Queenco Leisure International Ltd.

# Annual Report 2008

## Chairman's Statement

We are pleased to present our financial results for the 12 months to 31 December 2008.

The Company's financial performance in 2008 was influenced by the direct effect of the worldwide economic crisis on the Group's business. Net revenues decreased by 3.8% to €137.4m (2007: €142.9m), reflecting a decrease in win per visit and decreased ancillary sales from our complementary guest services such as hotels, restaurants and conference facilities. The decrease in revenues translated into a 22.9% decrease in EBITDA to €47.8m (2007: €62.0 m), with EBITDA margins decreasing to 34.8%.

Basic and diluted earnings per share was down 50% to 3.8¢ (2007: 7.6¢ and 7.5¢, respectively) and earnings per GDR (each GDR representing 10 ordinary shares) decreased to 38¢ (2007: 76¢).

On 27 May 2008, a dividend of 17¢ per GDR, an aggregate amount of €6m, was paid to shareholders. No further dividend is payable in respect of the 2008 financial year. The Board will continue to keep its dividend policy under review.

In late March 2009, various changes in the Company's management were made, including the retirement of the Company's former Chief Executive Officer and Chief Financial Officer and the appointment of the undersigned, who has vast experience in investment banking and corporate finance advisory, and who acted as the Company's advisor in its initial public offering during July 2007, as the Executive Chairman of the Board of Directors, as well as the re-appointment of Mr. Avi Halifa as interim Chief Financial Officer.

The Group initiates, owns and develops gaming and entertainment properties in emerging markets, and currently operates four casinos in Loutraki, Rhodes, Bucharest and Belgrade, which together have 1,627 slot machines and 163 gaming tables, and employs around 3,150 people. Our largest casino, Club Hotel Casino Loutraki, attracted approximately 1,166,000 visits during 2008 and is Greece's leading casino by drop and win. Our strategy is to continually improve our established highly cash generating market leading casinos in Greece and Romania. The Company's objective is to become the leading entertainment and gaming company in its chosen markets by providing superior gaming experiences, products and services.

The challenging environment has affected all areas of the economy, including the gaming sector. QLI began the year with healthy growth in its main properties, but, in the second half trading was impacted by a slowdown in global spending. However, despite the global economic crisis, the Group is in a good position, with three cash generative properties.

The Group's initial plan for 2009 was to continue the expansion into fast growing regions while supporting the establishment and the growth of the casino in Belgrade and the entertainment center in Prague. However, due to the recent changes in the global economy, the pipeline of new developments has been reviewed and a more cautious approach has been adopted. The main focus during these trying times has been shifted as we now aim to concentrate on our existing core projects and on the ongoing generation of funds.

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

Ron Beery
Chairman, Queenco Leisure International Limited
April 28, 2009

FORWARD-LOOKING STATEMENTS

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

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

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

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

www.queenco.com

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# Section A- Description of the Company’s Business

# CHAPTER 1- THE COMPANY'S BUSINESS AND ITS DEVELOPMENT

| | |
|---|---|
| **"€"-** | Euro |
| **"Financial reports"-** | The financial reports of the Company as at December 31, 2008 attached to Section C of this report. |
| **"The Company" or "Queenco"-** | Queenco Leisure International Ltd. |
| **"NIS"-** | New Israeli Shekel. |
| **"Share"-** | Ordinary share, par value NIS 1.00, of the Company. |
| **"GDR"-** | Global Depositary Receipt. |
| "**Group**"- | The Company and its subsidiaries. |
| "**USD**"- | United States Dollar. |

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

## 1. THE GROUP'S ACTIVITY AND DESCRIPTION OF THE DEVELOPMENT OF ITS BUSINESS.

### 1.1. Overview

The Company is an emerging market land-based entertainment centers and casino developer and owner incorporated in Israel. The Group currently owns two casinos in Greece, one in Loutraki (located approximately 80 km from the centre of Athens) ("**Casino Loutraki**") and one on the island of Rhodes ("**Casino Rodos**"), one casino in the centre of Bucharest, Romania ("**Casino Palace**"), and an exclusive casino in the Serbian Capital, Belgrade ("**Casino Beograd**").

The Group currently operates approximately 1,627 slot machines and 163 gaming tables across its existing operations. In addition, the Group has a number of complementary businesses at its casino locations, such as hotels and restaurants at its Greek operations, and restaurants in Bucharest and Belgrade. The Group's total gross revenue amounted to €196.45m in 2008, €205.7m in 2007 and €172.6m in 2006 with gross gaming revenues from Casino Loutraki, the Group's flagship operation, accounting for approximately 69 per cent.

The Group has recently developed an entertainment center in Prague under the SaSaZu brand, which includes a slot machines hall, nightclub, Asian restaurant and garden café. The entertainment center opened in March 2009. The Group intends to develop this further into a full casino once the regulatory regime regulating gaming in the Czech Republic becomes more developed.

Over the course of 2008, the Group finished refurbishing and expanding the Loutraki casino and is refurbishing the casino in Bucharest.

We continue with our plan to develop "Casino Constanta" in Romania, located in a historic building with a 49.5 year lease. We are seeking to reduce costs in this project as the global economic crisis has resulted in lower costs of labour and material.

The Group utilizes a two-tier management approach under which dedicated local management teams with in-house management and legal capability are responsible for the development and day-to-day management of each individual project, with a central management team in Israel which sets budgets and monitors operations and revenues at both the project and Group level. The central management team also determines the strategy for development of the Group's business, decides upon future investments and is responsible for the appointment of key personnel within the Group. This two-tier management approach is intended to maximize knowledge-sharing within the Group while allowing the Group to remain informed of trends likely to impact the Group's local operations. As at 31 December 2008, the Group employed approximately 3,150 people.

## 2. DEVELOPMENT OF THE BUSINESS

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

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

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

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

After purchasing lease rights in 2007, the SaSaZu entertainment center opened in March 2009. This new property in Prague is owned by a wholly owned subsidiary of the Company.

The Company itself was incorporated in 2002 and acquired its interests in the Loutraki and Rhodes operations in January 2003. In 2004, the Group purchased real estate assets in Bulgaria, with the intention of developing additional casinos. In 2005, the operations in Loutraki were expanded, with the opening of a new casino hall. In December 2005, Grand Casino d.o.o. Beograd, a Serbian company which owns Casino Beograd, was granted a ten-year license for the exclusive operation of a casino in Belgrade.

During 2007 and 2008, the Group entered into two agreements for the purchase of two pieces of land in Cambodia (as more fully described in Section 3.3 below). The first piece of land, located in Sihanoukville, a coastal area in south-west Cambodia, was purchased in February 2007 by a foreign affiliate of the Group. The current zoning of this land is agriculture, however, the Group believes that the zoning of the land can be changed to tourism. The second piece of land was purchased during February 2008 by a wholly owned foreign subsidiary of the Company. This land's zoning is establishment of tourist projects such as hotels, luxury resorts and entertainment facilities, including gambling facilities.

As at the date of this Annual Report, the Company's major shareholders are Y.Z. Queenco Ltd. ("**Y.Z. Queenco**"), a Tel-Aviv Stock Exchange-listed company, with 35.4 per cent., and Shachar Hamilenium Ltd. ("**Shachar**"), a wholly owned subsidiary of Y.Z. Queenco, with 28.3 per cent. Mr. Yigal Zilkha, the controlling shareholder of Y. Z. Queenco, is also the controlling shareholder of Yigal & Muli Ltd. ("**Yigal Muli**"), which holds 9.1 per cent. of the Company's outstanding shares.

Current Operations

The Group currently operates two casinos in Greece (one in Loutraki and one on the island of Rhodes), one in the centre of Bucharest, Romania and one in Belgrade, Serbia. The following table sets out key information relating to each of these casinos.

| **Operation** | **Gaming positions** | **Casino floor area** | **Annual visitors (2008)** | **No. of hotel rooms** | **Facilities** |
|---|---|---|---|---|---|
| Loutraki | 1000 slot machines<br><br>80 tables | 5,500$m^2$ | 1,165,938 | 275 rooms (including 20 suites) | Five star hotel, indoor and outdoor swimming pools, gym, spa, dining room, three restaurants, two bars, conference centre |
| Rhodes | 310 slot machines<br><br>34 tables | 3,000$m^2$ | 168,655 | 33 suites | Historic building, five star boutique, dining rooms, two restaurants, bar, outdoor swimming pool, 24-hour butler service. |
| Bucharest | 87 slot machines<br><br>24 tables | 550$m^2$ | 110,050 | | Historic building, gourmet French restaurant, live sport televised coverage, live entertainment |
| Belgrade | 230 slot machines<br><br>25 tables | 10,000$m^2$ | 189,541 | | Entertainment centre with six restaurants, two shops and a ballroom. |

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

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | €’000 | €’000 | €’000 |
| Loutraki | 132,085 | 139,838 | 116,851 |
| Rhodes | 35,740 | 39,269 | 33,326 |
| Bucharest | 22,947 | 20,159 | 16,356 |
| Total | 190,771 | 199,266 | 166,533 |

Results by casino for the twelve months ended 31 December 2008 are broken down as follows:

| Casino | Net Revenue (EURm) | | EBITDA (EURm) | | Guests (000's) | | Win per Visit (EUR) | | QLI's Economic Interest |
|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | |
| | | | | | | | | | |
| Loutraki | 174.2 | 188.2 | 73.9 | 91.6 | 1,166 | 1,125 | 220 | 245 | 38.5% |
| Rodos | 25.4 | 27.7 | 8.6 | 11.8 | 169 | 177 | 212 | 221 | 91.6% |
| Bucharest | 22.1 | 19.5 | 7.2 | 6.4 | 110 | 116 | 209 | 174 | 83.3% |

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

** The results of Casino Beograd are incorporated in Loutraki under the equity method of accounting.

2.1. Operations in Greece

2.1.1. Casino Loutraki

Holdings

The Company holds an indirect 34.1 per cent holdings in CHL. CHL has a joint venture arrangement with ATEKL S.A. a corporate arm of the local municipality. CHL currently holds an 86 per cent. interest in this joint venture. According to the joint venture agreement, such interest will decrease over time, as follows:

| The Period | CHL Stake | ATEKL Stake |
|---|---|---|
| From the operation date of the Casino[1]-7.5 years | 88% | 12% |
| End of 7.5 years-15 years | 86% | 14% |
| End of 15 years-38 years | 84% | 16% |
| End of 38 years-50 years | 50% | 50% |

Operations

Casino Loutraki is the flagship operation of the Group, which accounted for approximately 69 per cent. of the Group's gross revenues in 2008.

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

[1] February 15, 1995

Casino Loutraki operates 24 hours a day, seven days a week, 363 days a year, and employs approximately 1,890 people. Various improvements have been made to the casino over the course of 2008, including a €2.9m renovation of the casino hall, which was opened in 2005 to mark the casino’s tenth anniversary. The casino hall includes 80 gaming tables and since 2004 the number of slot machines has increased from 700 to 1,000. Visits to the casino increased to 1,165,938 visits in 2008 (an increase of 3.65 per cent. compared to 2007). Win per visit declined by 10.3%, resulting from the lower spending in the current environment. The Loutraki operation includes a five-star hotel with 275 rooms, including 20 luxury suites, indoor and outdoor swimming pools, a gym, spa, two bars and three restaurants

Market share

The Company believes that Casino Loutraki is the leading casino in Greece, measured by drop and win revenues. The main competitor in Greece is Parnita Casino in Athens. To the Company's knowledge, the Parnita Casino includes 63 gaming tables and 936 slot machines.
In order to contend with the competition, Casino Loutraki has implemented the following actions:

1. Enhancement of the marketing budget aimed at attracting potential visitors.

2. Raffles for the casino's visitors.

3. Creation of an honor program for loyal customers.

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

Regulation

Casino Loutraki’s operating license was awarded to the joint venture between CHL and ATEKL (the **“Loutraki JV”)** in February 1995 for an indefinite period. In September 2007, the exclusivity period for the Loutraki casino license ended. To the Company's knowledge, as of the date of this Annual Report, the gaming committee has neither awarded any new licenses nor indicated that it intends to issue additional licenses. The addition of any casinos in Athens could enhance the competition faced by Casino Loutraki.

2.1.2. Casino Rodos – Rhodes

Holdings

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

Operations

The site of the casino also includes a five-star boutique hotel with 33 suites, two restaurants, an outdoor swimming pool and a 24-hour butler service. The casino operates 363 days a year, 24 hours a day, and employs approximately 294 people. Casino Rodos offers 310 slot machines, which are upgraded on a regular basis, and 34 gaming tables and includes a private gaming room in addition to the main gaming floor. Guest numbers in Casino Rodos have also been affected by the general slowdown and declined by 4.9% for the year, while win per visit declined by 4.3% to €211.9 for the year (2007: €221.3).

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

The island of Rhodes is difficult to access in the off season and since Casino Rodos is ideally suited to the high roller market, the Group entered in 2008 into an agreement for the purchase of a private jet in order to accommodate new and returning VVIP customers.

Market share

In accordance with Greek law, which states a geographical partition between the casinos operating in Greece, there are no additional casinos on the island or in its vicinity. Casino Rodos enjoys exclusivity on the island of Rhodes for a period of 12 years beginning with the date of operation and ending in 2011.

Regulation

Rhodes Casino Company was awarded a license to operate a casino following its participation in an international tender in 1996. The term of the license is indefinite, and it is the only license granted on the island of Rhodes, resulting in no local competition. The license provides for the operation of not less than 30 gaming tables and approximately 300 slot machines. The Company is not aware of any indications that the government will grant an additional license for a casino on the island.

2.2. Operations in Romania

2.2.1. Casino Palace – Bucharest

Holding

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

In addition to Casa Vernescu, the Group recently opened a new Asian restaurant on the premises to accommodate the rapidly growing Asian cliental in Romania, and has begun renovation work in Casino Palace in order to ensure that players receive the highest quality gaming experience. Looking ahead, the Group (through a subsidiary) has acquired land opposite the casino for a total of $1.9 million, for the development of a boutique hotel to attract and accommodate high rollers. This project is currently on hold due to the global economic environment.

Operations

The casino opened in September 1995 and operates 24 hours a day, 365 days a year. Casino Palace consists of eight gaming halls, containing a total of 24 gaming tables (including roulette, poker, blackjack, dice and punto banco) as well as 87 slot machines spread over an area of approximately 550m$^2$.

The casino has experienced an increase in average win per visitor over the last three years, suggesting a shift towards more affluent clients.

The casino has introduced electronic roulette machines. The casino experiences peak activity during weekends and in the evenings, with a slight increase in visitors during the months of December to February. The casino and restaurant have, in the aggregate, 464 employees.

Market share

Over the last three years Casino Palace has seen an increase in the daily number of visitors from an average of 300 in 2006 to 302 in 2008.

Currently, there are 13 active casinos in Bucharest, although casinos outside of Bucharest and Internet gambling may also compete with Casino Palace. To Queen Investments' knowledge, Casino Palace’s main competitors in Bucharest are the Platinum Casino, the Queen Casino and the two Grand Casinos, each of which are located in major hotels.

The casino's management believes that the location of a casino is only one out of several considerations which may attract visitors to one casino or the other and that casinos located in hotels have a certain advantage over competitors, mainly due to their attraction to hotel guests and tourists which prefer playing in an institute which is regarded as being more established.

The casino's management is not aware of any formal information regarding the market share of each of the casinos operating in Bucharest, and is not aware of any consumer research, including researches ordered by any of the casinos. To the Company's knowledge, three more casinos are expected to open over the course of the coming year.

Regulation

The Romanian Gaming Commission, which is part of the Romanian Ministry of Finance, is the organ in charge of gaming regulation in Romania. Currently, gaming regulation in Romania is not strict both with respect to requirements and conditions imposed on various operators in the gaming industry and the enforcement of existing law. In order to obtain a license to operate a casino, the Romanian Gaming Commission's license is required, and the operating of a casino without such authorization is a criminal offense. The obtainment of a license requires a general authorization for the operation of gaming tables and an authorization to operate slot machines, which is granted for each slot machine separately.

Each license is granted for a period of one year (in return for fees for each gaming table and slot machine) with renewal subject to technical examination of the gaming tables and slot machines and with required norms by a government representative which verifies compatibility with required norms. Currently, Queen Investments holds all of the permits required for operating the casino.

2.3. Casino Beograd, Belgrade

Operations

The casino opened during February 2008. The company was informed by CHL that following completion of the purchase of 51 per cent. from Casino Austria, CHL (in which the Company has a 38.5 per cent. economic interest) has an economic interest of

90 per cent. in the project and the Serbian lottery operator owns the remaining 10 per cent.

Under the terms of its license, Casino Beograd is the only casino within the city of Belgrade. The Group targets VIP customers, focusing on business visitors, tourists and expatriates living and working in Belgrade as well as the city's local population of almost two million. The site includes a 10,000m$^2$ entertainment centre with six restaurants, two shops and a ballroom. The casino area now contains 230 slot machines and 25 gaming tables.

Market

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

According to the terms of the license, Casino Beograd has been granted exclusivity over the operating of a casino in the city of Belgrade for a period of 10 years (until 2015). Nevertheless, there are several slot halls operating legally in Belgrade, which are regarded by the Company as potential competitors. The Company seeks to create a reliable reputation in the eyes of customers and position Casino Beograd as a total entertainment center offering, alongside a unique gaming experience, other entertainment and leisure services such as restaurants, shops and other services in order to increase the amount of visits to the casino.

Regulation

In September 18, 2008, certain provisions under Serbian law regulating the conditions for applications for permits for the organization of special games of chance in gambling facilities were declared unconstitutional by the Constitutional Court of Serbia. CHL was informed by its legal advisors in Serbia that this decision may have a significant effect on the license to operate a casino in Belgrade and may lead to the revocation of the license. If such risk is materialized, Casino Belgrade would be entitled to remedies under the terms of the license and under applicable law.

2.4. Prague, Czech Republic

In March 2009, the Company commenced the operations of a club and gaming centre in Prague, the Czech Republic. Total investment in the project was €7.3m. The Company entered into a memorandum of understanding relating to a building in the centre of the city for five years with eight options to renew for five years each.

## 3. PROPOSED PROJECTS

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

3.1. Constanta, Romania

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

In 2008, a plot adjacent to the planned casino in Constanta was acquired for a total of €1.6 million, which building is designated for the construction of a boutique hotel.

The Company is seeking to reduce costs in this project.

3.2. Sofia and Varna, Bulgaria

During 2004, the Group purchased two assets in Bulgaria. The first is a theatre in the city of Sofia, the capital of Bulgaria, and the second is a cinema in Varna, a popular tourist resort located on the coast of the Black Sea. Parts of the properties are currently leased to third parties, and to date they have not provided significant revenues.

3.3. Sihanoukville, Cambodia

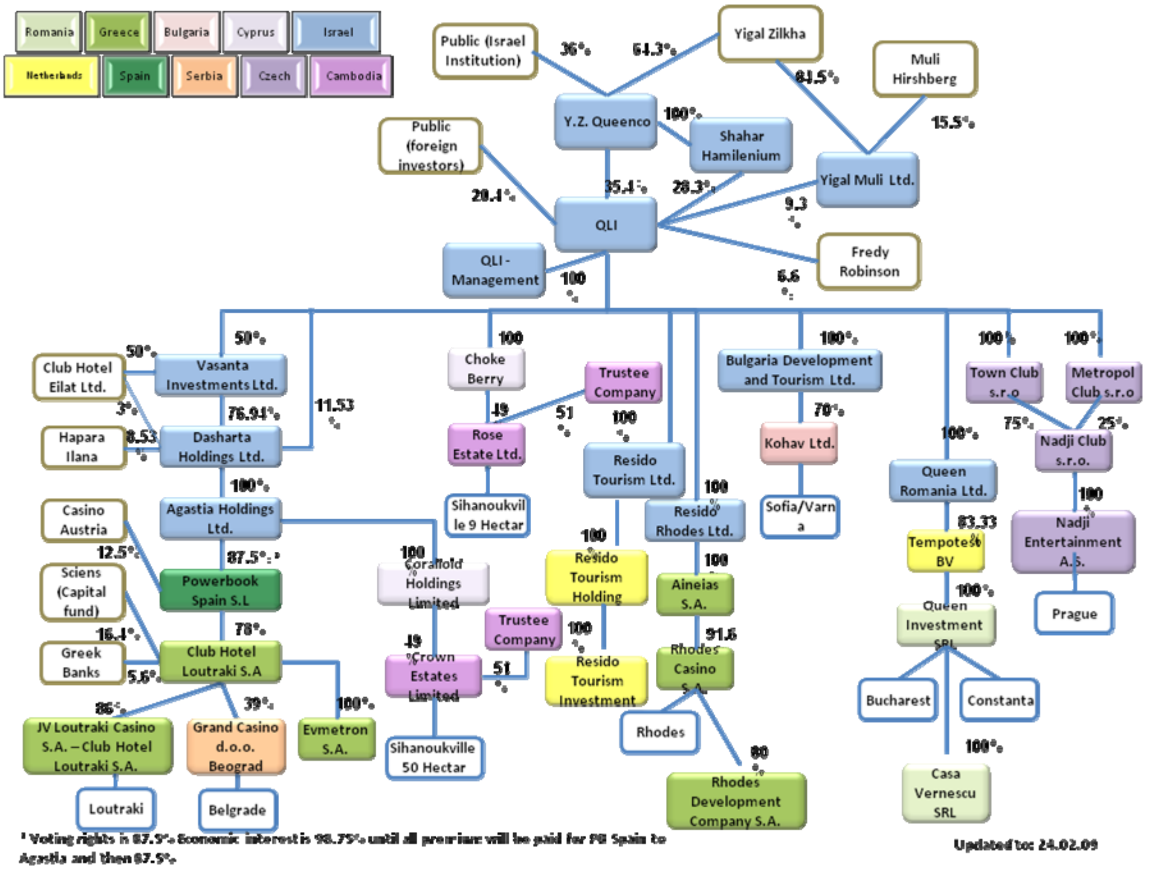
In February 2007, a foreign affiliate of the Group contracted to acquire a 48 hectare parcel of land in Sihanoukville, a coastal area in south-west Cambodia, for a total consideration of €9.7 million. The current zoning of the land is agriculture; however, the Group believes that the zoning of the land can be changed to tourism.

In February 2008, a wholly owned subsidiary of the Company entered into an agreement to purchase a 9 hectare parcel of land in an area which is located near the land purchased during February 2007, in consideration for €7.5 million. The land purchased also includes exclusive rights to develop the shoreline, which borders the land.

## 4. GROUP STRUCTURE

The following chart describes the Group structure as at December 31, 2008*:

(* For the increase in CHL's holdings in Casino Belgrade during the first half of March 2009 from 39% to 90% - see section 7.1)



## CHAPTER 2- OTHER INFORMATION

5. FINANCIAL DATA REGARDING THE COMPANY'S ACTIVITY.

The following tables present selected consolidated financial information, which has been extracted without adjustment from, and should be read in conjunction with, the Consolidated Financial Statements as of and for the years ended 31 December 2008, 2007 and 2006, which have been reported on by Brightman Almagor Zohar & Co., a member of Deloitte Touche Tohmatsu, and prepared in accordance with IFRS, and the notes thereto, all of which are included elsewhere in this Annual Report.

**Consolidated Statement of Income**
(In thousands of €)

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2007*** | **2006*** |
| Revenues | 137,390 | 142,895 | 119,858 |
| **Operating costs** | | | |
| Cost of revenues | (58,614) | (54,918) | (48,874) |
| Selling and marketing expenses | (15,510) | (14,911) | (11,353) |
| General and administrative expenses | (23,920) | (19,959) | (16,258) |
| Other operating expenses | (366) | (492) | (861) |
| Share of results of associated company | (2,203) | (1,351) | 86 |
| **Operating profit** | **36,777** | **51,264** | **42,598** |
| Investment income | 3,000 | 4,933 | 1,188 |
| Finance costs | (2,992) | (3,195) | (2,476) |
| Foreign exchange loss | (384) | (61) | (110) |
| **Profit before tax** | **36,401** | **52,941** | **41,200** |
| Tax | (13,382) | (15,407) | (14,761) |
| **Profit for the year** | **23,019** | **37,534** | **26,439** |
| Attributable to: | | | |
| Equity holders of the parent | 13, 367 | 25,138 | 17,241 |
| Minority interests | 9,652 | 12,396 | 9,198 |
| | **23,019** | **37,534** | **26,439** |
| **Earnings per share** | | | |
| Basic *pro forma* (¢)** | - | - | 5.5 |
| Diluted *pro forma* (¢)** | - | - | 5.5 |
| Basic (¢) | 3.8 | 7.6 | 9.1 |
| Diluted (¢) | 3.8 | 7.5 | 9.1 |

* The 2007 and 2006 amounts are provided as if the restructuring described in Note 1 of the Group's consolidated financial statements had occurred at the beginning of the reporting period starting 1 January 2006.

** *Pro forma* earnings per share have been calculated as if the equity issue described in Note 1 of the Group's consolidated financial statements had been performed on 1 January 2006.

**Consolidated Balance Sheet**
(In thousands of €)

| | As at 31 December | |
|---|---|---|
| | 2 0 0 8 | 2 0 0 7 |
| Non-current assets | | |
| Intangible assets | 8,233 | 13,746 |
| Property, plant and equipment | 108,322 | 92,672 |
| Investment property | 6,994 | 7,652 |
| Associate company | 11,435 | 13,019 |
| Deferred tax asset | 2,043 | 2,465 |
| Other long term receivables | 12,144 | 12,178 |
| **Total non-current assets** | **149,171** | **141,732** |
| Current assets | | |
| Inventories | 760 | 782 |
| Investments | 9,107 | 8,894 |
| Trade and other receivables | 4,470 | 3,985 |
| Cash and cash equivalents | 57,015 | 76,011 |
| Total current assets | **71,352** | **89,672** |
| **Total assets** | **220,523** | **231,404** |
| Current liabilities | | |
| Accounts payable | (4,941) | (5,587) |
| Current tax liabilities | (5,352) | (11,314) |
| Other current liabilities | (23,012) | (25,974) |
| Bank overdraft and loans | (16,958) | (12,591) |
| **Total current liabilities** | **(50,263)** | **(55,466)** |
| Net current assets (liabilities) | 21,089 | 34,206 |
| **Total assets less current liabilities** | **170,260** | **175,938** |
| Non-current liabilities | | |
| Long-term bank loans | (8,536) | (10,259) |
| Other long-term liabilities | (7,286) | (11,003) |
| Deferred tax | (1,795) | (3,471) |
| Provision for retirement benefits | (5,340) | (4,835) |
| **Total non-current liabilities** | **(22,957)** | **(29,568)** |
| Net assets | 147,303 | 146,370 |
| **Shareholders' equity** | | |
| Share capital | 62,512 | 62,512 |
| Share premium | 130,998 | 130,998 |
| Translation reserve | 2,830 | 1,828 |
| Other reserve | (7,950) | - |
| Accumulated Deficit | (71,495) | (80,009) |
| **Equity attributable to equity holders of the parent** | **116,895** | **115,329** |
| **Minority interest** | **30,408** | **31,041** |
| **Total Equity** | **147,303** | **146,370** |

**Consolidated Cash Flow Statement**
(In thousands of €)

| | Year ended 31 December | | |
|---|---|---|---|
| | **2 0 0 8** | **2 0 0 7*** | **2 0 0 6*** |
| **Net cash from operating activities** | **19,847** | **46,280** | **35,941** |
| | | | |
| **Investing activities** | | | |
| Interest received | 2,635 | 4,801 | 478 |
| | | | |
| Purchases of property, plant and equipment | (24,013) | (9,983) | (9,972) |
| Proceeds on sale of property, plant and equipment | 341 | | |
| Purchase of other intangibles | (73) | (28) | (27) |
| Advances on fixed assets | (2,509) | | |
| Investment in an associate | (1,367) | (9,754) | (20) |
| Loans to other long-term receivables | (168) | | |
| Proceeds on sale of marketable security | | - | 2,465 |
| Money on deposit | | - | (715) |
| Purchases of trading investments | (735) | (7,923) | (147) |
| Installments for the acquisition of a subsidiary | (2,964) | (714) | (714) |
| Loan to associate | | (7,585) | (60) |
| Sale of interest in joint venture entity | 865 | | |
| Purchase of additional interest in joint venture entity | | (2,153) | - |
| Investment in a subsidiary net of cash acquired | - | - | (7,500) |
| | | | |
| **Net cash used in investing activities** | **(27,988)** | **(33,339)** | **(16,212)** |
| | | | |
| **Financing activities** | | | |
| Dividends paid to minority shareholders | (5,131) | (3,402) | (3,776) |
| Dividends | (6,007) | (8,752) | - |
| Repayments of borrowings | (12,420) | (11,730) | (13,325) |
| Receipt / (repayment) of other long term liabilities | (1,245) | 3,285 | (4,266) |
| Issue of shares, net of expenses | | 53,346 | - |
| Repayments of capital notes | | - | (246) |
| Share of profits paid to Municipality of Loutraki | (4,371) | (4,361) | (2,911) |
| Increase (decrease) in bank overdrafts | 15,959 | (250) | 245 |
| | | | |
| **Net cash provided by (used in) financing activities** | **(13,215)** | **28,136** | **(24,279)** |
| | | | |
| **Net increase (decrease) in cash and cash equivalents** | (21,356) | 41,077 | (4,550) |
| | | | |
| Effect of foreign exchange rate changes | 2,360 | (305) | 590 |
| | | | |
| Cash and cash equivalents at beginning of year | 76,011 | 35,239 | 39,199 |
| **Cash and cash equivalents at end of year** | **57,015** | **76,011** | **35,239** |
| | | | |
| Tax cash flow | (18,323) | (14,717) | (11,891) |
| Interest paid | (1,212) | (1,208) | (4,074) |

*The 2007 and 2006 amounts are provided as if the reorganization described in Note 1 of the Group's consolidated financial statements had occurred at the beginning of the reporting period starting 1 January 2006.

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

## 6. HUMAN RESOURCES

### 6.1. Employees.

The following table sets out information on the number of people employed within the Group as at 31 December 2006, 2007 and 2008, by location and work sector:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| **Company headquarters, Israel** | 18 | 8 | 8 |
| Loutraki | 1,890 | 1,893 | 1,794 |
| Rhodes(1) | 294 | 310 | 280 |
| Bucharest | 464 | 450 | 459 |
| Belgrade management and casino operations | Approximately 486 | Approximately 400 | 3 |
| **TOTAL** | Approx 3,152 | Approx 3,061 | 2,544 |

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

### 6.2. Directors and Management

Board of Directors

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

| Name | Age |
|---|---|
| Ron Be'ery | 54 |
| Yigal Zilkha | 46 |
| Freddy Robinson | 63 |
| Miri Lent-Sharir | 53 |
| Aharon Shatan | 63 |
| Effy Aboudy | 41 |

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

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

***Yigal Zilkha.*** Mr. Zilkha holds indirectly approximately 45.44 per cent. of the Company's shares. Mr. Zilkha has been involved in the gaming industry for over twenty years as a promoter and operator of casinos and is responsible for the Group's business development.

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

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

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

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

Board of Directors

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

All the directors (other than the two external directors) hold office until the end of the next annual general meeting of shareholders following their appointment. A simple majority of shareholders at a general meeting may remove any of the directors (other than the two external directors) from office, elect directors in their place or fill any vacancy, however created, in the Company's board of directors. Vacancies on the board of directors, other than vacancies created by removal of an external director, may be filled by a vote of a majority of the directors then in office. The board of directors may also appoint additional directors up to the maximum number permitted under the Company's articles of association. A director so appointed by the board of directors will hold office until the end of the first annual general meeting following such appointment. Any director may be re-elected as a director (except for the external directors) at the annual general meeting.

External Directors

Under the Israeli Companies Law, 1999-5759 **("Companies Law"),** as a public company incorporated under the laws of Israel, the Company is required to appoint at least two external directors to its Board of Directors. The Companies Law provides that a person may not be appointed as an external director of a company if he or she, or his or her relative (namely a spouse, sibling, parent, grandparent, child or child of a spouse and any of their spouses), partner, employer or any entity under his or her control, has, as of the date of the person's appointment to serve as an external director, or had during the two years preceding such date of appointment, any affiliation (as such term is defined in the Companies Law) with the Company or any entity controlling, controlled by or under common control with the Company.

Ms. Miri Lent-Sharir was appointed in October 2007 as the Company's external director, and is, currently, the Company's only serving external director due to the sudden decease of the other external director in late April 2009. The Company's shareholders will be requested to appoint a new external director at the annual general meeting of the Company's shareholders scheduled to be held on 26 May 2009.

Committees of the Board

To the extent such delegation is permitted under the Companies Law, the Company's Board of Directors may delegate its powers to committees of the Board of Directors as it deems appropriate, save for certain powers listed in the Companies Law.

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

Internal Auditor

The Companies Law provides that the Board of Directors of a public company incorporated under the laws of Israel must appoint an internal auditor nominated by the audit committee. The internal auditor may be an employee of the company but may not be an "interested party" (as such term is defined in the Companies Law), an office holder or an affiliate, or a relative of any of the foregoing, nor may the internal auditor be the company's independent auditor or its representative. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law, integrity and orderly business procedures. The internal auditor has the right to demand that the chairman of the audit committee convene an audit committee meeting, and the internal auditor may participate in all audit committee meetings. Mr. Raviv Rozenberg has been nominated as our internal auditor.

Terms of service and remuneration

Remuneration of Executive Directors

In the year ended 31 December 2008, the aggregate total remuneration paid to the executive directors of the Company (being Yigal Zilkha, Dror Mizeretz (until October 2008) and Effy Aboudy) was €2,073,000 (reflecting the economic benefits of options and bonuses).

Remuneration of non-executive Directors

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

Remuneration of Senior Management

In the year ended 31 December 2008, the aggregate total remuneration paid to the senior management of the Company who are not directors (being Uri Ben-Ari (who was appointed as Chief Executive Office as of September 11, 2008 and resigned in late March 2009), Neomi Enoch (who was appointed as Chief Financial Officer in October 2008 and resigned in late March 2009), Muli Hirshberg, Avi Halifa and Sagit Amitay Altshuler) was €417,000 (reflecting the economic benefits of options and bonuses). In addition, senior managers receive benefits in kind such as the use of a company car and mobile telephone.

Interests of Directors and Senior Management

Interests in Share Capital

The directors and senior managers of the Company had the following beneficial interests in the share capital of the Company as at December 31, 2008:

| | Number of Shares | % of issued |
|---|---|---|

| | | |
|---|---|---|
| | | share capital |
| Yigal Zilkha[1] | 160,569,360 | 45.44% |
| Muli Hirschberg([2]) | 5,093,766 | 1.44% |
| Freddy Robinson | 23,322,134 | 6.6% |

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

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

During 2008 and through the date of this report, the Company, either directly or through any of its subsidiaries, entered into the following material agreements:

7.1. Casino Belgrade

In late 2008, CHL entered into an agreement with CAAG for the purchase from CAAG of 51% of the shares of Casino Belgrade (representing CAAG's entire holdings in Casino Belgrade) for a purchase price of €42 million. The Company was informed by CHL during the first half of March 2009 that the transaction was completed. Upon completion, CHL increased its holding in Casino Belgrade from 39% to 90% (the remaining 10% are held by the Serbian lottery company), and as a result the Company's indirect holding in Casino Belgrade increased from 13.3% to 30.7%. CHL informed the Company that it agreed with CAAG that payment of the first part of the purchase price in the amount of €8.4 million shall be postponed until 4 May 2009. The balance amount of €33.6 million is payable no later than six months following the closing. To secure the payment of the second amount, CHL granted CAAG a first priority, fixed and continuing pledge over 60% of Casino Belgrade's issued shares, which will be removed upon payment to CAAG of the second amount. Upon completion of the transaction, CAAG assigned to CHL all of the rights and obligations of an affiliate of CAAG which provides various management services to Casino Belgrade. It was further agreed that if following the September 18, 2008 decision of the Constitutional Court of Serbia described in section 2.3 above, the license is revoked, in whole or in part, and as a result the Company incurs damages, then CAAG shall indemnify CHL up to an aggregate amount equal to the purchase price, which will be paid, so long as Casino Austria International Holding GmbH ("**CAIH**"), an affiliate of CAAG, remains a shareholder in Powerbrook Spain S.L. ("**Powerbrook**"), out of dividends or other payments to which CAIH shall be entitled as a shareholder in Powerbrook.

In addition, CAIH has granted CHL an option to acquire 50% or 75% of CAIH interest in Grand Casino Brussels, by paying CAIH 50% or 87.5%, respectively, of CAIH actual investment in the Brussels casino as defined. This option shall expire on 20 June 2009.

7.2. Powerbrook

On December 31, 2008, Vasanta Holdings Ltd., a 50%-owned subsidiary of the Company ("**Vasanta**"), informed the Company that it received from CAIH an irrevocable offer to enter into an agreement with CAIH, pursuant to which CAIH will have a call option to purchase from Powerbrook, and Vasanta will have a put option to cause CAIH to purchase from Powerbrook, the following securities (the call option may be exercised by CAIH with respect to all or any of the following securities, whereas the put option may be exercised by Vasanta only with respect to all of the following securities):

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

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

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

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

The offer also provides that the transactions contemplated by the offer may only be consummated following consummation of the sale transaction of 51% of the shares of Casino Belgrade described in section 7.1 above. As of the date of this Annual Report, Vasanta has not yet accepted CAIH's irrevocable offer. The offer, as extended, will expire, if not accepted by Vasanta, on 30 April 2009.

## 8. LITIGATION

For litigation issues in which the company is involved please see note 31 to the consolidated financial statements.

## 9. RISK FACTORS

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

### Risks Related to the Industry

***Demand for gaming services is unpredictable***

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

***Reputation of gambling may affect the Group's revenues***

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

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

The Group operates in markets which are subject to state and/or municipal regulation and supervision. Adverse changes in the laws or their interpretation in any of the countries where the Group operates may have a material adverse effect on the business of the Group or create obstacles to further expansion in these countries. In particular, new state or municipal restrictions on the size and location of gaming establishments or more stringent rules relating to the advertising of casinos may have an adverse effect on the profitability and revenues of the Group as a result of increased compliance costs and restricted marketing opportunities. Legal regulation of the gaming industry is highly susceptible to changes in the political and social agenda and consequently the Group is unable to make reliable long-term predictions about the legal environment in the markets in which it currently operates. See also the risk factor headed "The Group may not be able to obtain licenses and permits" below.

***The Gaming market in Bucharest is competitive***

The current lack of strict gaming regulation in Romania means that there is no restriction on the number of casinos in Bucharest. There are currently 13 casinos in operation in Bucharest and several of these pose a competitive threat to Casino Palace's operations. In particular, casinos which are located in hotels have the advantage of direct access to guests, which Casino Palace does not currently have.

***Competition in Greece may increase***

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

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

***Dependence on Loutraki***

Approximately 69 per cent of the gross gaming revenues of the Group in 2008 were represented by Casino Loutraki. Although the Group expects this percentage to reduce as other casinos are developed and become mature, any significant reduction in the revenues of Casino Loutraki would have a material adverse effect on the Group's profits and financial position.

***The Group may face increased competition from Internet-based services***

The world-wide volume of Internet-based gambling is increasing and it is possible that Internet gaming services will attract an increasingly large share of customers in the future. At present, internet gaming is prohibited in Greece although in practice such sites can be accessed by Greek internet users. However, increased internet access across the Greek population could result in internet-based gaming presenting additional competition for the Group. Internet-based gaming is not currently prohibited in Romania, although the Company believes that internet-based gaming poses a minimal threat at present due to limited internet access. However, if the international internet gambling companies were to focus on the Romanian market or local operators were to enter the online market, internet gaming sites accessible to the Romanian population would improve, and could prove to be competition for Casino Palace.

***The Group faces competition from illegal gaming***

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

***There is a lack of developed regulation in certain markets***

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

***Floor personnel attrition***

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

***World Economic Crisis***

The direct economical consequences of the worldwide crisis in the financial markets, commencing with the sub-prime crisis in the United States and increasing during 2008 and the first months of 2009, remain unknown. World economies, including those in which the Company operates, are under threat of an economic slowdown. The Company is not immune against the consequences of the crisis. A decrease in private consumption resulting in a decrease in leisure expenses might reduce the Company's activities and adversely affect the Company's results of operations.

<u>Risks Related to the Group's Business</u>

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

Before it can commence operations in the jurisdictions in which it intends to conduct gaming activities, the Group must obtain the requisite licenses and permits (for gaming and, where relevant, building) from the relevant authorities. In particular, the planned operations in Romania will require gaming licenses. The Company cannot predict with certainty that it will be able to obtain the required licenses and permits or the time it will take to obtain them, particularly in heavily regulated markets or where competing casinos are already active in the area. If the Group is unable to obtain the required gaming licenses or if delays are experienced in receiving the required permits, it could adversely affect its ability to implement its development strategy, which could have a material adverse effect on the Group's financial condition and results of operations. The foregoing risk is also applicable with respect to the maintenance of licenses in existing operating casinos. As described in section 2.3 above, in late 2008 certain provisions under Serbian law regulating the conditions for applications for permits for organization special games of chance in gambling facilities were declared unconstitutional by the Constitutional Court of Serbia. The Company has been advised by Serbian counsel that such decision may have a significant effect on the license to operate a casino in Belgrade and may lead to the revocation of the license. If such risk is materialized, Casino Belgrade would be entitled to remedies under the terms of the license and under applicable law.

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

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

***Casino Rodos' results of operations are dependent on tourism***

Casino Rodos is dependent on the attractiveness of the island of Rhodes as a tourist destination. This is illustrated by its operating figures which show an increase in both admissions and revenue during the tourist season, with the third quarter of each year accounting for approximately 30 per cent. of revenues annually. Although many of the casino's visitors are residents of Rhodes, the economy of the island as a whole is dependent on tourism. A downturn in the number of tourists visiting the island in the summer will be likely to have a negative impact on the Rhodes economy, with the island's residents having less disposable income. Consequently, a weak tourist season not only results in reduced revenues in the summer, but is also likely to have an adverse effect on the casino's turnover through the winter months.

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

In December 2005, Rhodes Casino Company received tax assessments in respect of the years 1999 and 2000 in an amount of €16 million, resulting from an alleged breach of technical book keeping procedures. Rhodes Casino Company has challenged these assessments and has initiated litigation procedures against the Greek tax authorities. The Company has not considered it necessary to include a provision in the Company's accounts. However, it is impossible to predict whether the tax assessments will be cancelled, particularly as the case will not be finalized until 2016 at the earliest. If Rhodes Casino Company is required to pay the €16 million, this will have an adverse effect on the financial condition of the Group.

***Tax related risks***

The calculation of the Group's tax liabilities requires interpretation and implication of various tax laws and treaties. The Group operates in various countries and is subject to the particular tax regimes of each such country. The Group's tax liabilities calculation is based on the Group's understanding and implementation of the various tax regimes to which it is subject. However, tax authorities may interpret and implement the same laws and treaties differently, thus increasing the Group's tax liability.

Risks Related to the Company's structure

***Joint venture/minority shareholder risk in Loutraki***

Casino Loutraki, together with several of the Group's planned investments, are held through joint venture associations with third parties, meaning that ownership and control of such assets are shared with third parties. There is a possibility that these third parties may have interests which conflict with those of the Group. If the Group is unable to reach or maintain agreement with a joint venture partner on matters relating to the operation of the business, its financial condition and the results of its operations may be materially adversely affected. Since the commencement of CHL's operations in 1995, all distributable revenues of CHL have been distributed to its shareholders; however, there can be no assurance that the Group's third party partners will continue to vote in favor of distributing CHL's dividends, and therefore the Company cannot ensure that dividends are distributed from the relevant projects through the Group to the Company.

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

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

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

***Changes in International Financial Reporting Standards***

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

Risks related to the conduct of business in emerging markets

***The Group faces certain risks related to operating in emerging markets***

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

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

The legal systems in some of the countries where the Group operates or is considering operating are still developing. The judicial processes in Eastern Europe and Asia are not necessarily similar to those in Western Europe, and parties seeking to rely on the local courts for effective redress in case of a breach of law or regulation, or in an ownership dispute, may find this difficult to obtain. The legal regimes regulating gaming in many jurisdictions in which the Company intends to operate that regulate the gambling industry have in many cases been adopted relatively recently, and there is comparatively greater uncertainty as to how disputes might be resolved in a court proceeding in these jurisdictions. This is particularly true in Cambodia. There is therefore a greater risk of unexpected outcomes which might have a material adverse effect on the Company, its ability to achieve its investment objectives and level of dividends that it is able to distribute.

# Section B - Directors Report.

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

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

2. **Competitive Strengths**

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

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

3. **Strategy**

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

- capitalise on recent expansions in order to maintain and enhance

  leading local positions;
- focusing on core competencies;
- Improving operating efficiency;
- increase scope and scale of existing investments;
- Internal Enhancement and Improvement;

4. **Presentation of Financial Information**

The Group's consolidated financial statements for the years ended 31 December 2008, 2007 and 2006 have been prepared in accordance with IFRS and the statements issued by the International Financial Reporting Interpretations Committee as adopted by the European Commission. The accounting policies applicable to the Group's financial statements are discussed in the notes to the consolidated financial statements included elsewhere in this annual report. The Group's presentation currency is the Euro.

Revenues

Revenues, as presented in the Group's consolidated financial statements, consist of total revenues less tax on gross gaming revenues and applicable municipality tax. The Group's total revenues consist of gaming revenues, comprised of slot machine and gaming table wins, food and beverage sales, entrance fees, hotel accommodation and outlet charges, rentals and sundry revenues. In the Group's 2008 fiscal year, approximately 97 per cent. of the Group's total revenues consisted of gaming revenues, and approximately 69 per cent., 19 per cent. and 12 per cent. of gaming revenues were derived from Casino Loutraki, Casino Rodos and the Casino Palace, respectively.

The table below sets forth for each of the Group's 2008, 2007 and 2006 fiscal years, a breakdown of the Group's total revenues, including gross gaming and other revenues, the tax applied to gross gaming revenues and applicable municipality tax.

| | Year ended 31 December | | |
| --- | --- | --- | --- |
| | **2008** | **2007** | **2006** |
| **Gross gaming revenue** | **190,771** | **199,266** | **166,533** |
| Food and beverage revenue | 2,354 | 2,588 | 2,707 |
| Entrance tickets (net) | 1,047 | 1,030 | 1,004 |
| Hotel revenue | 1,470 | 1,806 | 1,829 |
| Rental revenue | 115 | 135 | 58 |
| Sundry revenue | 684 | 903 | 435 |
| **Total other revenue** | **5,670** | **6,462** | **6,033** |
| **Total Revenue** | **196,441** | **205,728** | **172,566** |
| Tax on gross gaming revenues | (55,506) | (59,071) | (49,555) |
| Municipality tax | (3,545) | (3,762) | (3,153) |
| **Revenue per income statement** | **137,390** | **142,895** | **119,858** |

* Amounts reflect the operations of the Group for each period as if the acquisition by the Company of Queen Romania Ltd., the parent holding company of the Casino Palace operations, which occurred on 13 June 2007, had occurred at the beginning of the reporting period starting 1 January 2006, as described in more detail in note 1 to the Group's consolidated financial statements included elsewhere in this document.

** Under the terms of the licenses with the respective local municipalities, Casino Loutraki and Casino Rhodes are required to pay a 33 per cent. and 30 per cent. annual tax, respectively, on gross gaming revenues to the Greek Gaming Committee, as well as an additional 2 per cent. annual tax on total revenues. Casino Palace is required to pay a fixed tax to the Romanian gaming authority on each table and slot machine it operates, as well as an additional annual tax of 10 per cent. on revenue derived from the slot machines it operates.

***Operating Costs***

Cost of Revenues

Cost of revenues consists primarily of costs related to gaming, security and food and beverage staff costs, primarily salaries, and also of costs related to food and beverage, facility maintenance, rent, utility costs, amortization and depreciation, Greek tourist organization duties and other costs consisting of travel, communication and consumables expenses. In 2008, approximately 64.5 per cent. of the Group's total cost of revenue consisted of staff costs.

Selling and marketing expenses

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

General and administrative expenses

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

Other operating expenses

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

***Investment income***

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

***Finance costs***

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

***Foreign exchange gain (loss)***

Foreign exchange gain (loss) relates to gains or losses realized as a result of fluctuations in value of the Euro against the NIS, the Romanian lei and the U.S. dollar. The Group's reporting currency is Euro but its revenues and costs derived at Casino Palace are in both Romanian lei and Euro, subjecting the Group to variation in the exchange rate between the Euro and the Romanian lei, respectively.

***Tax***

Tax primarily consists of current tax and to a lesser extent tax relating to prior years and deferred tax. In Israel, normal income tax of companies for the 2008, 2007 and 2006 calendar years was 27 per cent., 29 per cent. and 31 per cent., respectively, of the estimated assessable profit for the year. Israeli income tax will be reduced in 2009 to 26 per cent. and thereafter 25 per cent. For Greece-based projects, normal income taxation for the 2008, 2007 and 2006 calendar years was calculated at 25 per cent., 25 per cent. and 29 per cent., respectively, of the assessable profit for the year. As part of a new tax reform in Greece, corporate tax rates will be reduced from the mentioned 25% in 2009 to 20% in 2014 and thereafter (24% in 2010, 23% in 2011, 22% in 2012 and 21% in 2013). In addition, the new tax reform imposes a 10 per cent. tax (deductible at source) upon all dividend distributions to shareholders (corporations and individuals) residing in Greece or in any other non-EU member countries. The same tax rate will be imposed upon other payments made to shareholders, directors and employees. According to the Company's current structure, CHL is held by Powerbrook which is an EU member resident (Spain) and is not subject to the said 10 per cent. dividend tax. Such exemption does not exist in the case of Casino Rodos which is held by AINEIAS S.A which is a Greek company and, therefore, subject to the said tax and the Company is looking into the possibility and advisability of modifying its holdings structure. For Romania-based projects, the Group is taxed depending on the activity undertaken. During 2006, 2007 and 2008, the Casino Palace was subject to tax based on the greater of 16 per cent. of profit and 5 per cent. of income from gambling. The Company does not expect the applicable tax rate to change for its 2009 fiscal year. The Casino Palace restaurant in the Company's 2006, 2007 and 2008 fiscal years was subject to a 16 per cent. tax rate applied to profits before tax.

**Results of Operations**

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

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2007*** | **2006*** |
| Revenues | 137,390 | 142,895 | 119,858 |
| **Operating costs** | | | |
| Cost of revenues | (58,614) | (54,918) | (48,874) |
| Selling and marketing expenses | (15,510) | (14,911) | (11,353) |
| General and administrative expenses | (23,920) | (19,959) | (16,258) |
| Other operating expenses | (366) | (492) | (861) |
| Share of results of associates | (2,203) | (1,351) | 86 |
| **Operating profit** | **36,777** | **51,264** | **42,598** |
| Investment income | 3,000 | 4,933 | 1,188 |
| Finance costs | (2,992) | (3,195) | (2,476) |
| Foreign exchange gain (loss) | (384) | (61) | (110) |
| **Profit before tax** | **36,401** | **52,941** | **41,200** |
| Tax | (13,382) | (15,407) | (14,761) |
| **Profit for the year** | **23,019** | **37,534** | **26,439** |
| Attributable to: | | | |
| Equity holders of the parent | 13, 367 | 25,138 | 17,241 |
| Minority interests | 9,652 | 12,396 | 9,198 |
| | **23,019** | **37,534** | **26,439** |
| **Earnings per share** | | | |
| Basic *pro forma* (¢)** | | | 5.5 |
| Diluted *pro forma* (¢)** | | | 5.5 |
| Basic (¢) | 3.8 | 7.6 | 9.1 |
| Diluted (¢) | 3.8 | 7.5 | 9.1 |

* The 2007 and 2006 amounts are provided as if the restructuring described in Note 1 of the Group's consolidated financial statements had occurred at the beginning of the reporting period starting 1 January 2006.

** *Pro forma* earnings per share have been calculated as if the equity issue described in Note 1 had been performed on 1 January 2006.

<u>Year Ended 31 December 2008 to Year Ended 31 December 2007</u>

*Revenues*

Revenues amounted to €137,390 thousand in 2008 compared to €142,895 thousand in 2007, a decrease of €5,505 thousand, or 3.85 per cent., and gross gaming revenues amounted to

€190,771 thousand in 2008 compared to €199,266 thousand in 2007, a decrease of €8,495 thousand, or 4.26 per cent. In 2008, approximately 69 per cent., 19 per cent. and 12 per cent. of the Group's gross gaming revenues was derived from Casino Loutraki, Casino Rodos and Casino Palace, respectively. Net gaming revenues and gross gaming revenues decreased primarily as a result of the world economic crisis and the direct impact it has on private consumption which led, consequently, to a decrease in leisure expenses and a slowdown in the Company's activity. While the fall in consumer spending was the key factor, the introduction of new employment laws by the Greek government resulted in a €2.7 million increase in salary costs. In addition, to retain key staff in the competitive Bucharest market, salary costs in Casino Palace also increased. Marketing expenses increased reflecting our strategy to maintain market share and attract new customers, particularly VVIP players. Higher head office costs relating to employee options, salaries and legal expenses, together with costs relating to our investment in Prague, resulted in an increase in administrative costs. The Company's performance was also influenced by the fluctuations in the exchange rates, including the 6.4 per cent. Euro/NIS devaluation and the 11.4% RON/Euro devaluation. Of the total €196,441 thousand of gross revenues in 2008, €5,670 thousand was attributable to other revenues, compared to €6,462 thousand in 2007, a decrease of €792 thousand, or 12.25 per cent.

*Revenues per site:*

Casino Loutraki: Gross gaming revenues for the 12 months ended 31 December 2008 were €256.1 million (2007: €275.3 million), while net revenues were €174.2 million (2007: €188.2 million). Over the year the casino generated EBITDA of €73.9 million, a decrease of 19.3% (2007: €91.6 million), mainly due to the fall in net revenue in the second half of 2008 and the higher payroll expenses.

Casino Rodos, Rhodes: Overall for the year, gross gaming revenues, affected by the general slowdown, were €35.7 million (2007: €39.3 million) and net revenues were €25.4 million (2007: €27.7 million), resulting in EBITDA of €8.6 million (2007: €11.8 million).

Casino Palace, Bucharest: Gross gaming revenues for the year were up 13.4% to €22.9 million (2007: €20.2 million), while net revenues were €22.1 million (2007: €19.5 million). Casino Palace has performed strongly in 2008 despite operating in a highly competitive environment, thanks to the offering of a luxurious and unique gaming experience which attracts high rollers. EBITDA increased by 12.5% to €7.2 million. Although the number of guests decreased by 5.3% to 110,050 (2007: 116,248) the win per visit increased by 20.5% to 209 (2007: 174).

Casino Beograd, Belgrade: Casino Beograd, which enjoys exclusivity in the Serbian Capital, became fully operational in February 2008 after the soft opening in July 2007. For the year ended 31 December 2008 Casino Beograd reported a negative EBITDA of €3.7 million. Our investment in marketing in a city of over 2 million inhabitants, and in an under penetrated market, has proven to be successful, as guest numbers increased on a monthly basis.

Tax on gross gaming revenues amounted to €55,506 thousand in 2008 compared to €59,071 thousand in 2007, a decrease of €3,565 thousand, or 6.03 per cent. The decrease in taxes was in line with the decrease in gross gaming revenues generated from the Greek operations over the period.

Municipality tax amounted to €3,545 thousand in 2008 compared to €3,762 thousand in 2007, a decrease of €217 thousand.

*Operating Costs*

Cost of Revenues

Cost of revenues amounted to €58,614 thousand in 2008 compared to €54,918 thousand in 2007, an increase of €3,696 thousand, or 6.73 per cent. The increase in cost of revenues is primarily attributable to increases in staff costs.

Selling and Marketing Expenses

Selling and marketing expenses amounted to €15,510 thousand in 2008 compared to €14,911 thousand in 2007, an increase of €599 thousand, or 4.02 per cent. The increase in selling and marketing expenses is primarily attributable to increases in the marketing efforts at each of the Group's casinos aimed at attracting high rollers.

General and Administrative

General and administrative expenses amounted to €23,920 thousand in 2008 compared to €19,959 thousand in 2007, an increase of €3,961 thousand.

Other Operating Expenses

Other operating expenses amounted to €366 thousand in 2008 compared to €492 thousand in 2007, a decrease of €126 thousand.

*Share of Results of Associates*

Share of results of associates amounted to a loss of €2,203 thousand in December 2008 compared to a loss of €1,351 thousand in December 2007, an increase of €852 thousand. The increase in share of results of associates is primarily attributable to the running period of Grand Casino d.o.o, starting in February 2008.

*Investment Income*

Investment income amounted to €3,000 thousand in 2008 compared to €4,933 thousand in 2007, a decrease of €1,933 thousand. The decrease in investment income is primarily attributable to (i) a decrease in gains from deposits and (ii) capital gains of negative goodwill that were recognized in 2007 as a result of the purchase of 6% of the shareholding in Dasharta, a jointly controlled entity which controls Powerbrook indirectly, from a minority shareholder (which 6% holding was purchased at a discount to fair value, resulting in negative goodwill and a profit in 2007).

*Finance Costs*

Finance costs amounted to €2,992 thousand in 2008, compared to €3,195 thousand in 2007, a decrease of €203 thousand.

*Foreign Exchange Gain (Loss)*

Foreign exchange loss amounted to €384 thousands in 2008, compared to foreign exchange loss of €61 thousands in 2007.

*Taxes*

Taxes amounted to €13,382 thousand in 2008 compared to €15,407 thousand in 2007, a decrease of €2,025 thousand, or 13.14 per cent. The decrease in taxes is primarily attributable to a decrease in the taxable income resulting from decreased profit at Casino Loutraki, and Casino Rodos operation.

*Profit*

Profit amounted to €23,019 thousand in 2008 compared to €37,534 thousand in 2007, a decrease of €14,515 thousand, or 38.67 per cent. The decrease in profit is primarily attributable to the decrease in gross revenues and the increase in cost of revenues.

***Cash and Funding Sources***

The Group's principal sources of liquidity are the proceeds from its initial public offering in July 2007, and cash provided by operations and borrowings under three loan facilities from banks provided to Powerbrook Spain S.L. (which was fully repaid on June 30, 2008), Rhodes Casino S.A. and Queenco Leisure International Ltd. As of 31 December 2008, the Group had €57,015 in cash and cash equivalents, and bank overdraft and loans in an aggregate amount of €16,958 thousand, consisting of €1,900 thousand of short-term bank loans and a €15,058 thousand overdraft facility.

***Cash Flow Statement Data***

The table below summarizes the Group's cash flow for the years ended December 31, 2006, 2007 and 2008:

| | *Year ended 31 December* | | |
|---|---|---|---|
| | *2008* | *2007* | *2006* |
| | *€'000* | *€'000* | *€'000* |
| Cash flow from operating activities | 19,847 | 46,280 | 35,941 |
| Cash flow from (used in) investing Activities | (27,988) | (33,339) | (16,212) |
| Cash flow from (used in) financing Activities | (13,215) | 28,136 | (24,279) |
| Foreign exchange rate effect | 2,360 | (305) | 590 |
| **Net increase (decrease) in cash and cash equivalents** | (18,996) | 40,772 | (3,960) |

*Operating Activities*

The Group's net cash in flow from operating activities amounted to €19,847 thousands in 2008 compared to net cash in flow of €46,280 thousands in 2007. The decrease in net cash in flows in 2008 compared to the net cash in flows in 2007 is primarily attributable to a decrease in income before taxes and decrease in payables.

*Investing Activities*

The Group's net cash out flow used in investing activities amounted to €27,988 thousand in 2008 compared to net cash out flow of €33,339 thousand in 2007. The decrease in net cash out flow in 2008 compared to the net cash out flow in 2007 is primarily attributable to a decrease in loans made to associates, partially offset by increased purchases of property, plant and equipment, and in turn partially offset by a decrease in the net proceeds received on sales and purchases of marketable securities.

*Financing Activities*

The Group's net cash out flow from financing activities amounted to €13,215 thousands in 2008 compared to net cash in flow of €28,136 thousands in 2007. The decrease in net cash in flow in 2008 compared to the net cash in flow in 2007 is primarily attributable to the funds received by the Company from issuance of shares, net of expenses in an amount of €53,346 thousand, with deduction of the receipt of other long term liabilities in an amount of €4,530 thousand and deduction of dividends in an amount of €2,745.

**Critical Accounting Policies**

The critical accounting policies relating to the Group's operations are set out in Note 2 to the

Company’s financial statements included elsewhere in this report**.**

**Significant Developments since 31 December, 2008**

Please refer to the transactions described in section 7 above.

5. **Disclosure about Market Risk**.

Responsibility for the Company’s Market Risk Management.

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

Description of Market Risk.

*Foreign currency risk*

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

*Interest rate risk*

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

*Credit risk management*

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

6. Directors with Accounting and Financial Expertise.

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

7. Disclosure Regarding the Remuneration of the Auditor

Remuneration for audit services, for services related to the audit and for tax services for 2008 is € 642 thousand for Israel and for the overseas subsidiaries.

# Section C- Financial Reports

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**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 2008 and 2007 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 2008, 2007 and 2006. 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 2008 and 2007, and the consolidated results of operations, changes in equity and the cash flows of the Group for the years ended 31 December 2008, 2007 and 2006 in accordance with International Financial Reporting Standards.

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

Israel, 24 March 2009

**QUEENCO LEISURE INTERNATIONAL LTD**
**Consolidated statements of income**
(In thousands of €)

| | Notes | Year ended 31 December | | |
|---|---|---|---|---|
| | | **2 0 0 8** | **2 0 0 7** | **2 0 0 6*** |
| Revenues | 4 | 137,390 | 142,895 | 119,858 |
| **Operating costs** | | | | |
| Cost of revenues | 5 | (58,614) | (54,918) | (47,587) |
| Selling and marketing expenses | 6 | (15,510) | (14,911) | (11,353) |
| General and administrative expenses | 7 | (23,920) | (19,959) | (17,545) |
| Other operating expenses | 8 | (366) | (492) | (861) |
| Share of results of associated company | 16 | (2,203) | (1,351) | 86 |
| **Operating profit** | | **36,777** | **51,264** | **42,598** |
| Investment income | 9 | 3,000 | 4,933 | 1,188 |
| Finance costs | 10 | (2,992) | (3,195) | (2,476) |
| Foreign exchange loss | | (384) | (61) | (110) |
| **Profit before tax** | | **36,401** | **52,941** | **41,200** |
| Tax | 11 | (13,382) | (15,407) | (14,761) |
| **Profit for the year** | | **23,019** | **37,534** | **26,439** |
| Attributable to: | | | | |
| Equity holders of the parent | | 13, 367 | 25,138 | 17,241 |
| Minority interests | | 9,652 | 12,396 | 9,198 |
| | | **23,019** | **37,534** | **26,439** |
| **Earnings per share** | | | | |
| Basic *pro forma* (¢)** | 13 | | | 5.5 |
| Diluted *pro forma* (¢)** | 13 | | | 5.5 |
| Basic (¢) | 13 | 3.8 | 7.6 | 9.1 |
| Diluted (¢) | 13 | 3.8 | 7.5 | 9.1 |

* The 2007 and 2006 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 2006.

** *Pro forma* earnings per share have been calculated as if the equity issue described in Note 1 had been performed on 1 January 2006.

## Consolidated Balance sheets

(In thousands of €)

| | Notes | As at 31 December 2008 | 2007 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 14 | 8,233 | 13,746 |
| Property, plant and equipment | 15 | 108,322 | 92,672 |
| Investment property | 33 | 6,994 | 7,652 |
| Associated company | 16 | 11,435 | 13,019 |
| Deferred tax asset | 17 | 2,043 | 2,465 |
| Other long term receivables | 18 | 12,144 | 12,178 |
| **Total non-current assets** | | **149,171** | **141,732** |
| **Current assets** | | | |
| Inventories | 19 | 760 | 782 |
| Investments | 20 | 9,107 | 8,894 |
| Trade and other receivables | 21 | 4,470 | 3,985 |
| Cash and cash equivalents | 22 | 57,015 | 76,011 |
| **Total current assets** | | **71,352** | **89,672** |
| **Total assets** | | **220,523** | **231,404** |
| **Current liabilities** | | | |
| Accounts payable | | (4,941) | (5,587) |
| Current tax liabilities | | (5,352) | (11,314) |
| Other current liabilities | 23 | (23,012) | (25,974) |
| Bank overdraft and loans | 24 | (16,958) | (12,591) |
| **Total current liabilities** | | **(50,263)** | **(55,466)** |
| **Net current assets** | | **21,089** | **34,206** |
| **Total assets less current liabilities** | | **170,260** | **175,938** |
| **Non-current liabilities** | | | |
| Long-term bank loans | 24 | (8,536) | (10,259) |
| Other long-term liabilities | 25 | (7,286) | (11,003) |
| Deferred tax | 17 | (1,795) | (3,471) |
| Provision for retirement benefits | 26 | (5,340) | (4,835) |
| **Total non-current liabilities** | | **(22,957)** | **(29,568)** |
| **Net assets** | | **147,303** | **146,370** |

**Consolidated Balance sheets ( Cont.)**
(In thousands of €)

| | | | |
|---|---|---|---|
| **Shareholders' equity** | | | |
| Share capital | 27 | 62,512 | 62,512 |
| Share premium | | 130,998 | 130,998 |
| Hedging and translation reserve | | 2,830 | 1,828 |
| Other reserve | 2.4 | (7,950) | - |
| Accumulated deficit | 28 | (71,495) | (80,009) |
| **Equity attributable to equity holders of the parent** | | **116,895** | **115,329** |
| **Minority interest** | | **30,408** | **31,041** |
| **Total Equity** | | **147,303** | **146,370** |

The financial statements were approved by the board of directors and authorised for issue on 24 March 2009. They were signed on its behalf by:

Uri Ben-Ari                Neomi Enoch
Chief Executive Officer                Chief Financial Officer

24 March 2009

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

| | Notes | Share Capital | Share Premium | Hedging & Translation reserve | Other reserve | 8. Accumulated deficit | Parent | Minority Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2006** | | - | - | (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** |
| 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 1.7 ¢ and 4 ¢ per share for 2008 and 2007, respectively

**Consolidated statements of changes in equity (Cont.)**
(In thousands of €)

| | Notes | Share Capital | Share Premium | Hedging & Translation reserve | Other reserve | Accumulated deficit | Parent | Minority Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2008** | | **62,512** | **130,998** | **1,828** | **-** | **(80,009)** | **115,329** | **31,041** | **146,370** |
| Translation differences | | - | - | 1,002 | - | - | 1,002 | (949) | 53 |
| Expense resulting from grant of share options | | - | - | - | - | 2,224 | 2,224 | - | 2,224 |
| Reverse of expense resulting from options granted to former employees | | - | - | - | - | (1,070) | (1,070) | - | (1,070) |
| Loss on cashflow hedge | | - | - | (86) | - | - | (86) | - | (86) |
| Release of cashflow hedge to fixed asset | | - | - | 86 | - | - | 86 | - | 86 |
| Exercise of option for purchase of minority interest (see Note 2.4) | | - | - | - | (7,950) | - | (7,950) | - | (7,950) |
| Profit share due to the municipality of Loutraki | 12 | - | - | - | - | - | - | (4,205) | (4,205) |
| Dividend ** | | - | - | - | - | (6,007) | (6,007) | (5,131) | (11,138) |
| Net income for the period | | - | - | - | - | 13,367 | 13,367 | 9,652 | 23,019 |
| **Balance as at 31 December 2008** | | **62,512** | **130,998** | **2,830** | **(7,950)** | **(71,495)** | **116,895** | **30,408** | **147,303** |

* Capital notes held with Milimor and Shachar Hamillenium (parent companies)
** Representing 1.7 ¢ and 4 ¢ per share for 2008 and 2007, respectively
.

## Consolidated cash flow statements

(In thousands of €)

| | Notes | Year ended 31 December | | |
|---|---|---|---|---|
| | | 2 0 0 8 | 2 0 0 7* | 2 0 0 6* |
| **Net cash from operating activities** | 29 | **19,847** | **46,280** | **35,941** |
| **Investing activities** | | | | |
| Interest received | | 2,635 | 4,801 | 478 |
| Purchases of property, plant and equipment | | (24,013) | (9,983) | (9,972) |
| Proceeds on sale of property, plant and equipment | | 341 | - | - |
| Purchase of other intangibles | | (73) | (28) | (27) |
| Advances on fixed assets | | (2,509) | - | - |
| Investment in an associated company | | (1,367) | (9,754) | (20) |
| Increase in other long-term receivables | | (168) | - | - |
| Proceeds on sale of marketable security | | - | - | 2,465 |
| Money on deposit | | - | - | (715) |
| Purchases of trading investments | | (735) | (7,923) | (147) |
| Instalments for the acquisition of a subsidiary | | (2,964) | (714) | (714) |
| Loan to associated company | | - | (7,585) | (60) |
| Sale of interest in joint venture entity | | 865 | - | - |
| Purchase of additional interest in joint venture entity | | - | (2,153) | - |
| Investment in a subsidiary net of cash acquired | | - | - | (7,500) |
| **Net cash used in investing activities** | | **(27,988)** | **(33,339)** | **(16,212)** |
| **Financing activities** | | | | |
| Dividends paid to minority shareholders | | (5,131) | (3,402) | (3,776) |
| Dividends | | (6,007) | (8,752) | - |
| Repayments of borrowings | | (12,420) | (11,730) | (13,325) |
| Receipt / (repayment) of other long term liabilities | | (1,245) | 3,285 | (4,266) |
| Issue of shares, net of expenses | | - | 53,346 | - |
| Repayments of capital notes | | - | - | (246) |
| Share of profits paid to Municipality of Loutraki | | (4,371) | (4,361) | (2,911) |
| Increase (decrease) in bank overdrafts and short-term loans | | 15,959 | (250) | 245 |
| **Net cash provided by (used in) financing activities** | | **(13,215)** | **28,136** | **(24,279)** |
| **Net increase (decrease) in cash and cash equivalents** | | (21,356) | 41,077 | (4,550) |
| Effect of foreign exchange rate changes | | 2,360 | (305) | 590 |
| Cash and cash equivalents at beginning of year | 22 | 76,011 | 35,239 | 39,199 |
| **Cash and cash equivalents at end of year** | | **57,015** | **76,011** | **35,239** |
| Tax cash flow | | (18,323) | (14,717) | (11,891) |
| Interest paid | | (1,212) | (1,208) | (4,074) |

* The 2007 and 2006 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 2006.

## 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 address is 11 Menachem Begin road, Ramat Gan, Israel.

In November 2004, all Milomor's holdings in the Company’s shares were transferred to Shachar HaMilenium (1991) Ltd.,(as of then) an Israeli public company whose shares were also 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. In March 2007, Queenco acquired all of Milomor's holdings in Shachar HaMilenium.

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

The Company, through Israeli and foreign companies, (together, “the Group”), is a developer, operator and owner of entertainment centres, casinos and leisure resorts, currently mainly in Greece and in Romania. The activities in Greece are in the city of Loutraki and Rhodes Island. Currently, the activities in Romania are in the city of Bucharest. 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 € 405 million at the beginning of 2003. The assets and liabilities transferred were recorded at their book value at the date of the transfer. The difference between the book value and the agreed consideration, totalling € 305 million, was charged directly to equity, resulting in an increase in accumulated deficit.

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

In June 2007, Resido 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.

### Project in Loutraki

The Company indirectly holds, effectively, as at 31 December 2008, 34.1% interest in Club Hotel Loutraki S.A. ("CHL"), a company incorporated in Greece. This holding is mainly trough the holding of 50% of the shares of an Israeli company ("Vasanta"). Vasanta meets the definition of a jointly controlled entity under IAS 31.

(in thousands of Euro unless otherwise stated)

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

On 23 June 2008, the Company granted an option to Club Hotel Group (the holder of the other 50% interest in Vasanta) for the purchase of half of the economic interests that QLI had acquired from the minority interest on 30 September 2007. This option was exercised on 20 August 2008. See Note 9 for further details.

78% of the equity of CHL is held by Powerbrook Spain S.L, a company controlled indirectly by Vasanta and the parent company of CHL ("PBS"). Following the exercise in 2008 of a call option granted to Agastia, an holding company controlled by Vasanta, Agastia has rights to 98.75% of the profits of PBS, until accumulated free cash flow ( as defined in shareholders' agreement) reaches additional € 267 million ( as at 31 December 2008). Once accumulated free cash flow has reached this level, the third party shareholder (Casino Austria) had rights to 12.5% of additional profits, and related share in PBS's equity. The cash consideration for the exercise of the call option was € 15 million

.
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 Greek gaming committee has neither awarded any new licenses nor indicated that it intends to issue additional licenses.

## Project in Rhodes

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

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

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

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

## Projects in Romania

Following the completion of the reorganisation described above, The Company holds, through Israeli and foreign corporations under its control, 83.3% of the issued and paid up share capital of a Romanian company known as Queen Investments Inc. S.R.L. (the "Palace Casino"), which has a license from the Romanian Government, for operating a casino and hotel in the city of Bucharest. This licence needs to be annually renewed. The financial statements of the Palace Casino are fully consolidated and as if the reorganisation described in Note 1 had occurred at the beginning of the earliest reporting period presented: 1 January 2006 (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. ("Queen Investments") attained concession rights over a historic building in Constansa for a period of 49 years. The Company, trough Queen Investments, intends to renovate and operate the building "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.

In 2006, a building was acquired for a total of € 1.9 million near the casino in Bucharest. In 2008, land was acquired for a total of € 1.6 million, near the planed casino in Constanta. Both the plot and the building are designated for the construction of a boutique hotel near each of the casinos.

**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. See below with respect to developments after 31 December 2008.

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 February 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 quarter of 2009. Total investment in the project is estimated at € 8.7 million. Total investment in the project at 31 December 2008 was € 7.3 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 in the Group’s consolidated financial statements.

**Land in Cambodia**

In February 2007, a foreign interest of the Group, indirectly jointly controlled by it, contracted to acquire land in Cambodia for a total consideration of € 9.7 million. In January 2008 a foreign interest of the Group, controlled by it, contracted to acquire additional land in Cambodia for a total consideration of approximately € 7.5 million ( the "Second Acquisition").

The current designation of the both acquisitions is for agriculture. However the Group expects that the designation can be changed for tourism purposes. With regard to the Second Acquisition, , the Group has contacted a local Cambodian entity to help the Group in the obtainment of the needed permits for the tourist projects, for 10% of the Second Acquisition's rights, subject to the obtainment of needed permits and meeting certain other conditions by August of 2009.

As at the date of these accounts, no decision has yet been made as to how to progress with the projects and the Group is evaluating the economical feasibility of such projects.

**Developments with respect to project in Belgrade and PBS**

On 31 December 2008, CHL, has entered into an agreement with Casino Austria AG ("CAAG") for the purchase from CAAG of 51% of the shares of the Serbian Company (the "Purchased Shares"), for a purchase price of Euro 42 million (CHL held, prior to the closing of the transaction, 39% of the shares of the Serbian Company). The purchase price for the Purchased Shares is payable in two parts: the first amount of Euro 8.4 million (the "First Tranche") is payable, as extended, on 4 May 2009 and the balance amount of Euro 33.6 million (the "Second Tranche") is payable not later than six months following the sale of the Purchased Shares (the "Closing"). To secure the payment of the Second Tranche, CHL has agreed to grant CAAG at the Closing a first priority, fixed and continuing pledge over 60% of the Serbian Company issued shares (reflecting two thirds of CHL's holding in the Serbian Company upon Closing), which pledge will be removed upon payment to CAAG of the Second Tranche. In March 2009, all conditions for the closing have been met. The foregoing transaction is referred to as the "Sale Transaction". Casino Austria International Holding GmbH ("CAIH"), an affiliate of CAAG, has additionally granted CHL an option to acquire 50% or 75% of CAIH interest in Grand Casino Brussels, by paying CAIH 50% or 87.5%, respectively, of CAIH actual investment in the Brussels casino as defined. This option shall expire, as extended, on 20 June 2009.

From Closing, the financial statements of the Serbian Company will be consolidated with the financial statements of CHL. However, the initial accounting for the transaction is yet incomplete as the fare value of the shares acquired is not yet determined.

For additional details on the Serbian Company please refer to **Project in Belgrade** above and to Note 16.

In addition, Vasanta informed QLI that it has received from CAIH , an irrevocable offer (the "Offer") to enter into an agreement pursuant to which CAIH will have an option (the "Call Option") to purchase from PBS and Vasanta will have an option (the "Put Option") to cause PBS to issue and sell to CAIH, the following securities of PBS (the Call Option may be exercised by CAIH with respect to all or any of the following securities, provided however that if the Call Option is exercised with respect to the Ordinary Shares under clause 1 below, CAIH must also exercise the Call Option with respect to the special shares under clauses 2 and 3 below):

1. Ordinary shares of PBS constituting 11.74% of the fully diluted share capital of PBS;

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

3. A special share providing for certain minority protective veto rights with respect to the operations of PBS for so long as CAIH holds at least 10% of the fully diluted share capital of PBS

In the event, as a result of the decision of the Constitutional court of Serbia on September 18 2008, the license is revoked, in whole or in part, and as a result thereof damage is caused to the Company, than the seller shall indemnify the buyer up to an aggregate amount equal to the purchase price ,in a manner described in the agreement (see Note 31).

If CAIH exercises the Call Option with respect to the ordinary shares referred to in clause 1 above, it will have the right to aggregate its holdings with Casinos Austria Greece GmbH, which currently holds shares in PBS, and as a result nominate a total of up to two members, while Vasanta (through an indirectly controlled company) will have the right to nominate a total of up to seven members, to the board of directors of PBS. The Offer also includes an agreement that provides that the transactions contemplated by the Offer may only be consummated following consummation of the Sale Transaction. The aggregate exercise price of the Call Option is Euro 54.9 million and the exercise price of the Put Option is Euro 49.5 million.

The Offer, as extended, will expire, if not accepted by Vasanta, by 30 April 2009. If Vasanta accepts the Offer by such time, the Call Option will be exercisable from the time of acceptance through 30 August 2009 and the Put Option will be exercisable from 31 May 2009 through 2 November, 2009.

There is no assurance that the Offer will be accepted by Vasanta.

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

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

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

IFRS 8 Operating Segments
IAS 1 (R) Presentation of Financial Statements
IAS 23 (R) Borrowing Costs (March 2007)
IFRIC 10 Interim Financial Reporting and Impairment
IFRIC 13 Customer Loyalty Programs
IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 15 Agreements for the Construction of Real Estate
IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 17 Distributions of Non-cash Assets to Owners
IFRIC 18 Transfers of Assets from Customers

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 reclassification of financial statements items that might deem necessary when the relevant standards come into effect for periods commencing on or after 1 January 2009.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are set out below:

### 2.1Basis 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 and 2006 as if the reorganisation had taken place on 1 January 2006, the earliest period presented in these financial statements.

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

## 2.2Use of Estimates

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

## 2.3Basis of consolidation

***(i) Subsidiaries***

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

***(ii) Associates***

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

***(iii) Jointly controlled entities***

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

***(iv) Transactions eliminated on consolidation***

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

## 2.4Business 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 consolidated and in a proportionally consolidated entity**

Until 2007, in the event of the increase of a stake in a consolidated and in a proportionally consolidated entity whilst retaining control or joint control, the Group applied purchase accounting to the portion of the assets newly acquired. The proportion of the fair value of assets acquired was assessed and the purchase price was allocated according to the fair value of these assets. Any unallocated consideration was allocated to goodwill. See below with respect to the early adoption of IFRS 3 (Revised) and of IAS 27 (Revised).

**Adoption of new and revised standards**

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

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

The revisions made to IFRS 3 (Revised) have had no impact on the Group's accounting for these periods. The principal changes to the Standard are:

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

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

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

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

## 2.5Foreign 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.

- 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** |
|---|---|

(in thousands of Euro unless otherwise stated)

| | |
|---|---|
| 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% |

## 2.9Borrowing costs

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

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

## 2.10 Leases

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

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

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

## 2.11 Provisions for retirement benefits

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

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

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

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

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

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

## 2.12 Deferred tax

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

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

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

## 2.13 Investments

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

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

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

## 2.14 Inventories

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

## 2.15 Intangible Assets

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

In Loutraki, the gaming license has been amortised over a period of 12 years ended in 2007 and the donation (see Note 14) has been amortised over the remaining period of exclusivity of the gaming licence, which was 5 years ( at the year the donation was made) ended in 2007. In the Rhodes Casino, the gaming license is amortised over a period of 12 years ending in 2010.

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

***(ii) Interest rate risk management***

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

***(iii) Credit risk management***

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

## 2.18 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its historical depreciated cost at the balance sheet date. The asset in Belgrade is depreciated over 25 years.

## 2.19 Share based payment

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

11. **Fair value was measured by use of a binomial model for options granted in 2008 (Black Scholes model for options granted in 2007) 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)

2.20 Reclassifications

Following examinations made by CHL's management regarding the allocation of costs and expenses between the operational departments in CHL, CHL's management has decided to change the allocation of certain staff costs in the casino in Loutraki to better reflect the contribution of staff to each department.

Such change, applied retroactively, has resulted in the reclassification of staff cost in the amount of € 1.9 million and € 1.3 million, for 2007 and 2006, respectively, from Cost of Revenues to General and Administrative expenses (approximately 98% of the amount) and to Selling and Marketing expenses.

## 12. 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. See Note 31 for further details of these 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 2007 regards to the Purchase Price Allocation in the acquisition of minority interest (see Note 9 for further details).

In addition management has made critical judgements in evaluation of indication of impairments and impairments that have been recorded.

## NOTE 4 - REVENUE

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| ***Gross gaming revenue*** | **190,771** | **199,266** | **166,533** |
| *Food and beverage revenue* | 2,354 | 2,588 | 2,707 |
| *Entrance tickets (net)* | 1,047 | 1,030 | 1,004 |
| *Hotel revenue* | 1,470 | 1,806 | 1,829 |
| *Rental revenue* | 115 | 135 | 58 |
| *Sundry revenue* | 684 | 903 | 435 |
| ***Total other revenue*** | **5,670** | **6,462** | **6,033** |
| ***Total Revenue*** | **196,441** | **205,728** | **172,566** |
| *Tax on gross gaming revenues* | (55,506) | (59,071) | (49,555) |
| *Municipality tax* | (3,545) | (3,762) | (3,153) |
| ***Revenue per income statement*** | **137,390** | **142,895** | **119,858** |

(in thousands of Euro unless otherwise stated)

## NOTE 5 - COST OF REVENUES

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| *Staff costs* | 37,833 | 33,037 | 26,833 |
| *Food and beverage* | 2,083 | 2,063 | 1,949 |
| *Maintenance* | 456 | 628 | 639 |
| *Rent* | 1,700 | 1,405 | 1,182 |
| *Utilities* | 1,543 | 1,498 | 1,306 |
| *Amortisation* | 873 | 1,187 | 1,082 |
| *Depreciation* | 7,558 | 7,864 | 8,076 |
| *Greek Tourist Organisation – duties* | 965 | 959 | 954 |
| *Other* | 5,603 | 6,277 | 5,566 |
| **Total** | **58,614** | **54,918** | **47,587** |

## NOTE 6 - SELLING AND MARKETING EXPENSES

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| *Advertising and marketing expenses* | 14,148 | 13,940 | 10,724 |
| *Junketeers* | 470 | 273 | 311 |
| *Staff costs* | 892 | 698 | 318 |
| **Total** | **15,510** | **14,911** | **11,353** |

## NOTE 7 - GENERAL AND ADMINISTRATIVE EXPENSES

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| *Staff costs* | 11,084 | 9,305 | 7,649 |
| *Audit fees* | 642 | 485 | 367 |
| *Other professional services* | 4,731 | 5,486 | 5,505 |
| *Gratuities, donations* | 1,422 | 1,122 | 301 |
| *Bank charges* | 218 | 141 | 293 |
| *Other costs* | 5,823 | 3,420 | 3,430 |
| **Total** | **23,920** | **19,959** | **17,545** |

## NOTE 8 - OTHER OPERATING EXPENSES

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| *Casino licence bids* | - | - | 58 |

(in thousands of Euro unless otherwise stated)

| | | | |
|---|---|---|---|
| *Impairment of fixed assets* | - | - | 710 |
| *Other costs* | 366 | 492 | 93 |
| **Total** | **366** | **492** | **861** |

## NOTE 9 - INVESTMENT INCOME

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| *Gain on marketable securities* | - | 132 | 710 |
| *Interest on bank deposits and loans granted* | 3,000 | 3,356 | 478 |
| *Profit on purchase of minority interest* | - | 2,890 | - |
| *Loss on grant of derivative instrument* | - | (1,445) | - |
| ***Total*** | **3,000** | **4,933** | **1,188** |

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

Both in the acquisition contract and in announcements to the Public, QLI declared its intentions to make an offer to QLI's partner in the Loutraki project (the owner of the other 50% in Vasanta), to purchase half of the additional investment in the Loutraki project that QLI had purchased, at half of the consideration that QLI had paid for the full investment. The loss on the grant of this derivative instrument has been recognised immediately at fair value. The derivative instrument has been revalued as at 31 December 2007 and in 2008 ( until the offer was exercised), and the loss recognised in the Income Statement in 2007 and 2008. See also Notes 1 (**Project in Loutraki**) and 10 for more details.

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

| | |
|---|---|
| Total consideration * | 11,567 |
| | |
| Additional interest in net assets purchased ** | 5,557 |
| <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** |

(in thousands of Euro unless otherwise stated)

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

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

**NOTE 10 - FINANCE COSTS**

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| *Interest on borrowings* | 2,510 | 2,936 | 2,476 |
| *Loss on revaluation of derivative instrument ** | 482 | 259 | - |
| ***Total*** | **2,992** | **3,195** | **2,476** |

* See Note 9 for more details.

**NOTE 11 - TAX**

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| *Current tax* | 13,180 | 15,991 | 12,775 |
| *In respect of prior years* | 99 | 92 | 1,208 |
| *Deferred tax (Note 17)* | 103 | (676) | 778 |
| ***Total*** | **13,382** | **15,407** | **14,761** |

In Israel, normal income taxation for the year ended 31 December 2008 is calculated at 27% (2007: 29%, 2006: 31%) of the estimated assessable profit for the year. On 25 July 2005 an amendment to the Israeli tax law was approved by the Israeli parliament. This amendment states that the corporate tax rate will be reduced in subsequent tax years as follows: in 2009 26% and thereafter 25%.

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

The Company has at 31 December 2008 a net operating loss carried forward in an amount of approximately € 6.9 million for which no asset was recorded.

For Greece based projects, normal income taxation for the year ended 31 December 2008 was calculated at 25% (2007: 25%, 2006: 29%) of the estimated assessable profit for the year.

As part of a new tax reform in Greece, corporate tax rates will be reduced from the mentioned 25% in 2008 and 2009 to 20% in 2014 and thereafter as follows: 2010: 24%, 2011: 23%, 2012: 22%, 2013: 21%.

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

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

In 2007 the Greece 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 in the 2006 tax expenses. There has been no tax audit for the years 2006-2008.

For Romanian based projects, the Group pays tax depending on the activity undertaken. During years 2006- 2008, 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 2008 is subject to 16% tax rate applied to gross profit (as in 2007 and 2006)

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

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

(in thousands of Euro unless otherwise stated)

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Profit before tax: | **36,401** | **52,941** | **41,200** |
| Tax at the Israeli corporation tax rate of 27% (2007: 29%; 2006: 31%) | 9,828 | 15,353 | 12,772 |
| Tax effect of share of results of associated company | 595 | (392) | 20 |
| Tax effect of expenses that are not deductible in determining taxable profit | 1,442 | 1,425 | 1,702 |
| Tax effect of losses for which no deferred tax asset was recognized | 2,683 | 188 | 835 |
| Effect of lower tax rate on interest income | (124) | - | - |
| Tax effect of change in future tax rates | 215 | - | - |
| Tax effect of utilisation of tax losses not previously recognised | (224) | (1,252) | (1,654) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (1,132) | (7) | (122) |
| Effect of tax for prior years | 99 | 92 | 1,208 |
| **Tax expense for the year** | **13,382** | **15,407** | **14,761** |
| **Effective tax rate** | **36.6%** | **29.1%** | **35.8%** |

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

## NOTE 12 - SHARE OF PROFITS OF THE MUNICIPALITY OF LOUTRAKI

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

(in thousands of Euro unless otherwise stated)

## NOTE 13 - EARNINGS PER SHARE

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

**Earnings**

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent | 13,367 | 25,138 | 17,241 |
| Number of shares used for EPS calculation * | 353,365,670 | 332,765,020 | 189,897,510 |
| Number of shares used for diluted EPS calculation * | 353,365,670 | 333,800,369 | 189,897,510 |
| Number of shares used for *pro forma* calculation ** | | | 312,500,250 |
| Number of shares used for diluted *pro forma* calculation ** | | | 312,500,250 |

* The number of shares used for the EPS calculation reflects the 62,500,050 shares issued on 13 June 2007 for the Romanian assets as if they had been issued on 1 January 2006 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 2006 for the purposes of comparability. Due to large number of shares issued in June 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 occurred on 1 January 2006. 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.

(in thousands of Euro unless otherwise stated)

## NOTE 14- INTANGIBLE ASSETS

| | Gaming Licences | Goodwill | Other intangibles | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance as at 01 January 2007** | **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** |
| Additions | 32 | - | 41 | 73 |
| Disposals | - | - | (2) | (2) |
| Transfer | 58 | - | (67) | (9) |
| Exercise of an option granted to the other shareholder in a jointly controlled entity (*) | (4,543) | - | (528) | (5,071) |
| Exchange differences | (11) | - | (9) | (20) |
| **Balance as at 31 December 2008** | **15,706** | **2,273** | **473** | **18,452** |
| **Accumulated amortisation** | | | | |
| **Balance as at 01 January 2007** | **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** |
| Amortization for the year | 785 | - | 118 | 903 |
| Disposals | - | - | (2) | (2) |
| Transfers | 397 | - | (406) | (9) |
| Exercise of an option granted to the other shareholder in a jointly controlled entity (*) | (189) | - | (206) | (395) |
| Exchange differences | (7) | - | (6) | (13) |
| **Balance as at 31 December 2008** | **10,066** | **-** | **153** | **10,219** |
| **Net book value as at 31 December 2008** | **5,640** | **2,273** | **320** | **8,233** |
| **Net book value as at 31 December 2007** | **11,090** | **2,273** | **383** | **13,746** |

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

(*) See Note 9 for more details.

(in thousands of Euro unless otherwise stated)

**NOTE 15 - TANGIBLE FIXED ASSETS**

| | Land, Building & Installations | Casino Gaming Electric &Electronic Equipment | Furniture And Equipment | Vehicles | Assets Under Construction | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance as at 01 January 2007** | **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 as at 31 December 2007** | **103,633** | **19,010** | **24,718** | **795** | **2,849** | **151,005** |
| Additions | 17,353 | 2,063 | 2,518 | 236 | 1,843 | 24,013 |
| Disposals | - | (594) | (99) | (214) | - | (907) |
| Transfers | 6,577 | 2,480 | (1,126) | 163 | (2,164) | 5,930 |
| Exercise of an option granted to the other shareholder in a jointly controlled entity (*) | (4,885) | (771) | (926) | (29) | - | (6,611) |
| Exchange differences | (899) | (369) | (34) | - | (172) | (1,474) |
| **Balance as at 31 December 2008** | **121,779** | **21,819** | **25,051** | **951** | **2,356** | **171,956** |
| | | | | | | |
| **Accumulated Depreciation** | | | | | | |
| **Balance as at 01 January 2007** | **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) |

(in thousands of Euro unless otherwise stated)

| | | | | | | |
|---|---|---|---|---|---|---|
| **Balance as at 31 December 2007** | **24,679** | **12,481** | **20,147** | **552** | **474** | **58,333** |
| Additions | 3,491 | 2,159 | 1,679 | 111 | - | 7,440 |
| Disposals | - | (382) | (43) | (125) | - | (550) |
| Transfers | (62) | 3,801 | (2,375) | 89 | (474) | 979 |
| Exercise of an option granted to the other shareholder in a jointly controlled entity (*) | (716) | (576) | (685) | (26) | - | (2,003) |
| Exchange differences | (291) | (251) | (21) | (2) | - | (565) |
| **Balance as at 31 December 2008** | **27,101** | **17,232** | **18,702** | **599** | **-** | **63,634** |
| **Net book value as at 31 December 2008** | **94,678** | **4,587** | **6,349** | **352** | **2,356** | **108,322** |
| **Net book value as at 31 December 2007** | **78,954** | **6,529** | **4,571** | **243** | **2,375** | **92,672** |

(*) See Note 9 for more details.

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

## NOTE 16 - ASSOCIATED COMPANY

| | As at 31 December | |
|---|---|---|
| | **2008** | **2007** |
| Cost of investment in associated company | 15,128 | 14,660 |
| Share of post acquisition profit (loss) | (4,011) | (1,830) |
| Elimination of intercompany transactions | 318 | 189 |
| **Total** | **11,435** | **13,019** |

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%.

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

Details of the associated company are as follows:

***Balance sheet***

| | As at 31 December | |
|---|---|---|
| | **2008** | **2007** |
| **Total assets** | 54,289 | 59,701 |
| **Total liabilities** | 5,620 | 3,565 |
| **Net assets** | 48,669 | 56,136 |

***Profit and loss***

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Gross revenue | 15,127 | 3,167 | - |
| Profit (loss) before income tax | (9,724) | (6,894) | 173 |
| Income tax | (779) | - | - |
| **Profit (loss) for the year** | **(10,503)** | **(6,894)** | **173** |
| **Group's share of associates profit (loss)** | **(2,203)** | **(1,351)** | **86** |

(in thousands of Euro unless otherwise stated)

## NOTE 17 - DEFERRED TAX ASSET

| | As at 31 December | |
|---|---|---|
| | **2008** | **2007** |
| ***Net deferred tax assets:*** | | |
| *Balance beginning of year* | 2,465 | 2,220 |
| *Exercise of an option granted to the other shareholder in a jointly controlled entity* | (83) | - |
| *Assets acquired through business combinations* | - | 97 |
| *Movement for the year* | (339) | 148 |
| ***Balance end of year*** | 2,043 | 2,465 |
| | | |
| ***Net deferred tax assets comprise:*** | | |
| *Accrued liabilities* | 363 | 323 |
| *Restructuring asset ** | 764 | 897 |
| *Provision for retirement benefit* | 839 | 964 |
| *Owned fixed assets and license fees* | 140 | 290 |
| ***Total deferred tax assets*** | **2,106** | **2,474** |
| ***Deferred tax liabilities*** | | |
| *Owned fixed assets and license fees* | (60) | - |
| *Capitalised finance leases* | (3) | (9) |
| ***Net deferred tax assets*** | **2,043** | **2,465** |

| | 2008 | 2007 |
|---|---|---|
| ***Net deferred tax liabilities:*** | | |
| *Balance beginning of year* | (3,473) | (1,032) |
| *Exercise of an option granted to the other shareholder in a jointly controlled entity* | 1,442 | - |
| *Assets acquired through business combinations* | - | (2,967) |
| *Movement for the year* | 236 | 528 |
| ***Balance end of year*** | (1,795) | (3,471) |
| | | |
| ***Net deferred tax liabilities comprise:*** | | |
| *Accrued liabilities* | 44 | 92 |
| *Provision for retirement benefit* | 216 | 238 |
| *Provisions* | 34 | - |
| *VAT provision* | 134 | 168 |
| ***Deferred tax assets*** | **428** | **498** |
| ***Deferred tax liabilities*** | | |
| *Owned fixed assets and license fees* | (628) | (785) |
| *Fair value adjustment in respect of fixed assets* | - | (553) |
| *Fair value adjustment in respect of intangible assets* | (1,414) | (2,386) |
| *Debt forgiveness .* | (181) | (245) |
| ***Net deferred tax liabilities*** | **(1,795)** | **(3,471)** |

(in thousands of Euro unless otherwise stated)

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

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

## NOTE 18 - OTHER LONG TERM RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | 2 0 0 8 | 2 0 0 7 |
| Deposits on land | - | 4,900 |
| Advances for the acquisition of fixed assets | 2,509 | - |
| VAT receivable | 3,388 | 3,347 |
| Loan to Agastia (*) | 3,109 | 2,818 |
| Jointly controlling shareholder in Vasanta ( Note 1) | 2,009 | - |
| Other | 1,129 | 1,113 |
| | **12,144** | **12.178** |

(*) The loan is linked to the US dollar and carried interest at the rate of the Dollar Libor +2% per annum. The repayment date has not been determined yet.

## NOTE 19 - INVENTORIES

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

## NOTE 20 - INVESTMENTS

| | As at 31 December | |
|---|---|---|
| | 2 0 0 8 | 2 0 0 7 |
| Short-term deposit (*) | 938 | 987 |
| Money market funds | 8,169 | 7,907 |
| | **9,107** | **8,894** |

(*) Of the above, € 715 thousand is placed with Piraeus Bank, a related party of CHL. Interest rate is 5.8% per annum. Such amount is used as a guaranty for the payment of a current maturity of a long term liability.

(in thousands of Euro unless otherwise stated)

## NOTE 21 - TRADE AND OTHER RECEIVABLES

| | As of 31 December | |
|---|---|---|
| | **2 0 0 8** | **2 0 0 7** |
| Jointly controlling shareholder in Vasanta- current maturity ( Note 1) | 1,086 | - |
| Accrued interest and prepayments | 929 | 1,211 |
| Trade receivables | 701 | 1,129 |
| Income tax paid in advance | 68 | 191 |
| Advance to related party | 124 | 134 |
| Other receivables from related parties | 1,047 | 812 |
| Other | 515 | 508 |
| **Total** | **4,470** | **3,985** |

## NOTE 22 - CASH AND CASH EQUIVALENTS

| | As at 31 December | |
|---|---|---|
| | **2 0 0 8** | **2 0 0 7** |
| Cash on hand | 8,992 | 9,468 |
| Cash at banks | 33,033 | 33,990 |
| Time deposits | 14,990 | 32,553 |
| **Total** | **57,015** | **76,011** |

Of the above amounts 2008: € 20,300 thousand; 2007: € 14,407 thousand; was placed with Piraeus Bank, a related party of CHL, interest rates vary from 1.59% to 2.29% per annum as at 31 December 2008.

In addition, approximately € 3,226 thousand is represent cash on hand that is restricted for use as per the casinos' licenses

## NOTE 23 - OTHER CURRENT LIABILITIES

| | As at 31 December | |
|---|---|---|
| | **2 0 0 8** | **2 0 0 7** |
| Parent companies | 63 | 135 |
| Liability to the Municipality of Loutraki | 3,169 | 3,446 |

(in thousands of Euro unless otherwise stated)

| | | |
|---|---|---|
| Employee related liabilities | 6,189 | 5,990 |
| Taxes and duties | 5,853 | 8,107 |
| Accruals and provisions | 2,199 | 2,436 |
| Related Parties | 374 | 431 |
| Customer prepayments and chips | 473 | 316 |
| Short-term portion of long-term liabilities | 2,838 | 2,826 |
| Cheques payable | 403 | 790 |
| Other | 1,451 | 1,497 |
| **Total** | **23,012** | **25,974** |

## NOTE 24 -BANK LOANS

### Short term credit

| | As at 31 December | |
|---|---|---|
| | **2 0 0 8** | **2 0 0 7** |
| Consisting of: | | |
| Overdraft and short term credit | 15,058 | 4 |
| Bank loans falling due within one year | 1,900 | 12,587 |
| **Total** | **16,958** | **12,591** |
| | | |
| **Bank Loans** | | |
| Loan 1- in Euro | 10,436 | 12,093 |
| Loan 2 - in Euro | - | 10.753 |
| **Total bank loans** | **10,436** | **22,846** |
| Less: Total falling due within one year | (1,900) | (12,587) |
| **Total long-term portion** | **8,536** | **10,259** |

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

| | **2 0 0 8** | **2 0 0 7** |
|---|---|---|
| Within one year | 1,900 | 12,587 |
| In the second year | 2,050 | 1,900 |
| In the third year | 2,200 | 2,050 |
| In the fourth year | 2,260 | 2,200 |
| In the fifth year and after | 2,026 | 4,109 |
| **Total** | **10,436** | **22,846** |

*Loan. 1*

***Loan 1 was granted to the Rhodes Casino.***

The loan bears interest of EURIBOR +2.25% per annum spread + 0.6% contribution Law 128/75 (4,943% as at 31 December 2008) .The loan is repayable in 16 instalment (September and December of each year ) commencing on 31 December 2005 with the last instalment due on 30 September 2013 .

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

### Loan 2

(in thousands of Euro unless otherwise stated)

Loan 2 represented a loan of €74 million taken by PBS from "Bank Für Arbeit und Wirtschaft" (BAWAG). Interest was calculated quarterly and based on 3-month EURIBOR plus a margin of 1% per annum. The bank also charged 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.

The loan was fully repaid in 2008.

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

### Interest rate risk

Total interest rate costs for 2008 were € 1,736 thousand (2007: € 1,728 thousand; 2006: € 2,134 thousand). Interests were EURIBOR + 0.6-2.25%. If interest rates were 1% higher during 2008, these would have increased to € 2,090 thousand, and if interest rates had been 1% lower these would have decreased to € 1,382 thousand.

### Liquidity risk

The Group has € 17 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 LIABILITIES

| | As at 31 December | |
|---|---|---|
| | **2008** | **2007** |
| Shareholder loans | - | 1,097 |
| Consideration for Casino Rhodes | 1,340 | 1,966 |
| Consideration for the purchase on minority interest (Note 1) | 6,259 | 8,261 |
| Other ( payment terms yet not determined) | 2,525 | 2,505 |
| **Total** | **10,124** | **13,829** |
| Less: Short-term portion | (2,838) | (2,826) |
| **Other long-term liabilities** | **7,286** | **11,003** |

***Shareholders' loans were linked to the Israeli CPI until repaid in 2008.***

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

As at 31 December 2008, the present value of the .other long-term liabilities is repayable as follows:

| | |
|---|---|
| 30 August 2009 | 2,838 |
| 30 August 2010 | 2,769 |
| 30 August 2011 | 1,992 |

(in thousands of Euro unless otherwise stated)

| | |
|---|---|
| | 7,599 |
| *Less:* portion falling due within one year | (2,838) |
| **Total** | **4,761** |

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

## NOTE 26 - PROVISIONS FOR RETIREMENT BENEFITS

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

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

The Group 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 | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| At 1 January | 4,835 | 3,990 | 3,420 |
| Amounts charged to income | 981 | 1,044 | 870 |
| *Liabilities acquired through business combinations* | - | 215 | - |
| *Exercise of an option granted to the other shareholder in a jointly controlled entity* | (306) | - | - |
| Benefits paid directly by the Company | (170) | (414) | (300) |
| **Balance 31 December** | **5,340** | **4,835** | **3,990** |

Amounts recognised in the income statement are as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Service cost | 633 | 619 | 592 |
| Interest cost | 195 | 172 | 140 |
| Extra payments | 153 | 253 | 133 |
| Past service cost arising over last year | - | - | 5 |
| **Total** | **981** | **1,044** | **870** |

The amount included in the balance sheet is as follows:

| | As at 31 December | |
|---|---|---|
| | **2008** | **2007** |

| | | |
|---|---|---|
| Present value of obligation | 4,004 | 4,320 |
| Unrecognised actuarial gain | 1,361 | 542 |
| Unrecognised past service cost | (25) | (27) |
| **Net liability recognised in balances** | **5,340** | **4,835** |

The key assumptions used are as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Discount rate | 5.7% | 4.8% | 4.2% |
| Expected rate of salary increases – depending on salary level | 4%-4.5% | 4.5% - 5.0% | 2.5% - 5.0% |
| Inflation | 2.5% | 2.5% | 2.5% |

The expected rate of salary increases for December 2008 takes into account the CHL's and Casino Rhodes's commitments to a 10% increase upon completion of 3, 6, 9 and 12 years services for employees earning less than or equal to an average of € 2.5 thousand per month as at 31 December 2008.

### Defined Contribution Plans

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

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

## Note 27 - SHARE CAPITAL

| | As at 31 December | |
|---|---|---|
| | **2008** | **2007** |
| **Number of ordinary shares, 1 New Israeli Shekel par value each:** | | |
| *Authorised* | 500,000,000 | 500,000,000 |
| *Issued and fully paid as at 01 January* | 353,365,670 | 250,000,200 |
| *Issued in Romania transaction* | - | 62,500,050 |
| *Issued in IPO* | - | |

(in thousands of Euro unless otherwise stated)

| | | |
|---|---|---|
| | | 40,865,420 |
| *Issued and fully paid as at 31 December* | 353,365,670 | 353,365,670 |

## NOTE 28 - NON DISTRIBUTABLE RESERVES

In accordance with Greek corporate legislation, which applies to CHL and the Rhodes Casino, an amount of 5% of the annual profits, as legally defined, must be transferred to a statutory reserve in the Greek entities from which no dividend can be distributed. This obligation ceases when the reserve equals to one third of the issued share capital. The legal reserve may be distributed only upon the dissolution of the Greek companies or can be utilised to offset accumulated losses. The total non-distributable reserves in CHL and in the Rhodes Casino is approximately € 16 million as at 31 December 2008.

## NOTE 29 - NOTES TO THE CASH FLOW STATEMENTS

| | YEAR ENDED 31 DECEMBER | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |

| | | | |
|---|---|---|---|
| Profit before tax | **36,401** | **52,941** | **41,200** |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 7,672 | 8,315 | 7,822 |
| Impairment | - | - | 755 |
| Increase in provisions | 503 | 670 | 114 |
| Profit from on sale of property, plant and equipment | 16 | | |
| Amortisation of intangible assets | 903 | 1,219 | 1,116 |
| Investment income | (3,000) | (4,933) | (1,188) |
| Finance costs | 2,992 | 3,195 | 2,476 |
| Foreign exchange loss | 384 | 61 | 110 |
| Profit from negative goodwill | - | (1,445) | - |
| Share of results of associated company | 2,203 | 1,351 | (86) |
| Expense relating of grant of share options | 1,154 | 954 | - |
| | **49,228** | **62,328** | **52,319** |
| Operating cash flows before movements in working capital | | | |
| Increase in inventories | (19) | (196) | (201) |
| Decrease/(increase) in receivables | 668 | (399) | 126 |
| Increase/(decrease) in payables | (10,495) | 472 | (338) |
| **Cash generated by operations** | **39,382** | **62,205** | **51,906** |
| Income taxes paid | (18,323) | (14,717) | (11,891) |
| Interest paid | (1,212) | (1,208) | (4,074) |
| **Net cash from operating activities** | **19,847** | **46,280** | **35,941** |

**Increase in interest in proportionally consolidated entity**

| | **2008** | **2007** | **2006** |
|---|---|---|---|
| Consideration paid | - | 3,500 | - |
| *Less:* cash received | - | (1,347) | - |
| Investment in subsidiary | - | 2,153 | - |

## NOTE 30 - CAPITAL COMMITMENTS

**(a) Commitments**

(in thousands of Euro unless otherwise stated)

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 at 31 December | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Within one year | 1,409 | 336 | 60 |
| In the second to fifth years inclusive | 4,784 | 1,322 | 146 |
| **Total** | 6,193 | 1,658 | 206 |

**(c)** See Note 16 with respect to a commitment of the Serbian Company

## NOTE 31 - CONTINGENT LIABILITIES

### THE COMPANY

The Company was informed that a third party which was involved in the Company's activities in Prague is considering an approximately 5 million NIS law suit against the Company and its controlling and ultimate controlling shareholders. The Company believes that the potential outcome of the issue will have no material effect on the Company's financial position and results of operations.

### 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.

In addition, based on a change in the Romanian Fiscal Code in 2008, casinos in Romania are required to withhold from payments to gamblers a withholding tax of a 10% (of prizes from a single contest) or a 20% (of net profit of gambling). However, as instructions for the application of such new provisions were never published, none of the Romanian Casino Association members (including Casino Palace) has collected or paid this tax so far. In addition, major amendments to the Fiscal Code are under debate in the Romanian Parliament and efforts are made to cancel such provisions.

**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 2008 as CHL Management believes 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 being 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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(c) There is a claim representing 371 employees against CHL who claim that CHL should include tips in their night and weekend/public holiday salary rates. The claim is retroactive from 1 January 1998 and up to 31 December 2003. The hearing was tried on the 23 March 2007, and 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.

(d) Four lawsuits are pending against CHL amounting to € 1,200 thousand by former employees. No provision has been made, as the CHL's lawyer believes that the claims have remote chances of being successful.

(e) Several other lawsuits are pending against CHL amounting to € 617 thousand mainly relating to claims by former employees. However, the claims are not significant and hence no provision for possible loss has been made.

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

(g) There are claims by six individuals totaling € 459 thousand for being refused entry to the Casino, and two claims by an individual for an amount of € 1,148 thousand 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.

(h) There is a claim from one individual for an amount of € 500 thousand 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.

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

(j) The Joint Venture is still subject to a tax audit for the year ending 31 December 2007 and 31 December 2008, and CHL SA is subject to a tax audit from 1 January 2006 to 31 December 2008.

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

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

**CASINO RHODES**

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

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

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

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

Casino Rhodes disagrees with the assessment and has appealed against these Assessments with the Athens Administrative Court of First Instance. Casino Rhodes's legal advisors have concluded that the legal validity and reasoning of the counter arguments available to Rhodes Casino to support its appeal, lead to the conclusion that Rhodes Casino has substantial legal arguments and a good chance 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 2008. 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.

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(d) One claim by an individual amounting to € 300 thousand for being refused entry to the casino. The court hearing was set for 8 June 2006 but was postponed for 5 October 2009. A further claim for € 90 thousand by three individuals for moral damages for being refused entry to the casino, was postponed as well to that date. 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 the30 % revenues from gaming operations.

(iii) To invest € 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.

(in thousands of Euro unless otherwise stated)

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. In the opinion of the legal advisors of the Rhodes Casino, the chances of the revocation of the license are remote.

(iv) To create approximately 336 new job positions. The Gaming Committee with a letter dated 18 July 2006 informed Casino Rhodes that they need to employ 336 employees by the end of 30 September 2006. The number of employees as of 31 December 2008 amounts to 294. The Company appealed against the Gaming Committee decision as the interpretation of this requirement by Rhodes Casino and its legal advisor is that Rhodes Casino needs to create a total of approximately 336 positions comprising full time, part time and seasonal positions at any one point in time. The appeal was postponed to 18 March 2009 and was further postponed to a yet unknown date . Casino Rhodes's lawyer's opinion is that there is no risk that the casino licence may be revoked.

(g) 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.

### CASINO BELGARD

CHL was informed by its legal advisors that a decision made by the Constitutional Court of Serbia has a significant impact on the license to operate a casino in Belgrade and may lead to invalidly of the license. If such a risk is materialized, Casino Belgrade would be entitled to remedies under its license agreement and under the law.

## NOTE 32- RELATED PARTIES

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

| | Sale (Purchase) of Services | Amounts due from/(due to) Related Parties |
|---|---|---|
| **For the year ended 31 December 2008** | | |
| Y.Z. Queenco (*) | (87) | 82 |
| Shachar HaMillenium (*) | - | (63) |
| Queen (*) | 57 | 22 |

(in thousands of Euro unless otherwise stated)

| | | |
|---|---|---|
| Windview limited | - | (60) |
| Mr Yigal Zilka (**) | (316) | (294) |
| **Total** | **(346)** | **(313)** |
| | | |
| **For the year ended 31 December 2007** | | |
| Y.Z. Queenco (*) | (338) | (684) |
| Shachar HaMillenium (*) | (17) | (611) |
| 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) | |
| Shachar HaMillenium (*) | (87) | |
| Milimor (*) | - | |
| Queen (*) | | |
| | 68 | |
| Windview limited | | |
| | **(598)** | |
| **Total** | **(956)** | |

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

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

## (b) Compensation of key management personnel

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

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Short-term compensation of key management | 1,145 | 1,041 | 503 |
| Compensation to the Chairman of the board with respect to prior year | 105 | - | - |
| long-term compensation of key management | - | - | - |
| Share based compensation of key management | 1,100 | 821 | - |
| Board of directors fees | 90 | 28 | - |
| **Total** | **2,490** | **1,890** | **503** |

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

## (c) Other related party transactions

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

## NOTE 33 – INVESTMENT PROPERITES

(in thousands of Euro unless otherwise stated)

| **Fair value** | |
|---|---|
| At 31 December 2008 | 20,942 |
| At 31 December 2007 | 18,484 |

The fair value of the total value of the Group's investment property at 31 December 2008 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 per annum . The Group has non-cancellable minimum rental income from the property for the next 8 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, would be granted with stock options, exercisable at the listing price, vesting over a five -year period, 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. Toward the end of 2008, certain senior management staffs have left the Group and as a result, a portion of the options granted to them were not vested at the time they left, and were forfeited.

Toward the end of 2008, an obligation for the grant of options, vesting over a four -year period, representing 2.1% of the Company's equity was made to new senior management staff.

The aggregate of the estimated fair values of the options granted in 2008 and 2007, at the dates of grant, were €1,619 thousand and €5,496 thousand, respectively.

Details of the GDR options outstanding during the year are as follows (GDR=10 shares)

| | **2008** | | **2007** | |
|---|---|---|---|---|
| | **Number of GDR options** | **Weighted average exercise price (in €)** | **Number of GDR options** | **Weighted average exercise price (in €)** |
| Outstanding at beginning of period | 2,056,590 | 12.73 | - | - |
| Granted during the period | 742,068 | 8.00 | 2,056,590 | 12.73 |
| Forfeited during the period | (575,855) | 11.20 | - | - |
| Outstanding at the end of the period | 2,222,803 | 11.55 | 2,056,590 | 12.73 |
| Exercisable at the end of the period | 262,904 | 13.59 | - | - |

The following table summarizes information about GDR options outstanding as of 31 December 2008:

| **Outstanding at** | **Exercisable at** |
|---|---|

| 31 December 2008 | | | | 31 December 2008 | |
|---|---|---|---|---|---|
| Exercise Prices (€) | Number of outstandin g GDR options | Weighted average Remaining life (in years) | Weighted average Exercise price (€) | Number of exercisable GDR options | Exercise price (€) |
| 8.00 | 742,068 | 6.00 | 8.00 | - | 8.00 |
| 11.20 | 358,975 | 4.83 | 11.20 | 38,552 | 11.20 |
| 14.00 | 1,121,760 | 4.83 | 14.00 | 224,352 | 14.00 |
| | 2,222,803 | | 11.55 | 262,904 | 13.59 |

The inputs into the option price models are as follows:

| | 2008 € | 2007 € |
|---|---|---|
| Weighted average GDR price | 7.8 | 12.9 |
| Exercise price | 8 | 11.2-14 |
| Expected volatility | 37% | 8% |
| Expected life | 6 | 6 |
| Risk-free rate | 3.92% | 4.3% |
| Expected dividends | 0% | 0% |

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

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

## NOTE 35 – FINANCIAL RISK MANAGEMENT

### *Foreign exchange risk*

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

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

| | Profit / (loss) |
|---|---|
| 5% increase in NIS / € | 454 |

(in thousands of Euro unless otherwise stated)

| | |
|---|---|
| 5% decrease in NIS / € | (454) |
| 5% increase in RON / € | (75) |
| 5% decrease in RON / € | 75 |
| 5% increase in € / $ | 124 |
| 5% decrease in € / $ | (124) |

***Credit risk***

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

Significantly all current receivables are due within 30 days.

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

***Interest rate risk***

The Group has a total of net € 4.5 million unlinked and non interest bearing liabilities as at 31 December 2008. This is principally an obligation relating to acquisition of the minority interest in Dasharta net of an asset regarding the exercise of an option to acquire 50% of the shares purchsed in Dasharta. . The non-discounted payments are included in Notes 18 and 25. Consequently the Group considers that it has little interest rate exposure.

For interest rate risk on bank loans see Note 24.

***Liquidity risk***

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

***Fair value disclosures***

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

***Capital management***

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

# Statement of Directors' Responsibilities

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