foreign exchange gain (loss)	(61)	(110)	609
Profit before tax	**52,941**	**41,200**	**32,579**
Tax	(15,407)	(14,761)	(11,313)
Profit for the year	**37,534**	**26,439**	**21,266**
Attributable to:			
Equity holders of the parent	25,138	17,241	13,154

	Year ended 31 December		
	2 0 0 7*	**2 0 0 6***	**2 0 0 5***
Minority interests	12,396	9,198	8,112
	37,534	**26,439**	**21,266**
Earnings per share			
Basic *pro forma* (¢)**	7.6	5.5	4.2
Diluted *pro forma* (¢)**	7.5	5.5	4.2
Basic (¢)	7.6	9.1	21.0
Diluted (¢)	7.5	9.1	21.0

* The 2007, 2006 and 2005 amounts reflect the 12 months operations for the Group for each year as if the restructuring described in Note 1 of the Company's consolidated reports included elsewhere in this report had occurred at the beginning of the reporting period starting 1 January 2005.

** *Pro forma* earnings per share have been calculated as if the equity issue described in Note 1 and in Note 27 of the Company's consolidated reports included elsewhere in this report had been performed on 1 January 2005

Year Ended 31 December 2007 to Year Ended 31 December 2006

Revenues

Revenues amounted to €142,895 thousand in 2007 compared to €119,858 thousand in 2006, an increase of €23,037 thousand, or 19.2 per cent., and gross gaming revenues amounted to €199,266 thousand in 2007 compared to €166,533 thousand in 2006, an increase of €32,733 thousand, or 19.7 per cent. In 2007, approximately 70.2 per cent., 19.7 per cent. and 10.1 per cent. of the Group's gross gaming revenues was derived from Casino Loutraki, Casino Rodos and Casino Palace, respectively. Net gaming revenues and gross gaming revenues increased primarily as a result of increases in the number of visitors and increases in the average revenue per visitors to the Group's casinos. Of the total €205,728 thousand of gross revenues in 2007, €6,462 thousand was attributable to other revenues, compared to €6,033 thousand in 2006, an increase of €429 thousand, or 7.1 per cent.

Tax on gross gaming revenues amounted to €59,071 thousand in 2007 compared to €49,555 thousand in 2006, an increase of €9,516 thousand, or 19.2 per cent. The increase in taxes was in line with the increase in gross gaming revenues generated from the Greek operations over the period.

Municipality tax amounted to €3,762 thousand in 2007 compared to €3,153 thousand in 2006, an increase of €609 thousand.

Operating Costs

Cost of Revenues

Cost of revenues amounted to €56,838 thousand in 2007 compared to €48,874 thousand in 2006, an increase of €7,964 thousand, or 16.3 per cent. The increase in cost of revenues is primarily attributable to increases in staff costs.

Selling and Marketing Expenses

Selling and marketing expenses amounted to €14,942 thousand in 2007 compared to €11,153 thousand in 2006, an increase of €3,589 thousand, or 31.6 per cent. The increase in selling and marketing expenses is primarily attributable to increases in the marketing efforts at each of the Group's casinos aimed at attracting high rollers.

General and Administrative

General and administrative expenses amounted to €18,008 thousand in 2007 compared to €16,258 thousand in 2006, an increase of €1,750 thousand.

Other Operating Expenses

Other operating expenses amounted to €492 thousand in 2007 compared to €861 thousand in 2006, a decrease of €369 thousand. The decrease in other operating expenses is primarily attributable to a one time provision in 2006 concerning a write-off of expenses relating to the marina design in Lourtraki.

Share of Results of Associates

Share of results of associates amounted to a loss of €1,351 thousand in December 2007 compared to €86 thousand in 2006, a decrease of €1,437 thousand. The decrease in share of results of associates is primarily attributable to the running period of Grand Casino d.o.o, starting in June 2007.

Investment Income

Investment income amounted to €4,933 thousand in 2007 compared to €1,188 thousand in 2006, an increase of €3,745 thousand. The increase in investment income is primarily attributable to gains from deposits and the issuance of funds and capital gains of negative goodwill as a result of minority purchasing specified in Section 4.1 of Section A-Description of the Company's Business.

Finance Costs

Finance costs amounted to €3,195 thousand in 2007, compared to €2,476 thousand in 2006, an increase of €719 thousand.

Foreign Exchange Gain (Loss)

Foreign exchange loss amounted to €61 thousands in 2007, compared to foreign exchange loss of €110 thousands in 2006.

Taxes

Taxes amounted to €15,407 thousand in 2007 compared to €14,761 thousand in 2006, an increase of €646 thousand, or 4.4 per cent. The increase in taxes is primarily attributable to an increase in the taxable income basis resulting from increased profit at each casino operation, which was offset by decreases in the taxable income rate in Greece from 29 per cent. in 2006 to 25 per cent. in 2007.

Profit

Profit amounted to €37,534 thousand in 2007 compared to €26,439 thousand in 2006, an increase of €11,095 thousand, or 42 per cent. The increase in profit is primarily attributable to the increase in gross revenues and reduced corporate income tax in Greece in 2007.

Cash and Funding Sources
The Group's principal sources of liquidity are the proceeds from the Public Offering, cash provided by operations and borrowings under three loan facilities from banks provided to Powerbrook Spain S.L., Rhodes Casino S.A. and Queenco Leisure International Ltd. As of 31 December 2007, the Group had €76,011 thousand in cash and cash equivalents, and bank overdraft and loans in an aggregate amount of €12,591 thousand, consisting of €12,587 thousand of short-term bank loans and a €4 thousand overdraft facility.

Cash Flow Statement Data
The table below summarizes the Group's cash flow for the years ended December 31, 2005, 2006 and 2007:

	Year ended 31 December		
	2007	*2006*	*2005*
	€'000	*€'000*	*€'000*
Cash flow from operating activities	46,280	35,941	30,999
Cash flow from (used in) investing activities	(33,339)	(16,212)	(12,149)
Cash flow from (used in) financing activities	28,136	(24,279)	(18,514)
Foreign exchange rate effect	(305)	590	(581)
Net increase (decrease) in cash and cash equivalents	40,772	(3,960)	(245)

Operating Activities
The Group's net cash in flow from operating activities amounted to €46,280 thousands in 2007 compared to net cash in flow of €35,941 thousands in 2006. The increase in net cash in flows in 2007 compared to the net cash in flows in 2006 is primarily attributable to an increase in income before taxes.

Investing Activities
The Group's net cash out flow used in investing activities amounted to €33,339 thousand in 2007 compared to net cash out flow of €16,216 thousand in 2006. The increase in net cash out flow in 2007 compared to the net cash out flow in 2006 is primarily attributable to an increase in loans made to associates, partially offset by decreased purchases of property, plant and equipment, and in turn partially offset by a decrease in the net proceeds received on sale and purchases of marketable securities.

Financing Activities
The Group's net cash in flow from financing activities amounted to €28,136 thousands in 2007 compared to net cash out flow of €24,279 thousands in 2006. The increase in net cash in flow in 2007 compared to the net cash out flow in 2006 is primarily attributable to the funds received by the company from issuance of shares, net of expenses in an amount of €53,346 thousand, with deduction of the receipt of other long term liabilities in an amount of €3,258 thousand and deduction of dividends in an amount of €8,752.

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, 2007

In January 2008, a foreign subsidiary of the Group contracted to acquire land in Cambodia for a total consideration of approximately $ 10 million as more fully described under Section 3.3 of Section A.

On April 29, 2007 the Company announced that Dror Mizeretz would end his tenure as Chief Executive Officer and leave the Board of Directors of the Company, and that Mr Mizeretz has agreed to remain in his current position for up to six months during the Company's search for a new Chief Executive Officer.

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 management and Board of Directors are 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. **The Internal Auditor's Activity**.

Mr. Raviv Rosenberg was appointed internal auditor of the Company and began his work as internal auditor in 2008. The internal auditor is not an employee of the Company.

7. **Severance Pay**

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. Amounts deposited with insurance companies are not reflected on the balance sheet since they are not under the control and management of the Group.

8. **Provision for Contingent Liabilities**.

(i) Casino Rhodes License Commitment

Please see Chapter 1, Section 2.1.2 under the paragraph entitled "Regulation".

According to the legal advisors of Casino Rhodes, to date, the risk of the license being revoked due to the non-compliance with the investment commitments described therein is remote. In addition, the legal advisors of Casino Rhodes believe that an extension will be granted for complying with this commitment. Such opinion has been supported by two legal professors from Athens University.

(ii) Taxes.

Please see Section 14 (Risk Factors) of Chapter 3 under paragraph entitled "Disputes with the tax authority in relation to Casino Rodos may affect the profits of the Group". Casino Rhodes appealed these tax assessments described therein. Casino Rhodes' legal advisors believe that Casino Rhodes has valid legal arguments supporting the appeal. Accordingly, the Company has not made a provision in its financial statements with respect to these tax assessments.

9. Directors with Accounting and Financial Expertise.

The directors with accounting and financial expertise are: Effy Aboudy, Miri Lent-Sharir and Nathan Nissani.

10. Disclosure Regarding the Remuneration of the Auditor

Remuneration for audit services, for services related to the audit and for tax services for 2007 is € 485 thousand for Israel and for the overseas subsidiaries.

Section C- Financial Reports

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

We have audited the accompanying consolidated balance sheets of Queenco Leisure International Ltd. ("the Company") and its subsidiaries ("the Group") as at 31 December 2007 and 2006 and the related consolidated statements of income, consolidated statements of changes in equity and consolidated cash flows statements of the Group for the years ended 31 December 2007, 2006 and 2005. 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 2007 and 2006, and the consolidated results of operations, changes in equity and the cash flows of the Group for the years ended 31 December 2007, 2006 and 2005 in accordance with International Financial Reporting Standards.

Brightman Almagor & Co.

Certified Public Accountants

A member firm of Deloitte Touche Tohmatsu

Israel, 18 March 2008

Consolidated statements of income

(In thousands of €)

	Notes	Year ended 31 December		
		2007*	**2006***	**2005***
Revenues	4	142,895	119,858	103,328
Operating costs				
Cost of revenues	5	(56,838)	(48,874)	(44,016)
Selling and marketing expenses	6	(14,942)	(11,353)	(10,252)
General and administrative expenses	7	(18,008)	(16,258)	(15,614)
Other operating expenses	8	(492)	(861)	(1,267)
Share of results of associates	16	(1,351)	86	(5)
Operating profit		**51,264**	**42,598**	**32,174**
Investment income	9	4,933	1,188	1,247
Finance costs	10	(3,195)	(2,476)	(1,451)
Foreign exchange gain (loss)		(61)	(110)	609
Profit before tax		**52,941**	**41,200**	**32,579**
Tax	11	(15,407)	(14,761)	(11,313)
Profit for the year		**37,534**	**26,439**	**21,266**
Attributable to:				
Equity holders of the parent		25,138	17,241	13,154
Minority interests		12,396	9,198	8,112
		37,534	**26,439**	**21,266**
Earnings per share				
Basic *pro forma* (¢)**	13	7.6	5.5	4.2
Diluted *pro forma* (¢)**	13	7.5	5.5	4.2
Basic (¢)	13	7.6	9.1	21.0
Diluted (¢)	13	7.5	9.1	21.0

* The 2007, 2006 and 2005 amounts reflect the 12 months operations for the Group for each year as if the restructuring described in Note 1 had occurred at the beginning of the reporting period starting 1 January 2005.

** *Pro forma* earnings per share have been calculated as if the equity issue described in Note 1 and in Note 27 had been performed on 1 January 2005

Consolidated Balance sheets
(In thousands of €)

	Notes	As at 31 December	
		2 0 0 7*	**2 0 0 6***
Non-current assets			
Intangible assets	14	13,746	5,290
Property, plant and equipment	15	92,672	85,589
Investment property	33	7,652	7,500
Interests in associates	16	13,019	212
Deferred tax asset	17	2,465	2,220
Other long term receivables	18	12,178	9,099
Total non-current assets		**141,732**	**109,910**
Current assets			
Inventories	19	782	574
Investments	20	8,894	863
Trade and other receivables	21	3,985	2,921
Cash and cash equivalents	22	76,011	35,239
Total current assets		**89,672**	**39,597**
Total assets		**231,404**	**149,507**
Current liabilities			
Accounts payable		(5,587)	(3,642)
Current tax liabilities		(11,314)	(10,224)
Other current liabilities	23	(25,974)	(37,376)
Bank overdraft and loans	24	(12,591)	(11,984)
Total current liabilities		**(55,466)**	**(63,226)**
Net current assets (liabilities)		**34,206**	**(23,629)**
Total assets less current liabilities		**175,938**	**86,281**
Non-current liabilities			
Long-term bank loans	24	(10,259)	(21,910)
Other long-term liabilities	25	(11,003)	(2,319)
Deferred tax	17	(3,471)	(1,034)
Provision for retirement benefits	26	(4,835)	(3,990)
Total non-current liabilities		**(29,568)**	**(29,253)**
Net assets		**146,370**	**57,028**

Shareholders' equity			
Share capital	27	62,512	44,173
Share premium		130,998	84,827
Translation reserve		1,828	2,478
Accumulated Deficit	28	(80,009)	(86,049)
Equity attributable to equity holders of the parent		**115,329**	**45,429**
Minority interest		**31,041**	**11,599**
Total Equity		**146,370**	**57,028**

* The 2007 and 2006 amounts reflect the balance sheets of the Group for 31 December of each year as if the reorganisation described in Note 1 had occurred at the beginning of the reporting period starting 1 January 2005.

The financial statements were approved by the board of directors and authorised for issue on 18 March 2008. They were signed on its behalf by:

Dror Mizeretz
Chief Executive Officer

Effy Aboudy
Chief Financial Officer

18 March 2008

Consolidated statements of changes in equity
(In thousands of €)

	Notes	Share Capital	Share Premium	Translation reserve	Accumulated deficit	Parent	Minority Interest	Total Equity
Balance as at 1 January 2005		-	-	7,615	(116,444)	(108,829)	8,707	(100,122)
Translation differences				(10,862)		(10,862)	(645)	(11,507)
Dividend							(3,399)	(3,399)
Profit share due to the municipality of Loutraki	12						(3,364)	(3,364)
Profit for the year					13,154	13,154	8,112	21,266
Balance as at 31 December 2005		**-**	**-**	**(3,247)**	**(103,290)**	**(106,537)**	**9,411**	**(97,126)**
Capital issue		44,173	84,827			129,000		129,000
Translation differences				5,725		5,725	222	5,947
Dividend							(3,871)	(3,871)
Profit share due to the municipality of Loutraki	12						(3,361)	(3,361)
Profit for the year					17,241	17,241	9,198	26,439
Balance as at 31 December 2006		**44,173**	**84,827**	**2,478**	**(86,049)**	**45,429**	**11,599**	**57,028**

	Notes	Share Capital	Share Premium	Translation reserve	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**

* capital notes held with Milimor and Shachar Hamillenium (parent companies)
** representing 4 ¢ per share

Consolidated cash flow statements

(In thousands of €)

	Notes	Year ended 31 December		
		2007*	**2006***	**2005***
Net cash from operating activities	29	**46,280**	**35,941**	**30,999**
Investing activities				
Interest received		4,801	478	577
Dividends received from trading investments		-	-	39
Purchases of property, plant and equipment		(9,983)	(9,972)	(8,001)
Purchase of other intangibles		(28)	(27)	(34)
Investment in an associate		(9,754)	(20)	(220)
Proceeds on sale of marketable security		-	2,465	-
Money on deposit		-	(715)	-
Purchases of trading investments		(7,923)	(147)	-
Instalments for the acquisition of a subsidiary		(714)	(714)	(714)
Loan to associate		(7,585)	(60)	(3,900)
Purchase of additional interest in joint venture entity		(2,153)	-	-
Investment in a subsidiary net of cash acquired	15	-	(7,500)	104
Net cash used in investing activities		**(33,339)**	**(16,212)**	**(12,149)**
Financing activities				
Dividends paid to minority shareholders		(3,402)	(3,776)	(3,313)
Dividends		(8,752)	-	-
Repayments of long term receivables		-	-	484
Repayments of borrowings		(11,730)	(13,325)	(5,000)
Receipt / (repayment) of other long term liabilities		3,285	(4,266)	(265)
Issue of shares, net of expenses		53,346	-	-
Repayments of capital notes		-	(246)	(5,609)
Repayments of obligations under finance leases		-	-	(18)
Share of profits paid to Municipality of Loutraki		(4,361)	(2,911)	(3,578)
Increase (decrease) in bank overdrafts		(250)	245	(1,215)
Net cash provided by (used in) financing activities		**28,136**	**(24,279)**	**(18,514)**
Net increase (decrease) in cash and cash equivalents		41,077	(4,550)	336
Effect of foreign exchange rate changes		(305)	590	(581)
Cash and cash equivalents at beginning of year	22	35,239	39,199	39,444
Cash and cash equivalents at end of year		**76,011**	**35,239**	**39,199**
Tax cash flow		(14,717)	(11,891)	(11,965)
Interest paid		(1,208)	(4,074)	(1,105)

The 2007, 2006 and 2005 amounts reflect the 12 months operations for the Group for each year as if the reorganisation described in Note 1 had occurred at the beginning of the reporting period starting 1 January 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Euro unless otherwise stated)

NOTE 1 - GENERAL INFORMATION

Queenco Leisure International Ltd (formerly Resido Tourism, Development and Vacationing (2002) Ltd) (the “Company” and "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 traded 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 registered address is 5 Shoham Street , Ramat Gan, Israel.

In November 2004, all Milomor's holdings in the Company’s shares were transferred to Shachar HaMilenium (1991) Ltd., an Israeli public company whose shares are also traded 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. The Company's ultimate controlling shareholder is Mr. Yigal Zilka.

In March 2007, Queenco acquired all of Milomor's holdings in Shachar HaMilenium.

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. The activities in Greece are in the city of Loutraki and Rhodes island. The Company provides advisory services to the projects.

Up until the end of 2002, Milomor and Queenco were the joint owners 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 € 407 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.

On 31 May 2007, the Company declared a dividend of € 8.8 million, payable to the Shareholders of the Company on that date, being Shachar and YZ Queenco. This dividend was paid on 15 July 2007.

In June 2007, Resido Rodos 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.

The Company prepares its financial statements under International Financial Reporting Standards (IFRS) as adopted by the EU.

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

IFRS 3 (R)	Business Combinations
IFRS 8	Operating Segments
IAS 1 (R)	Presentation of Financial Statements
IAS 23 (R)	Borrowing Costs (March 2007)
IAS 27 (R)	Consolidated and Separate Financial Statements
IFRIC 10	Interim Financial Reporting and Impairment

(in thousands of Euro unless otherwise stated)

IFRIC 12 Service Concession Arrangements
IFRIC 13 Customer Loyalty Programs
IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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 except for additional disclosures on operating segments, and reclassification of balance sheet items when the relevant standards come into effect for periods commencing on or after 1 January 2008.

Project in Loutraki

The Company holds 50% of the shares of an Israeli company ("Vasanta") who holds, through Israeli and foreign corporations under its control, 58.5% interest in Club Hotel Loutraki S.A. (hereinafter: "CHL"), a company incorporated in Greece. Vasanta meets the definition of a jointly controlled entity under IAS 31.

On 30 September 2007, the Company purchased a further 6% of the equity of an Israeli Company ("Dasharta"), the subsidiary of Vasanta that holds the Group's investment in CHL, and corresponding 6% economic interest in Agastia (see below) from a minority interest. This transaction brings the indirect interest of the Group in CHL to 40.3%

78% of the equity of CHL is held by Powerbrook Spain S.L. Agastia, a holding company controlled by Vasanta, has rights to 97.5% of the profits of Powerbrook Spain, until accumulated free cash flow (as defined in shareholders' agreement) reaches € 407 million. Once accumulated free cash flow have reached this level, the third party shareholder (Casino Austria) will have rights to 25% of additional profits, and related share in Powerbrook Spain's equity. To date € 128 million has been accumulated as free cash flow with this respect.

Casino Austria financed its acquisition of all of the B Preferred shares and 25% of the ordinary shares in Powerbrook Spain by a loan ("Sellers Loan") from Agastia. All rights to distributions on the B Preferred shares were assigned by Casino Austria to Agastia until the Sellers Loan has been repaid at which time the B Preferred shares are cancelled. From July 2007 Casino Austria has the right to put all of its B preferred shares and half of its ordinary shares back to Agastia, the consideration for which will be the forgiveness of any remaining balance on the Sellers Loan. Agastia also has a call option to acquire all of the B Preferred shares and half of ordinary shares held by Casino Austria in exchange for forgiveness of any remaining balance on the Sellers Loan and cash of € 15 million. These options are exercisable up until July 2008. From July 2008 until July 2009, the Put and Call option are exercisable at half of all aforementioned terms. Since the Sellers Loan and the B Preferred shares will be effectively cancelled in July 2008 and no cash consideration will have been exchanged between Agastia and Casino Austria no obligation for the put has been recognised in these financial statements. Since the call option is equity settled no amounts will be recognised in respect of the call option unless it is exercised.

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 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 € 56 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. Even though the legal advisors of the Group believe that the chances of the revocation of the license are remote, in such a scenario Rhodes Casino will have a strong legal case against Emporiki Bank for the non-fulfilment of the obligation.

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 in the General Information to Note 1 had occurred at the beginning of the reporting period starting 1 January 2005 (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 October 2007 Queen Investments Inc. S. R. L. attained concession rights over a historic building in Constansa for a period of 49 years. The Company intends to renovate and operate the building "Casino Constanse". 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.

Project in Belgrade

In December 2005, Grand Casino d.o.o Belgrade (hereinafter: "the Serbian Company") in which CHL holds a 39% interest, 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.

The Group's proportional share of the Serbian Company is included in the financial statements under the Equity Method.

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.

In September 2006, CHL acquired a company which owns the asset in which the casino will be located for a consideration of € 15 million. The Serbian Company leases the asset for a period of 10 years. This asset is designated as an investment property.

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

Project in Prague

The Company is in the process of forming an amusement centre in the city of Prague, the Czech Republic. The amusement centre will include a club and gaming centre and is planned to open in the second half of 2008. Total investment in the project is estimated at € 5 million. Total investment in the project at 31 December 2007 was € 2.3 million.

Real estate in Bulgaria

The Company holds, through a wholly owned Israeli subsidiary, 70% interest in a private company registered in Bulgaria which has the right to be registered as the owner of certain real estate property in Bulgaria. This asset is designated for future use as a tourist project, and accordingly is presented as part of the Group's fixed assets. The financial statements of the company in Bulgaria are fully consolidated with the Company's financial statements.

Land in Cambodia

In February 2007, a foreign interest of the Group contracted to acquire land in Cambodia for a total consideration of $13.5 million. The current designation of the land is for agriculture. However the Group expects that the designation of the land can be changed for tourism purposes.

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 years ended 31 December 2007, 2006, and 2005 as if the reorganisation had taken place on 1 January 2005.

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 62,500,000 shares on 13 June 2007.

2.2 Use of Estimates

The preparation of the accompanying 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 Company'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 Company'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 Company has incurred obligations in respect of the associate.

(iii) Jointly controlled entities

Jointly controlled entities are those entities over whose activities the Company has joint control under contractual arrangement. The financial statements include the Company'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 is accounted for using the purchase method. 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.

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

In the event of a purchase of a minority interest or the increase of a stake in a proportionally consolidated entity whilst retaining joint control, the Company applies purchase accounting to the portion of the assets newly acquired. The proportion of the fair value of assets acquired is assessed and the purchase price is allocated according to the fair value of these assets. Any unallocated consideration is allocated to goodwill.

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 Groups 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.

(in thousands of Euro unless otherwise stated)

- 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

- 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 operates in one business segment and currently in one geographical segment (Europe).

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.

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.

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 Company. 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.

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 Company 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 is amortised over a period of 12 years and the donation (see Note 14) is amortised over the remaining period of exclusivity of the gaming licence, which is 5 years. In Rhodes, the gaming license is amortised over a period of 12 years.

The fair value adjustment on the license (not including exclusivity) purchased in 2007 is amortised over 38 years.

2.16 Impairment

The carrying amounts of the Group's non current 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, Romanian Lei and 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. The asset in Belgrade is depreciated over 25 years.

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 on a straight-line basis 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.

Fair value is measured by use of a binomial model. 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.

(in thousands of Euro unless otherwise stated)

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. The most significant of these are provisions and contingent liabilities including those with respect to tax and actuarial assumptions in respect of the calculation of retirement provisions.

Furthermore 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). There were further key judgements in regards to the Purchase Price Allocation in the Karni transaction (see note 9 for further details).

See note 31 for further details of these provisions. In addition management has made critical judgements in evaluation of indication of impairments and impairments that have been recorded. See note 15 for further details.

NOTE 4 - REVENUE

	Year ended 31 December		
	2007	2006	2005
Gross gaming revenue	**199,266**	**166,533**	**144,768**
Food and beverage revenue	2,588	2,707	2,119
Entrance tickets (net)	1,030	1,004	1,029
Hotel revenue	1,806	1,829	1,420
Rental revenue	93	58	64
Sundry revenue	945	435	253
Total other revenue	**6,462**	**6,033**	**4,885**
Total Revenue	**205,728**	**172,566**	**149,653**
Tax on gross gaming revenues	(59,071)	(49,555)	(43,573)
Municipality tax	(3,762)	(3,153)	(2,752)
Revenue per income statement	**142,895**	**119,858**	**103,328**

NOTE 5 - COST OF REVENUES

	Year ended 31 December		
	2007	2006	2005
Staff costs	35,119	28,120	25,451
Food and beverage	2,063	1,949	1,854
Maintenance	628	639	637
Rent	1,405	1,182	741
Utilities	1,498	1,306	1,431
Amortisation	1,187	1,082	1,199
Depreciation	7,864	8,076	7,491
Greek Tourist Organisation – duties	959	954	954
Other	6,115	5,566	4,258
Total	**56,838**	**48,874**	**44,016**

(in thousands of Euro unless otherwise stated)

NOTE 6 - SELLING AND MARKETING EXPENSES

	Year ended 31 December		
	2007	2006	2005
Advertising and marketing expenses	13,971	10,724	9,758
Junketeers	273	311	245
Staff costs	698	318	249
Total	**14,942**	**11,353**	**10,252**

NOTE 7 - GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December		
	2007	2006	2005
Staff costs	6,400	6,362	5,393
Audit fees	485	367	341
Other professional services	5,486	5,505	4,946
Gratuities, donations	1,122	301	282
Stamp duty	-	-	384
Bank charges	141	293	323
Other costs	4,374	3,430	3,945
Total	**18,008**	**16,258**	**15,614**

NOTE 8 - OTHER OPERATING EXPENSES

	Year ended 31 December		
	2007	2006	2005
Casino licence bids	-	58	487
Impairment of fixed assets	-	710	480
Other costs	492	93	300
Total	**492**	**861**	**1,267**

(in thousands of Euro unless otherwise stated)

NOTE 9 - INVESTMENT INCOME

	Year ended 31 December		
	2007	2006	2005
Gain on marketable securities	132	710	508
Interest on bank deposits	3,356	478	700
Dividends from equity investment	-	-	39
Profit on purchase of minority interest	2,890	-	-
Loss on grant of derivative instrument	(1,445)	-	-
Total	**4,933**	**1,188**	**1,247**

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 holds Powerbrook Spain, from a minority interest. 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.

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 (in Vasanta), to purchase half of the investment in the Loutraki project that QLI had purchased. at exactly 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. The derivative instrument has been revalued as at 31 December 2007, and the loss recognised in the Income Statement. See note 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 profit from the additional 6% purchased included in the financial statements is € 512 thousand.

Had the acquisition been made on 01 January 2007, total revenues of the Group would have been € 147.1 million for the year and total profit would have been € 37.6 million.

* 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 31 December 2007). This capital represents a loan to Agastia and is eliminated upon consolidation.

(in thousands of Euro unless otherwise stated)

NOTE 10 - FINANCE COSTS

	Year ended 31 December		
	2007	2006	2005
Interest on borrowings	2,936	2,476	3,980
Interest on finance leases	-	-	1
Loss on revaluation of derivative instrument *	259	-	-
Debt forgiveness **	-	-	(2,530)
Total	**3,195**	**2,476**	**1,451**

* See note 9 for more details of the transaction.

** The debt forgiveness relates to the restructuring of a bank loan held in Casino Rhodes concluded on 30 December 2005. Having met several conditions agreed with the lender, the lender agreed to forgive an interest charge of € 963 thousand and to reduce interest rates margin for certain periods of time resulting in a reduction in the liability of additional € 1,567 thousand.

Casino Rhodes has recognised the interest forgiven and the benefit of the reduction of interest rates margin in the profit for 2005 and reduced the loan obligation by the same amount in that year. These amounts are being amortised into interest expense using the effective interest rate.

NOTE 11 - TAX

	Year ended 31 December		
	2007	2006	2005
Current tax	15,991	12,775	11,815
In respect of prior years	92	1,208	-
Deferred tax (note 17)	(676)	778	(502)
	15,407	**14,761**	**11,313**

In Israel, normal income taxation for the year ended 31 December 2007 is calculated at 29% (2006: 31%, 2005: 35%) 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 2008 27%, in 2009 26% and thereafter 25%.

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 € 407 million.

The Company has at 31 December 2007 a net operating loss carried forward in an amount of approximately € 4.4 million for which no asset was recorded.

For Greece based projects, normal income taxation for the year ended 31 December 2007 was calculated at 25% (2006: 29%, 2005: 32%) of the estimated assessable profit for the year.

In 2007 the Greek Tax Authorities completed a tax audit for JV DAET Club Hotel Loutraki S.A. (a subsidiary of CHL) for the period 1 January 2005 to 31 December 2006. In January 2007, the tax authorities completed a tax audit for CHL for the period 1 January 2000 to 31 December 2005. The outcome of the tax audit was that additional taxes and penalties of €1.1 million were assessed of which € 0.4 million had been provided in prior years. The Groups 50% share in total income tax under-provision of € 1,208 is presented as a prior year expense. There has been no tax audit for 2006 or 2007.

For Romanian based projects, the Group pays tax depending on the activity undertaken. During years 2005-2007, 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 2007 is subject to 16% tax rate applied to gross profit (2006: 16%, 2005: 16%).

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:

	2007 € 000s	**2006 € 000s**	**2005 € 000s**
Profit before tax:	**52,943**	**41,200**	**32,579**
Tax at the Israeli corporation tax rate of 29% (2006: 31%; 2005: 34%)	15,353	12,772	11,077
Tax effect of share of results of associates	(392)	20	2
Tax effect of expenses that are not deductible in determining taxable profit	1,425	1,702	1,104
Effect of previously unrecognised deferred tax liability *	188	835	-
Tax effect of utilisation of tax losses not previously recognised	(1,252)	(1,654)	(1,339)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(7)	(122)	469
Effect of tax for prior years	92	1,208	-
Tax expense and effective tax rate for the year	**15,407**	**14,761**	**11,313**
Effective tax rate	29.1%	35.8%	34.7%

* A deferred tax liability has been included for first time in 2006 for Casino Rhodes as there are no longer any tax losses available to be utilised in 2007. Prior to 2006, deferred tax assets were recognised to the extent of any deferred tax liabilities and offset against these deferred tax liabilities.

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 30.

(in thousands of Euro unless otherwise stated)

NOTE 13 - EARNINGS PER SHARE

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

Earnings

	As of 31 December		
	2007	2006	2005
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	25,138	17,241	13,154
Number of shares used for EPS calculation *	332,765,020	189,897,510	62,500,250
Number of shares used for diluted EPS calculation *	333,800,369	189,897,510	62,500,250
Number of shares used for *pro forma* calculation **	332,765,020	312,500,250	312,500,250
Number of shares used for diluted *pro forma* calculation **	333,800,369	312,500,250	312,500,250

* The number of shares used for the EPS calculation reflects the 62,500,000 shares issued on 13 June 2007 for the Romanian assets as if they had been issued on 1 January 2005 because this was accounted for as a reorganisation of entities under common control.

** A *pro forma* calculation for earnings per share has been presented for the purposes of comparability. Due to large number of shares issued in 2006, the EPS calculation mandated by IAS 33 does not represent useful information. The *pro forma* calculation assumes that the equity issue in June 2006 as described in note 26 occurred on 1 January 2005. The effective interest reduction as a result of this assumption is immaterial and therefore has not been included for the purposes of the *pro forma* calculations.

NOTE 14 - INTANGIBLE ASSETS

	Gaming Licences	Goodwill	Other intangibles	Total
Cost				
Balance as at 01 January 2006	11,158	2,273	107	13,538
Additions	-	-	27	27
Disposals	-	-	(1)	(1)
Balance as at 31 December 2006	11,158	2,273	133	13,564
Additions	26	-	2	28
Disposals	-	-	-	-
Assets acquired through business combinations	8,986	-	903	9,889
Balance as at 31 December 2007	20,170	2,273	1,038	23,481

(in thousands of Euro unless otherwise stated)

Accumulated amortisation				
Balance as at 01 January 2006	7,100	-	59	7,159
Amortization for the year	1,082	-	34	1,116
Disposals	-	-	(1)	(1)
Balance as at 31 December 2006	8,182	-	92	8,274
Amortization for the year	656	-	563	1,219
Disposals	-	-	-	-
Assets acquired through business combinations	242	-	-	242
Balance as at 31 December 2007	9,080	-	655	9,735
Net book value as at 31 December 2007	**11,090**	**2,273**	**383**	**13,746**
Net book value as at 31 December 2006	**2,976**	**2,273**	**41**	**5,290**

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 is the five- year period ending in 2007. This figure has been included within the cost of gaming licences.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(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
Owned Assets						
Cost						
Balance 1/1/06	**90,319**	**17,222**	**20,251**	**628**	**1,371**	**129,791**
Additions	5,654	3,340	826	44	108	9,972
Transfers and disposals	(1,153)	(953)	(299)	(36)	324	(2,117)
Exchange differences	287	304	27	(2)	48	664
Impairment	-	-	-	-	(755)	(755)
Balance 31/12/06	**95,107**	**19,913**	**20,805**	**634**	**1,096**	**137,555**
Additions	3,178	1,700	3,166	158	1,781	9,983
Transfers and disposals	(2)	(3,229)	(38)	(19)	-	(3,288)
Assets acquired through business combinations	5,611	728	795	28	-	7,162
Exchange differences	(261)	(102)	(10)	(6)	(28)	(407)
Balance 31/12/07	**103,633**	**19,010**	**24,718**	**795**	**2,849**	**151,005**
Accumulated Depreciation						
Balance 1/1/06	**17,404**	**11,442**	**14,794**	**387**	**474**	**44,501**
Additions	3,015	1,900	2,831	76	-	7,822
Transfers and disposals	(68)	(620)	(197)	(23)	-	(908)
Exchange differences	434	232	(115)	-	-	551
Balance 31/12/2006	**20,785**	**12,954**	**17,313**	**440**	**474**	**51,966**
Additions	3,358	2,313	2,246	113	-	8,030
Transfers and disposals	-	(3,229)	(38)	(21)	-	(3,288)
Assets acquired through business combinations	616	518	633	25	-	1,792
Exchange differences	(80)	(75)	(7)	(5)	-	(167)
Balance 31/12/2007	**24,679**	**12,481**	**20,147**	**552**	**474**	**58,333**
Net book value -31/12/07	78,954	6,529	4,571	243	2,375	92,672
Net book value -31/12/06	74,322	6,959	3,492	194	622	85,589

(in thousands of Euro unless otherwise stated)

The land represents 2.863,77 square metres situated in Livathaki, Loutraki of which 940 square metres is given to the municipality to widen the road, secure the building permit and to secure access to the property.

NOTE 16 - INTERESTS IN ASSOCIATES

	As of 31 December		
	2007	2006	2005
Cost of investment in associates	14,660	287	267
Share of post acquisition profit (loss)	(1,830)	81	(5)
Elimination of intercompany transactions	189	(156)	-
Total	**13,019**	**212**	**262**

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 is 43.33% while the share of profits is 39%.

Details of the associates (substantially comprised of Grand Casino d.o.o.) as at 31 December are as follows:

Balance sheet

	As of 31 December		
	2007	2006	2005
Total assets	59,701	21,380	19,019
Total liabilities	3,565	20,541	17,998
Net assets	56,136	839	1,021

Profit and loss

	For the year ended 31 December		
	2007	2006	2005
Gross revenue	3,167	-	-
Profit (loss) before income tax	(6,894)	173	(17)
Income tax benefit	-	-	2
Profit (loss) for the year	**(6,894)**	**173**	**(15)**
Group's share of associates profit (loss)	**(1,351)**	**86**	**(5)**

(in thousands of Euro unless otherwise stated)

NOTE 17 - DEFERRED TAX ASSET

	2007	2006
Net deferred tax assets:		
Balance beginning of year	2,220	2,285
Assets acquired through business combinations	97	-
Movement for the year	148	(65)
Balance end of year	2,465	2,220
Net deferred tax assets comprise:		
Accrued liabilities	323	287
Restructuring asset *	897	1,013
Provision for retirement benefit	964	785
Owned fixed assets and license fees	290	152
Total deferred tax assets	**2,474**	**2,237**
Deferred tax liabilities		
Capitalised finance leases	(9)	(17)
Net deferred tax assets	**2,465**	**2,220**

	2007	2006
Net deferred tax liabilities:		
Balance beginning of year	(1,034)	(180)
Assets acquired through business combinations	(2,967)	-
Movement for the year	528	(854)
Balance end of year	(3,473)	(1,034)
Net deferred tax liabilities comprise:		
Accrued liabilities	92	106
Provision for retirement benefit	238	212
VAT provision	168	168
Deferred tax assets	**498**	**486**
Deferred tax liabilities		
Owned fixed assets and license fees	(785)	(900)
Dividends	-	(333)
Fair value adjustment in respect of fixed assets	(553)	-
Fair value adjustment in respect of intangible assets	(2,386)	-
Debt forgiveness **	(245)	(287)
Net deferred tax liabilities	**(3,471)**	**(1,034)**

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 Company 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)

(in thousands of Euro unless otherwise stated)

deferred tax asset arising from temporary differences regarding the transfer of the project. This asset has been amortised as temporary differences have been realised.

** The deferred tax liability recognised in regards to the debt forgiveness described in note 10.

NOTE 18 - OTHER LONG TERM RECEIVABLES

	As of 31 December	
	2 0 0 7	**2 0 0 6**
Deposits on land	4,900	-
VAT receivable *	3,347	3,691
Loan to Agastia	2,818	-
Loan to Grand Casino d.o.o. **	-	4,029
Other	1,113	1,379
	12.178	**9,099**

* During 2007 € 0.6 million was written down
** The loan to Grand Casino d.o.o. was converted to equity during 2007 and is classified as interest in associate (see note 16)

NOTE 19 - INVENTORIES

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

NOTE 20 - INVESTMENTS

	As of 31 December	
	2 0 0 7	**2 0 0 6**
Short-term deposit	987	715
Equity securities	-	148
Short-term traded debentures	7,907	-
	8,894	**863**

The Equity Securities represent investments in mutual funds and listed equity securities (Piraeus Bank) that present the Group with opportunity for return through dividend income and trading gains. They have no fixed maturity or coupon rate. The fair values of these securities are based on quoted market prices.

NOTE 21 - TRADE AND OTHER RECEIVABLES

	As of 31 December	
	2 0 0 7	**2 0 0 6**
Accrued interest and prepayments	1,211	724
Trade receivables	1,129	197
Income tax paid in advance	191	448
Advance to related party	134	158
Other receivables from related parties	812	109
Other	508	1,285
Total	**3,985**	**2,921**

Other receivables from related parties refer to related parties expenses which are due to the Company. Advance to related party is described in Note 32.

(in thousands of Euro unless otherwise stated)

NOTE 22 - CASH AND CASH EQUIVALENTS

	As of 31 December	
	2 0 0 7	**2 0 0 6**
Cash on hand	9,468	10,336
Cash at banks	33,990	18,969
Time deposits	32,553	5,934
Total	**76,011**	**35,239**

Of the above amounts 2007: € thousand ; 2006: € 7,249 thousand; was placed with Piraeus Bank, a related party of CHL, interest rates vary from 0.75% to 1.75% per annum during financial years 2004 – 2006; and 2006: € 0; 2005: € 4,743 thousand; 2004: € 4,447 thousand was placed with Euron Bank S.A., Bucharest, a bank former related to CHL, at interest rates 3.75% for the deposits in U.S. Dollars and 4% for the deposits in Euro.

NOTE 23 - OTHER CURRENT LIABILITIES

	As of 31 December	
	2 0 0 7	**2 0 0 6**
Parent companies	135	10,020
Capital Notes	-	7,503
Liability to the Municipality of Loutraki	3,446	2,940
Employee related liabilities	5,990	4,816
Taxes and duties	8,107	7,338
Accruals and provisions	2,436	1,545
Related Parties	-	1,643
Customer prepayments and chips	316	434
Cheques payable	2,989	113
Other	2,555	1,024
Total	**25,974**	**37,376**

Parent company loans are not interest bearing nor linked to any index. They have no stated repayment terms and are treated as "on-call" by the Group.

The capital notes have been issued to the ultimate controlling shareholders of Agastia. They are not interest bearing and are not linked to any index. They have no stated repayment terms and were treated as "on-call" by the Group. In June 2006, 94% of the capital notes were exchanged for equity in the Company as described in Note 27 and therefore are eliminated on consolidation after this date.

(in thousands of Euro unless otherwise stated)

NOTE 24 - BANK LOANS

Short term credit

	As of 31 December	
	2 0 0 7	2 0 0 6
Consisting of:		
Overdraft and short term credit	4	254
Bank loans falling due within one year	12,587	11,730
Total	**12,591**	**11,984**

Bank Loans

Loan 1:		
- Euro	12,093	9,346
Loan 2:		
- Euro	-	4,294
Loan 3		
- Euro	10.753	20,000
Total bank loans	**22,846**	**33,640**
Less: Total falling due within one year	(12,587)	(11,730)
Total long-term portion	**10,259**	**21,910**

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

	2007	**2006**
Within one year	12,587	11,730
In the second year	1,900	11,820
In the third year	2,050	1,900
In the fourth year	2,200	2,050
In the fifth year and after	4,109	6,140
Total	**22,846**	**33,640**

Loans 1 & 2

Loans 1 & 2 were granted to the Rhodes Casino. The Rhodes Casino defaulted on the repayment terms of the loans as set out in the original agreements dated 21 February 1997 and 23 April 1998.

Loan 1 was repayable in 12 semi-annual instalments commencing on 31 December 1999 with the last instalment due on 30 June 2005 and bears interest at EURIBOR plus a margin of 2.25% per annum. The amounts in default bear interest at the bank's basic lending rate plus 4.25% per annum.

The Shares in Rhodes Casino are liened in respect of this loan.

Loan 2 was repayable in 9 semi-annual instalments commencing on 31 December 1999 with the last instalment due on 12 December 2003 and bears interest at EURIBOR plus a margin of 2.25% per annum. The amounts in default bear interest at EURIBOR plus 4.25% per annum.

On 19 July 2001, an addendum to the agreements was concluded with the leading bank for the restructuring of the syndicated loans by extending the repayment period and hence no amounts would be overdue. However, the restructuring agreement, though approved by the Board of Directors of all the Banks (the Banks) participating in these loans, and the Rhodes Casino, was not put in force, as the shareholders of the Company did not fulfil certain obligations relating to guarantees required by the banks as the written undertaking requested by the Shareholders from the Commercial Bank accepting liability to fund the investments to be made on the Island of Rhodes in accordance with the conditions of the casino license was not given by the Commercial Bank.

On 30 December 2005 the Rhodes Casino and the Banks finally concluded the addendum to agreements for the restructuring of both loans. The following amendments were agreed:

(a) Queenco and Milomor have provided guarantees and are responsible for the debt of the Rhodes Casino. In addition they have provided a letter of credit for an amount equal to one third of the balance of Loan 2.

(b) The Rhodes Casino repaid capital of € 5,619 thousands (capital and interest on the loans, including default interest) and the Banks forgave default interest of € 963 thousands.

(d) As from 30 June 2005 the Banks agreed to reduce the margin over the Libor rate by 1.55% to 0.7% until such time as the difference between the interest charged and the interest that would have been charged had the original margin of 2.25% been applied reaches the level of the remaining balance of the default interest which after (b) and (c) amounts to € 1,567 thousands (the Set-Off balance), following which the original margin of 2.25% will apply. In the event that the difference due to the reduction in the margin does not reach the level of the Set Off balance, the balance can be set-off against the last instalment. Alternatively the Banks will be entitled, no later than 31 December 2008, to either extend the terms of the loan and/or to reduce the margin further or to request the Company to convert the outstanding loan to a Secured Bond loan with the same terms of the existing loan.

(e) The loans are 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.

See note 10 for details of the accounting treatment of interest forgiven.

Loan 3

Loan 3 represents a loan taken by Powerbook Spain of €74 million from “Bank Für Arbeit und Wirtschaft” (BAWAG). The loan agreement is dated 17 July 2003. Interest is calculated quarterly and based on 3-month EURIBOR plus a margin of 1% per annum. The bank also charges a management fee of 0.5% per annum on the outstanding amount.

These two items are recorded under the “Finance costs” caption of the accompanying Income Statements.

Pursuant to the Share Pledge Agreement dated 8 August 2003, 69.322.500 shares, i.e. 78% of the share capital of “Club Hotel Loutraki, S.A.”, numbered 1 – 69.322.500, that belong to Powerbrook Spain, S.L. are pledged to BAWAG. This pledge limits the following transactions without BAWAG’s prior consent:

a) any sale of the shares in Club Hotel Loutraki, S.A. before the loan has been fully repaid to BAWAG;

b) any change of Company shareholders;

c) the reduction of Casinos Austria GmbH’s voting rights in the Company to less than 25% or the reduction in Casinos Austria GmbH’s equity investment in the Company to less than 12.5%;

d) the reduction of the Company’s investment in Club Hotel Loutraki, S.A. to 50% or less;

The Shares in CHL are liened in respect of this loan.

Interest rate risk

Total interest rate costs for 2007 were € 1,728 thousand (2006: € 2,134 thousand; 2005: € 2,975 thousand). Interests were EURIBOR + 0.7-1.5%. If interest rates were 1% higher during 2007, these would have increased to € 1,982 thousand, and if interest rates had been 1% lower these would have decreased to € 1,468 thousand.

Liquidity risk

The group has € 12.6 million falling due within 2008. The Group intends to manage liquidity by funding the repayment from cash flow from operating activities, and if necessary from cash at bank.

NOTE 25 - OTHER LONG TERM LIABITIES

	As of 31 December	
	2007	**2006**
Shareholder loans	1,097	-
Consideration for Casino Rhodes	1,966	2,605
Other	10,766	353
Total	**13,829**	**2,958**
Less: Short-term portion	(2,826)	(639)
Other long-term liabilities	**11,003**	**2,319**

Parent company loans are linked to the Israeli CPI.

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. As at 31 December 2007, the present value of the liability is repayable as follows:

	€ 000s
30 August 2008	627
30 August 2009	655
30 August 2010	684
	1,966
Less: portion falling due within one year	(627)
Total	**1,339**

The present value has been determined using a rate of 4.45% per annum being 2.25% above the six month EURIBOR rate ruling on the date of the acquisition.

Post dated cheques have been issued for the above instalments and a bank guarantee has been issued for the repayment due on 30 August 2008 (capital and interest).

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.

(in thousands of Euro unless otherwise stated)

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 has no liability with respect to the employees in Romania.

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

	Year ended 31 December		
	2007	**2006**	**2005**
At 1 January	3,990	3,420	2,885
Amounts charged to income	1,044	870	894
Liabilities acquired through business combinations	215	-	-
Benefits paid directly by the Company	(414)	(300)	(358)
Balance 31 December	**4,835**	**3,990**	**3,421**

Amounts recognised in the income statement are as follows:

	Year ended 31 December		
	2007	**2006**	**2005**
Service cost	619	592	543
Interest cost	172	140	129
Extra payments	253	133	191
Past service cost arising over last year	-	5	31
Total	**1,044**	**870**	**894**

The amount included in the balance sheet is as follows:

	As of 31 December		
	2007	**2006**	**2005**
Present value of obligation	4,320	4,169	3,528
Unrecognised actuarial gain (losses)	542	(152)	(107)
Unrecognised past service cost	(27)	(27)	-
Net liability recognised in balances	**4,835**	**3,990**	**3,421**

The key assumptions used are as follows:

	Year ended 31 December		
	2007	**2006**	**2005**
Discount rate	4.8%	4.2%	4.5%
Expected rate of salary increases – depending on salary level	4.5% - 5.0%	2.5% - 5.0%	2.5% - 5.0%
Inflation	2.5%	2.5%	2.5%

The expected rate of salary increases for December 2007 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 € 2.3 thousand per month as at 31 December 2007.

(in thousands of Euro unless otherwise stated)

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 of 31 December	
Number of ordinary shares,	**2 0 0 7**	**2 0 0 6**
1 New Israeli Shekel par value each:		
Authorised	500,000,000	500,000,000
Issued and fully paid as at 01 January	250,000,200	200
Issued in Romania transaction	62,500,050	-
Share issue *	-	250,000,000
Issued in IPO	40,865,420	-
Issued and fully paid as at 31 December	353,365,670	250,000,200

* In June 2006, loans granted by shareholders totalling € 129 million were converted to 250 million shares of the Company, 1 NIS par value each resulting in a share premium of € 84.8 million.

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 is approximately € 13 million as at 31 December 2007.

(in thousands of Euro unless otherwise stated)

NOTE 29 - NOTES TO THE CASH FLOW STATEMENTS

	2007	2006	2005
Profit before tax	**52,941**	**41,200**	**32,579**
Adjustments for:			
Depreciation of property, plant and equipment	8,315	7,822	8,044
Impairment	-	755	-
Increase in provisions	670	114	1,036
Amortisation of intangible assets	1,219	1,116	1,217
Investment income	(4,933)	(1,188)	(1,247)
Finance costs	3,195	2,476	1,451
Foreign exchange gain (loss)	61	110	(609)
Profit from negative goodwill	(1,445)	-	-
Share of results of associates	1,351	(86)	5
Expense relating of grant of share options	954	-	-
	62,328	**52,319**	**42,476**
Operating cash flows before movements in working capital			
Increase in inventories	(196)	(201)	5
Decrease/(increase) in receivables	(399)	126	(968)
Increase/(decrease) in payables	472	(338)	2,556
Cash generated by operations	**62,205**	**51,906**	**44,069**
Income taxes paid	(14,717)	(11,891)	(11,965)
Interest paid	(1,208)	(4,074)	(1,105)
Net cash from operating activities	**46,280**	**35,941**	**30,999**

Increase in interest in proportionally consolidated entity

	2007	2006	2005
Consideration paid	3,500	-	-
Less: cash received	(1,347)	-	-
Investment in subsidiary	**2,153**	-	-

(in thousands of Euro unless otherwise stated)

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.

(b) Operating lease commitments

	As of 31 December		
	2007	**2006**	**2005**
Within one year	336	60	100
In the second to fifth years inclusive	1,322	146	214
Total	1,658	206	314

In April 2007, QLI's subsidiary in Prague singed an MOU relating to a 5 year operating lease with annual payment of € 252 thousand. There are eight options to extend this lease by a further 5 years at the end of each five year period.

NOTE 31 - CONTINGENT LIABILITIES

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. According to Romanian legislation if the destination of reserves issued by the Company will be changed then these reserves will be taxed.

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 2006 as CHL Management believe it will be insignificant.

(b) An appeal, against decision No. 8622/2000 of the Athens Multi Member Court of First Instance, has been filed by the consortium, Komvos, Economou, Makris, Vlasakoudis, who constructed the casino building, claiming loss of profits amounting to approximately € 1.6 million plus interest for not been awarded the contract to construct the hotel. The case was tried on 30 October 2003 and the consortium was requested to guarantee the legal costs of CHL. The final court decision is pending. CHL's lawyer is of the opinion the appeal against CHL will most likely not be successful.

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(d) 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 01 January 1998 and up to 31 December 2003. The hearing was tried on the 23 March 2007, and decision is pending. CHL's lawyer believes that the employees have a remote chance of winning the case and hence no provision for possible loss has been made.

(e) Two lawsuits are pending against CHL amounting to € 800 thousands by former employees. No provision has been made, as the CHL's lawyer believes that the claims have remote chances of being successful.

(f) Several other lawsuits are pending against CHL amounting to € 325 thousands mainly relating to claims by former employees. However, the claims are not significant and hence no provision for possible loss has been made.

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

(h) There are claims by 2 individuals totaling € 160,000 for being refused entry to the Casino, and one claim by an individual for an amount of € 1,062,000 for suffering injuries in the casino hall . No provision has been made, as the Company's lawyer believes that the claims have remote chances of being successful.

(i) There is a claim from one individual for an amount of € 500,000 for being refused to book a number of rooms at the hotel at a certain period. No provision has been made, as the Company's lawyer believes that this claim has remote chances of being successful.

(j) 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 € 1,694,720. No provision has been made, as the Company's lawyer believes that this claim has remote chances of being successful.

(k) The Joint Venture is still subject to a tax audit for the year ending 31 December 2007 and CHL SA is subject to a tax audit from 1 January 2006 to 31 December 2007.

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 2007. Consequently any additional liability and the repercussions (financial and/or other), if any, are carried out, cannot be determined with reasonable accuracy. Hence, no further provision has been made.

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 € 522 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 of the Casino Rhodes's minor shareholders has applied for cancellation of 4 September 2002 meeting of the General Assembly approving the capital increase of € 1,397 thousand. The date of the hearing had been set for 20 September 2006, and was postponed. The date has not been set yet.

(d) One claim by an individual amounting to € 500 thousand for being refused entry to the casino. The court hearing was set for 8 June 2006 but was postponed for 19 September 2007 and was postponed again. A further claim for € 90 thousand by three individuals for moral damages for being refused entry to the casino, the hearing date was set for 8 December 2005, but was postponed. No provision has been made, as the outcome of the cases cannot be determined.

(e) 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.

(f) 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 invest the amount of € 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 management and the Casino Rhodes's attorney 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. Even though the legal advisors of the Group believe that the chances of the revocation of the license are remote, in such a scenario Rhodes Casino will have a strong legal case against Emporiki Bank for the non-fulfilment of the obligation.

See also note 2 for further details.

(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 2007 amounts to 310. 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 appeal was set for 14 March

(in thousands of Euro unless otherwise stated)

2007 but was postponed until 12 November 2008. Casino Rhodes's lawyer's opinion is that there is no risk that the casino licence may be revoked.

(g) Other

(i) 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.

NOTE 32 - RELATED PARTIES

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

	Purchases of Services	Amounts due from/(due to) Related Parties
For the year ended 31 December 2007		
Y.Z. Queenco (*)	(338)	(684)
Resido FiBi (**)	-	(14)
Shachar HaMillenium (*)	(17)	(611)
Queen (*)	63	(309)
Windview limited	-	(60)
Mr Yigal Zilka	257	15
Total	**35**	**(1,663)**
For the year ended 31 December 2006		
Y.Z. Queenco (*)	(339)	(950)
Resido FiBi (**)	-	(26)
Shachar HaMillenium (*)	(87)	(5,021)
Milimor (*)	-	(5,018)
Queen (*)	68	8
Windview limited	(598)	-
Total	**(956)**	**(11,007)**
For the year ended 31 December 2005		
Y.Z. Queenco (*)	(535)	(7,697)
Resido F.B (**)	-	(25)
Shachar HaMillenium (*)	(231)	(12,191)
Milimor (*)	-	(5,127)
Queen (*)	73	28
Windview limited	(1,569)	(315)
Total	**(2,262)**	**(25,327)**

(*) Controlling party
(**) Entity under common control with the Company

The holding company and ultimate holding company respectively of the Group are Shachar HaMillenium Ltd. and YZ Queenco Ltd. both of which are floated on the Stock Exchange of Israel.

(in thousands of Euro unless otherwise stated)

(b) Compensation of key management personnel

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

	2007	2006	2005
Compensation of key management	1,862	503	397
Board of directors fees	28	-	-
Total	**1,890**	**503**	**397**

The Chief Executive Officer, Chief Operations Officer and President of the Board of Directors are considered as key management personnel. The remainder of the members of the Board of Directors are non executive and do not receive any remuneration.

(c) Other related party transactions

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

NOTE 33 – INVESTMENT PROPERITES

	€ thousand
Fair value	
At 31 December 2007	18,484
At 31 December 2006	15,000

The fair value of the total value of the group's investment property at 31 December 2007 has been arrived at on the basis of a valuation carried out at that date by EFG Property Services, independent valuers not connected with the group. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The property rental income earned by the group from its investment property, all of which is leased out under operating leases, amounted to € 600 thousand. The Group has non-cancellable minimum rental income from the property for the next 9 years. In addition there is condition rent dependent on the turnover of Grand Casino d.o.o.

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, exercisable at 80% of the listing price, contingent on the same terms as the aforementioned options.

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

	2007	
	Number of share options	**Weighted average exercise price (in €)**
Outstanding at beginning of period	-	
Granted during the period	934.830	13.02

(in thousands of Euro unless otherwise stated)

Outstanding at the end of the period	934.830	13.02

The options outstanding at 31 December 2007 had a weighted average exercise price of €13.02, and a weighted average remaining contractual life of 3 years. In 2007, options were granted on 03 July 2007. The aggregate of the estimated fair values of the options granted on those dates is € 12.9 million.

The inputs into the Binomial model are as follows:

	2007 **€**
Weighted average share price	€14
Weighted average exercise price	€11.2
Expected volatility	8%
Expected life	1-5
Risk-free rate	4.3%
Expected dividends	-

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 expenses of € 954 thousand related to equity-settled share-based payment transactions in 2007.

NOTE 35 – FINANCIAL RISK MANAGEMENT

Foreign exchange risk

The Group generates revenues and pays expenses mainly in Euro, Romanian Lei and 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 U.S. Dollars and Euro in group companies who's functional currencies differ to these currencies. 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) € 000's
5% increase in NIS / €	(76)
5% decrease in NIS / €	76
5% increase in RON / €	(32)
5% decrease in RON / €	32
5% increase in € / $	(137)
5% decrease in € / $	137

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 with 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 immateriality.

Interest rate risk

The Group had a total of € 11 million unlinked and non interest bearing loans as at 31 December 2007. This is principally an obligation relating to acquisition of the minority interest in Dasharta. The non-discounted payments are described in note 9. 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 2007 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.

NOTE 36 – EVENTS AFTER THE BALANCE SHEET DATE

In January 2008 a foreign interest of the Group contracted to acquire land in Cambodia for a total consideration of approximately $ 10 million.

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**.**