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		
		2 0 0 7*	**2 0 0 6***	**2 0 0 5***
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 15^{th} year	86%	14%
Thereafter to 38^{th} year	84%	16%
Thereafter to 50^{th} 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
<u>QLI share of fair value adjustments</u>	
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	
	2007	2006
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	
	2007	2006
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	
	2007	2006
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	
	2007	2006
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	
	2007	2006
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	
	2 0 0 7	**2 0 0 6**
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.