



INTERNATIONAL HOTEL INVESTMENTS p.l.c.

REGISTRATION DOCUMENT

This document is a Registration Document issued in accordance with the provisions of Chapter 6 of the Listing Rules issued by the Listing Authority and in accordance with the provisions of Commission Regulation (EC) No 809/2004 of April 29, 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in a prospectus.

This Registration Document is issued pursuant to the requirements of Rule 6.4.2 of the Listing Rules and contains information about International Hotel Investments p.l.c. (the “Company”) as the issuer of securities for which application has been made for admission to trading on the Malta Stock Exchange. This document should be read in conjunction with the most updated Securities Note issued by the Company from time to time that will provide the details of the securities to which it relates.

This document is dated 17 March 2006

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DEFINITIONS

In this document the following words and expressions shall bear the following meanings except where the context otherwise requires:

| | |
|-----------------------------|--|
| Act | the Companies Act, Cap. 386 of the Laws of Malta; |
| Bond Issue | the issue of the Bonds; |
| Bonds | the €12.5 million Bonds redeemable on any Interest Payment Date falling in each of the years 2012, 2013 and 2014 and which shall bear interest at the rate of 6.5 per cent per annum from the Issue Date and each of the years falling between the years 2007 and 2014 unless previously redeemed; |
| Company, Issuer or IHI | International Hotel Investments p.l.c.; |
| Corinthia Group | CPHCL and the companies in which CPHCL has a controlling interest; |
| CPHCL | Corinthia Palace Hotel Company Limited, a company registered under the laws of Malta, and the parent company of the Corinthia Group; |
| Directors or Board | the directors of the Company whose names are set out under the heading “Identity of Directors, Senior Management, Advisors and Auditors”; |
| € or Euro | the lawful currency from time to time of the European Union; |
| Malta Stock Exchange or MSE | the Malta Stock Exchange as defined by the Financial Markets Act (Cap.345 of the Laws of Malta); |
| Maltese Liri | the lawful currency of the Republic of Malta; |
| Prospectus | this document together with the Securities Note dated 17 March 2006 and the Summary Note dated 17 March 2006 ; |
| Registration Document | this document in its entirety. |

1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT, ADVISORS AND AUDITORS

The Directors of the Company, whose names are set out hereunder are the persons responsible for the information contained in this Registration Document. They have been advised and assisted in the drafting and compilation of the document by the persons mentioned hereunder under the sub-heading “Advisors”.

Directors

| | |
|---------------------|--------------------------------------|
| Alfred Pisani | Chairman and Chief Executive Officer |
| Joseph Fenech | Managing Director |
| Simon Naudi | Executive Director |
| Abdurazagh Zmirli | Non-Executive Director |
| Frank Xerri de Caro | Non-Executive Director |
| Joseph J. Vella | Non-Executive Director |
| Lawrence Zammit | Non-Executive Director |

THE DIRECTORS OF THE COMPANY, WHOSE NAMES APPEAR ABOVE (THE “DIRECTORS”), ARE THE PERSONS RESPONSIBLE FOR THE INFORMATION CONTAINED IN THIS REGISTRATION DOCUMENT. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE DIRECTORS OF THE COMPANY (WHO HAVE ALL TAKEN REASONABLE CARE TO ENSURE SUCH IS THE CASE), THE INFORMATION CONTAINED IN THIS REGISTRATION DOCUMENT IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. THE DIRECTORS ACCEPT RESPONSIBILITY ACCORDINGLY.

Advisors

Legal Counsel to the Issuer

Name: Camilleri Preziosi
Address: Level 2, Valletta Buildings, South Street
Valletta – VLT 11 – MALTA

Sponsoring Stockbroker

Name: Charts Investment Management Service Limited
Address: 18a 3rd Floor, Europa Centre
Floriana – VLT15 - MALTA

Auditors

Name: KMPG
Address: Portico Building, Marina Street
Pieta' - MSD08 - MALTA

2. KEY INFORMATION ABOUT THE ISSUER

2.1 Selected Financial Data, and Information on the Company's Capitalisation & Indebtedness

The financial information about the Company is included in the Annexes to this Registration Document as follows:

ANNEX 1 contains the audited Consolidated Financial Statements of the Issuer for the financial year ended 31 December 2004 including the comparative figures for the year ended 31 December 2003;

ANNEX 2 includes the unaudited Interim Financial Statements of the Issuer for the six-month period ended 30 June 2005 together with the interim accounts for the six-month period ended 30 June 2004;

ANNEX 3 contains the Profit and Loss Accounts and Balance Sheets for the interim ended 30 June 2005 and for the years ended 31 December 2004 and 2003.

There were no significant changes to the financial or trading position of the Issuer since the end of the financial period to which the unaudited Interim Financial Statements relate.

2.2 Risk Factors

You should carefully consider the following matters, as well as the other information contained in this Registration Document, before making any investment decision with respect to the Company. Information contained in this Registration Document contains “forward-looking statements,” which are subject to the qualifications discussed below. If any of the risks described were to materialise, they could have a serious effect on the Company’s financial results, trading prospects and the ability of the Company to fulfil its obligations under the securities to be issued.

2.2.1 The Business of the Company

The Company started trading in 2000 undertaking a strategy of rapid expansion. It has a limited operating history on which the Company and its prospects may be evaluated. The Company’s prospects should be considered in the light of the risks and the difficulties frequently encountered by companies in the early stages of their development, particularly in new and rapidly developing markets. The Company’s close relationship with the Corinthia Group should however contribute towards diluting the risks inherent in the Company’s own limited trading record.

2.2.2 The Company’s Acquisition Strategy

The Company’s business is reliant on hotel properties and operations which are seasonal in nature. The hotel industry globally is characterised by strong and increasing competition. Many of the Company’s current and potential competitors may have longer operating histories, greater name recognition, larger customer bases and greater financial and other resources than the Company. Severe competition in certain countries and changes in economic and market conditions could adversely affect the Company’s business and operating results.

The Company’s business since its inception has been focused on hotel acquisitions in line with its strategy and from which it expects to derive a substantial part of its growth from acquisitions of hotel properties and hotel businesses which should generate the revenues necessary for the Company to meet its obligations under the Bonds. The Company’s strategies for investment in hotel properties and businesses described below set out the parameters within which it proposes to undertake such investments and acquisitions. The prime focus of the Company’s business over the coming few years and particularly during the years 2006-2008 will be principally the consolidation of the Company’s operations rather than growth through the acquisition of additional hotel properties. This phase of consolidation includes the completion of the St. Petersburg Project consisting of the extension of the Corinthia Nevskij Palace Hotel in St. Petersburg and the development of the commercial centre adjacent to the said hotel.

2.2.3 Financing Future Growth

The Company has a material amount of debt, and will incur significant additional debt in connection with future development/refurbishment projects. Immediately after the Bond Issue, the Company will have a debt to equity ratio of 1.19:1.00 or expressed in percentage terms of 54%:46%.

Although the amount of debt funding of the Company is expected to increase due to the St. Petersburg Project, it is expected that the debt to equity ratio of the Company will be maintained at prudent levels, and to this end the Company already has plans to raise further equity capital to be able to continue to fund its future growth and investments. A substantial portion of the Company’s cash flows will be required to make principal and interest payments on the Company’s debt including the Bonds. Substantial borrowings under bank credit facilities are expected to be at variable interest rates, which could cause the Company to be vulnerable to increases in interest rates.

The agreements regulating the Company’s bank debt, including those funding the acquisitions of the Corinthia Nevskij Palace Hotel, as well as the refurbishment of the Corinthia Alfa Hotel and others proposed for the re-financing of the Corinthia Nevskij acquisition and the financing of further development, impose and are likely to impose significant operating restrictions and financial covenants on the Company. These restrictions and covenants could limit the Company’s ability to obtain future financing, make capital expenditure, withstand a future downturn in business or economic conditions generally, or otherwise inhibit the ability to conduct necessary corporate activities.

3. INFORMATION ABOUT THE COMPANY

3.1 Historical development

3.1.1 Introduction

The Company was set up and promoted by the Corinthia Group as the principal vehicle for the expansion of the Group's international activities. Following a successful IPO in April 2000, the Company's shares were listed on the Malta Stock Exchange ('MSE').

The Company is a public company with limited liability registered in Malta on 29 March 2000 with company registration number C26136, and is regulated in terms of the Companies Act Cap.386 of the Laws of Malta. The Company has its registered office at 22, Europa Centre, Floriana, Malta.

3.1.2 Investment Objective

The principal objective of the Company remains to achieve above average long-term returns for its shareholders, principally through the long-term growth of the Company via investment in a balanced portfolio of hotel properties and hotel operations in selected emerging markets.

The strategy of the Company is to identify acquisitions of properties which are under-performing due to state ownership, poor management, complex litigation and ownership issues, and/or the need for refurbishment or additional bedrooms to add value or achieve economies of scale. In each of its acquisitions, the Company and the Corinthia Group expended considerable time and effort to conclude complex negotiations, subsequently reorganise the properties' management under the Company's associated hotel management company, C.H.I. Limited ('CHI'), and then initiate an investment programme to upgrade the property to top five-star hotel standards.

Target acquisitions have typically involved hotels that are or have the potential to become the top five-star properties in their respective locations.

The geographical regions in which the Company has so far focused its efforts for investment include emerging markets in Central and Eastern Europe such as the Russian Federation, Hungary, Croatia and others. The Directors shall retain the Company's investment opportunities under constant review to be able to undertake appropriate investment in other jurisdictions if they consider it conducive to the attainment of the Company's investment objectives.

This strategy and objectives are expected to provide a focus and benchmark for the creation of shareholder value and shareholder returns as the basis for business development and to adapt to, and profit from, the ever-changing market conditions.

These are the fundamental objectives of the Company and the strategy underpinning the future prospects of the Company. However, following the first phase of the Company's development and its initial acquisitions, the Company's strategy for the coming two years (2006-2008) will focus mainly on the consolidation of its prime assets, namely the existing portfolio of hotel properties. In this context the Company will, during this time, be focused mainly on the completion of the St. Petersburg Project.(more information on the Project as detailed on Page 8).

Since the date of the last published financial statements, the Company has not entered into any significant investments. No property acquisitions have been made, and the only investments of note made since the said date relate to: the refurbishment of the existing rooms of the Corinthia Nevskij Palace Hotel in St. Petersburg, Russia; the completion of the apartments and the continuation of works on the 19th century spa (which are now at an advanced stage) of the Corinthia Grand Hotel Royal in Budapest, Hungary; and the commencement of the "soft" refurbishment of the Corinthia San Gorg Hotel in St. Julians, Malta.

3.1.3 Convertible Bonds

In April 2000, the Company issued Lm5 million 5% Convertible Bonds 2010 (the 'bonds'). Pursuant to the terms of issue specified in the offering memorandum dated 27 April 2000, bondholders are entitled to convert their holding of bonds into fully paid ordinary shares of the Company (the 'Conversion Option').

The Conversion Option may be exercised by a bondholder during the conversion period which commenced on 29 November 2005 and ends on 29 November 2009 (the 'Conversion Period'). During the Conversion Period, bonds may or may have only be converted on a Conversion Date which is or was any one of the following: 29 November 2005, 29 May 2006, 29 November 2006, (First Conversion Term), 29 May 2007, 29 November 2007, 29 May 2008 (Second Conversion Term), 29 November 2008, 29 May 2009 and 29 November 2009 (Third Conversion Term). For the period ended on 25 November 2005 no conversions were effected.

The Conversion Option is exercisable at the conversion prices to be determined in accordance with the provisions of the Offering Memorandum dated 27 April 2000.

In the event that all bondholders were to exercise their conversion rights, the issued share capital of the Company would be increased by an aggregate not exceeding Lm5 million.

3.2 Business Overview and Developments since the Initial Public Offering

In line with the objectives and commitment made by the Company in its IPO in April 2000, IHI has, since its inception, made acquisitions of hotel properties as follows:

| Hotel | Location | Type/Rooms |
|--------------------------------|-------------------------|---------------|
| Corinthia San Gorg Hotel | St. Julians - Malta | Five Star/250 |
| Corinthia Grand Hotel Royal | Budapest – Hungary | Five Star/442 |
| Corinthia Alfa Hotel | Lisbon – Portugal | Five Star/517 |
| Corinthia Nevskij Palace Hotel | St. Petersburg – Russia | Five Star/288 |

The Company started out in 2000 with a capital of Lm40 million, partly raised through the issue of 30 million ordinary shares with a nominal value of Lm1 each issued to CPHCL and other companies within the Corinthia Group, and following the IPO launched in April 2000, 10 million ordinary shares with a nominal value of Lm1 each were issued to the investing public. A further Lm5 million was raised by way of Convertible Bonds issued to the public in the same public offering. Later in 2001 and in early 2002, further funds amounting to Lm8 million were raised through a Rights Issue, which consisted in the issue of 8 million ordinary shares of Lm 1 each issued at par to existing shareholders including CPHCL, which fully subscribed to its allotment of six million shares.

The Company employed the initial capital raised to acquire 100% ownership of Five Star Hotels Limited, a Maltese company owning the five-star 250 room Corinthia San Gorg Hotel, together with an independent beach facility, for Lm13.64 million. The Company also took over the ownership of the derelict building formerly housing the Grand Hotel Royal in Budapest, a landmark property, for Lm11.78 million.

The re-constructed Corinthia Grand Hotel Royal is now one of the best-equipped hotel in Hungary, with an extensive range of facilities under one roof. Beside the 414 deluxe bedrooms and several fine restaurants, the hotel has a number of unique features including 28 luxury serviced apartments for long-stay visitors to Budapest, and an imposing 19th century spa, adjacent to the hotel.

With 60,000m² of built-up area in the heart of this fascinating capital in Europe, the Grand Hotel Royal is a landmark hotel. Although the reconstruction project entailed the demolition of most of the building, the historic façade of the Hotel and other characteristic features of the building such as the ballroom and the spa, were preserved in all their original splendour. Following the total reconstruction, which was completed in a record 28 months, the Hotel now includes 3,600m² of conference facilities, constituting over 17% of all conference space available in hotels in Budapest.

The Company also purchased a 20% shareholding in C.H.I. Limited ('CHI') for Lm0.321 million and 20% of Quality Project Management Limited ('QPM'), a construction and project management company for Lm0.048 million.

In addition to these acquisitions, the Company had cash availability of just over Lm20 million for new projects. With this cash, and with the two properties, one in full operation and the other in an early re-construction phase, and with the strategic holdings in CHI and QPM, the Company intensified its efforts to identify acquisitions falling within its strategy outlined in 3.1.2 above.

In 2001, the Company also acquired a 16% shareholding in a Croatian hotel company as part of its strategy to bid for the acquisition of the majority holding through a privatisation programme of the Croatian Government. When the Company's bid was unsuccessful, these shares were subsequently sold to a strategic investor for over Lm1.459 million, realising a net gain of Lm0.923 million.

During 2001, the Company concluded two major hotel acquisitions. The first was the high-rise 430-room Alfa Hotel in Lisbon, acquired for a total of Lm18.80 million, of which Lm12.70 million was provided by Eurohyp Bank, a German mortgage bank, on a 20-year loan basis. The second was the five-star Nevskij Palace Hotel and a number of adjoining properties in St. Petersburg, which were taken over in January 2002 for a total value of Lm20.40 million, of which Lm10 million was funded by a 10-year loan from Bank Austria Creditanstalt.

By the beginning of 2005 considerable improvements to two of the above-mentioned hotels were concluded. The Corinthia Alfa Hotel was refurbished to five-star standard and the number of rooms were increased from 430 to 517 at a cost of €35 million. The hotel was re-opened in May 2004. A complete refurbishment of the bedrooms and corridors of the Corinthia Nevskij Palace Hotel was completed by February 2005 at a cost of €2.6 million.

During the period 2006–2008, the Company intends to focus its endeavours on the St. Petersburg property by increasing the capacity of the existing hotel, providing additional facilities to those already available and introducing significant retail and office space. The existing 288 hotel bedrooms of the five-star Corinthia Nevskij Palace Hotel, situated in the city's main boulevard, have already been refurbished between 2004 and 2005. The new project will consist in the provision of 103 executive bedrooms, together with the provision of the largest hotel conference centre in St. Petersburg, capable of hosting 1,000 delegates. Moreover, vast retail and office areas shall be developed in two of the four buildings adjacent to the Hotel, which had all been acquired as part of the development project.

The extension and development project briefly described above is estimated to cost around €75 million. The Company has already arranged for bank financing from three Austrian Banks for part funding the project. The agreed terms of the bank funding are subject to certain conditions and include the following:

- Part of the funds will be utilised to re-finance existing facilities used by the Company for the acquisition of the Hotel. The outstanding balance to-date amounts to circa €17 million.
- The Company must inject further funds amounting to €19.5 million into the Project prior to utilising the new facilities.

Subsequent to satisfying all conditions imposed by the respective Banks, the Company will be allowed to drawdown the remaining balance of €55.5 million from the new facility, that should see the Project to completion.

Apart from security over the property being developed, the Banks shall also be provided with two other guarantees from the Issuer, namely a cost overrun guarantee and a completion guarantee. The liability of IHI under these guarantees therefore is that it would have to make good for any additional costs that may need to be incurred for the completion of the project. Save for its liability under these guarantees the Banks shall have no recourse either to the Company or to any of IHI's other properties, revenues or assets.

With respect to the funding of the €19.5 million injection, the proceeds from the Bond will be used for the purpose of funding part of this requirement. The balance of €7 million will be injected by CPHCL into IHI as a shareholder's loan.

As can be deduced from the nature of the properties described above, the Company operates principally in European destinations, targeting market niches on the basis of the high standard of its hotel properties and their city centre location and attracting in the main, European customers.

4. GROUP ORGANISATIONAL STRUCTURE

CPHCL is the parent of IHI and currently owns 78% of the issued share capital of the Company.

The Company has a management agreement with CPHCL, whereby the latter provides management services at the strategic level to IHI. This enables the Company to benefit from the experience and expertise of CPHCL in operating its business. In addition, the Company has during the years acquired the services of other companies within the Corinthia Group, particularly QPM, which enabled the Company to implement a highly efficient and cost-effective construction, extension and refurbishment programme. The Company also relies on the experience and expertise of an affiliated company, C.H.I. Limited, in the management and operation of its properties.

The Company is accordingly dependant on the Corinthia Group. The close association with the Corinthia Group brings to the Company the full support of a number of factors, amongst which:

- a strong and committed significant shareholder and an executive team with long experience in the hospitality industry who have delivered a record of profit and asset growth;
- an experienced, motivated, proven and loyal local and foreign senior management team of international calibre with an average of over fifteen years' service;
- a team of well-qualified and dynamic young professionals, fuelling the potential for future growth;
- an effective monitoring system assuring controls on standards and performance;
- a long experience in developing and managing properties planned and built to exacting standards with equally high standards demanded on maintenance resulting in high quality, well maintained assets;
- a fast expanding brand name, 'Corinthia Hotels International';
- an extensive marketing network in the feeder markets for the hotels;
- strategic geographical positioning with a well-considered weighted portfolio in the emerging leisure and business destinations;
- an emphasis on the provision of business centres and conference facilities; and
- corporate strength through a long-term policy of diversification into industrial catering, construction, project management and other service ventures.

5. TREND INFORMATION

There have been no material adverse changes to the prospects of the Issuer since the date of its last published financial statements.

At the time of publication of this Registration Document, the Issuer considers that the Company will be subject to the normal business risks associated with the hotel and hospitality industry and that it does not anticipate any trends, uncertainties, demands, commitments or events outside the ordinary course of business and that would be deemed likely to have a material effect on its upcoming prospects of the Company and its business, at least with respect to the current financial year.

6. MANAGEMENT

6.1 General

The Company has adopted a very streamlined and cost-effective organisational structure which is expected to expand in line with the anticipated development phases and growth of the Company. Since its inception, the management of the Company has been involved principally in new investments and acquisitions and hotel operations. As far as new investments and acquisitions are concerned, the Company has operated principally through its Executive Directors and the committed support of the Corinthia Group.

With respect to hotel operations and management, the Company has adopted an autonomous organisational structure for each hotel property and operation. The philosophy of the Company is to own its hotel properties through a number of companies established in one or more jurisdictions where the hotel property is located. This is driven principally by two factors – moulding a corporate structure that provides efficient tax treatment to the Company, and ensuring that each hotel property has its own management structure that is entrusted with the responsibility for that particular hotel, thereby allowing each hotel a high level of autonomy. The latter approach suitably adheres to each hotel's need to take account of the particular environment and market within which it operates, albeit subject to the overall direction and the strategic parameters and objectives established by the Company's Board of Directors.

In aggregate, the Company, through its subsidiaries employs around 1,180 employees in four different jurisdictions. The following table shows how these employees are deployed by the hotels of the Company as at 31 December 2005:

| Hotel Operation | Executive Management | Middle Management | Non-Managerial |
|--------------------------------|-----------------------------|--------------------------|-----------------------|
| Corinthia San Gorg Hotel | 7 | 18 | 195 |
| Corinthia Alfa Hotel | 13 | 31 | 183 |
| Corinthia Nevskij Palace Hotel | 12 | 25 | 339 |
| Corinthia Grand Hotel Royal | 13 | 28 | 310 |

6.2 The Board of Directors

The Company is managed by a Board of Directors consisting of seven members, that is entrusted with the overall direction and management of the Company, including the establishment of strategies for future development. The Board consists of three executive directors and four non-executive directors. The executive directors of the Company, who are the CEO, Managing Director and Business Development Director, are entrusted with the Company's day-to-day management. The responsibility of the Directors is a collective one, although within the structure of a unitary board, the main functions of the Directors are, in practice, complementary.

6.2.1 Executive Directors

The CEO, Managing Director and Business Development Director are mainly responsible for the identification and execution of new investment opportunities and the funding of the Company's acquisitions. They are also responsible for ensuring the establishment of the appropriate management contracts of IHI's hotel properties in the case of operational properties and, negotiating and awarding project contracts in the case of the development or refurbishment of new properties. The three Executive Directors are also directors or officers of other companies within the Corinthia Group, bringing with them the necessary proficiency and experience in this industry sector, and providing their expertise throughout the entire Group.

They are supported in this role by several consultants, and benefit from the know-how gained by members and officers of the Corinthia Group.

6.2.2 Non-Executive Directors

The Non-Executive Directors are independent of the Corinthia Group and constitute a majority on the Board. The Non-Executive Directors' main functions are to monitor the operations of the Executive Directors and their performance, as well as to review any investment opportunities that are proposed by the Executive Directors. All proposed acquisitions of the Company are brought to the Board for approval. In addition, the Non-Executive Directors have the role of acting as an important check on the possible conflicts of interest for the Executive Directors in view of their dual role as Executive Directors of the Company and their role as officers of the Corinthia Group, particularly in view of the reliance placed by the Company on the support, expertise and experience of the Corinthia Group.

6.2.3 Boards of Subsidiary Companies

Each hotel property owned by the Company is owned through a subsidiary company in the jurisdiction where that hotel property is located, and is required to comply with all the laws and regulations of that jurisdiction. Accordingly, a board of directors is entrusted with the responsibility of the direction and management of each subsidiary company within the strategic parameters established by the Board. In some jurisdictions, the Company has adopted the structure of a dual board in line with the requirements of the legislation of those jurisdictions – these involve the concept of a board of directors that is entrusted with setting the policies and strategies of the company to be implemented by management in the day-to-day operations and executive decisions, and a supervisory board that is entrusted with monitoring the policy implementation within the company by management.

The board of each subsidiary is, within the strategic parameters established by the Board of the Company, autonomous in the determination of the appropriate policies for the respective hotels and is entrusted with handling the relations with the hotel operating company. Each hotel, in turn, has its own management structure and employees that have the function of implementing the policies and directions of the subsidiary boards under the direction of the hotel operating company.

6.2.4 Curriculum Vitae of Directors

Alfred Pisani: is the founder of the Corinthia Group and has been the Chairman and Chief Executive Officer since the inception of Corinthia in 1962. He was responsible for the construction of the Group's first hotel, the Corinthia Palace in Attard. He has led the Corinthia Group from a one hotel company to a diversified group having significant interests. Such interests vary from equity participations, management or both in several geographical areas and include interests in four other hotels in Malta, five hotels in Turkey, two hotels in Hungary, nine hotels in the Czech Republic, two hotels in Portugal and Tunisia and one each in Belgium, Libya, The Russian Federation, The Gambia and Togo. Mr. Pisani is also the Chairman and CEO of the Company.

Joseph Fenech: is a Fellow of the Chartered Association of Certified Accountants of the United Kingdom and a Fellow of the Malta Institute of Accountants. He is the Managing Director responsible for business development and corporate administration of the Corinthia Group. Mr. Fenech joined the Corinthia Group in 1980 after having spent a few years as senior auditor with a local auditing firm. His first appointment was as Group Accountant responsible for all financial and accounting matters of the Corinthia Group operations. In 1990 he was appointed a member of the executive board. Mr. Fenech is also the Managing Director of the Company.

Simon Naudi: joined the Board of IHI in 2005, having joined the Corinthia Group in a senior executive role in 1998. He has since been responsible for corporate strategy, including business development, particularly hotel and real estate acquisitions and project developments.

Abdurazagh Zmirli: has had a long and distinguished career in the international aviation and leisure industries, and joined the Board of IHI in 2005. He is also a Member of the board of directors of CPHCL, representing LFICO.

Joseph J. Vella: is a lawyer by profession. He was admitted to the bar in 1973 and has since then been in private practice. He is currently senior partner of the law firm GVTH & Associates. Dr. Vella advises a number of leading commercial organisations both in the public and private sector and has been a legal advisor of the Corinthia Group for more than fifteen years. Dr. Vella is also a director on several companies in addition to being a director of the Company and a number of its subsidiaries, and is also a director of Corinthia Finance p.l.c, another subsidiary company of the Corinthia Group.

Lawrence Zammit: is the Chairman of Air Malta Company Ltd. Prior to this appointment he used to serve as Chairman of the Malta International Airport p.l.c. and carried out the functions of the CEO for the same company for the period of 1998 and 2002. He is an Economics graduate of the University of Malta and a Director and co-founder of MISCO, a company that provides research, consultancy, training and executive recruitment services. Mr. Zammit is also Chairman of the Malta Development Corporation, Deputy Chairman of APS Bank Ltd, and a Director of Vilhena Funds Sicav p.l.c. and Big Bon Finance p.l.c. He is a member of the European Society of opinion and Market Research and the Market Research Society of the United Kingdom. Mr Zammit is currently a Member of the Audit Committee of the Company.

Frank Xerri de Caro: joined the Board of IHI in 2004, having previously been Chief Officer of Bank of Valletta p.l.c., besides serving on the Boards of several major financial, banking and insurance institutions. Mr. Xerri de Caro is currently the Chairman of the Audit Committee of the Company.

6.3 Directors' Service Contracts

Save for the service contracts of Mr. Alfred Pisani as Chief Executive Officer of the Company and Mr. Joseph Fenech as Managing Director, none of the other Directors of the Company have a service contract with the Company.

Both Mr. Alfred Pisani and Mr. Joseph Fenech have executed three-year definite contracts with the Company. Copies of these contracts will be available for inspection at the registered office of the Company for fourteen (14) days from the date of the Bond Issue.

All Directors, including Mr. Alfred Pisani and Mr. Joseph Fenech, may be removed from their posts of Directors by the shareholder appointing them or by an ordinary resolution of the shareholders in general meeting. Independently of whether Mr. Alfred Pisani and/or Mr. Joseph Fenech are removed from their directorships, they shall still retain their executive posts with the Company unless their respective contracts are terminated in accordance with their respective terms.

6.4 Aggregate Emoluments of Directors

For the financial year ended 31 December 2005 the Company paid an aggregate of €154,000 to its Directors (2004: €110,215).

6.5 Loans to Directors

There are no loans outstanding by the Company to any of its Directors nor any guarantees issued for their benefit by the Company.

6.6 Removal of Directors

A Director may, unless he resigns, be removed by the shareholder appointing him or by an ordinary resolution of the shareholders as provided in section 139 of the Act.

6.7 Powers of Directors

By virtue of the Articles of Association of the Company the Directors are empowered to transact all business which is not by the Articles expressly reserved for the shareholders in general meeting.

7. MANAGEMENT STRUCTURE

7.1 General

The Company is an investment company which does not require an elaborate management structure, particularly at this stage of its development. The Company's main line of business is the ownership of hotels and the engagement of operators for its hotels.

The Directors have appointed Mr. Alfred Pisani as the Chief Executive Officer of the Company, Mr. Joseph Fenech as the Managing Director and Mr. Simon Naudi as Business Development Director. They are the only three executive officers of the Company. They are supported in their executive roles by CPHCL with whom the Company has entered into an Administrative Support Services Agreement for the provision of administrative and management services.

7.2 Hotel Operations

Day-to-day hotel operations are the responsibility of a hotel operating company that directs each subsidiary's management and staff in day-to-day operations. The responsibility of the operational performance of each hotel is that of the operating company, whose performance is monitored and evaluated on a regular basis by the board of each subsidiary that reports on performance and operations to the Company's Board.

7.3 The Monitoring Committee

The rationale underlying this committee is to monitor, on behalf of the Company as owner, the performance, quality of service and standards in the underlying hotels. It consists of three individuals, one of whom is completely independent of the Corinthia Group, and reports directly to the Directors of the Company on a quarterly basis. This committee reports not only on the operations of the management and boards of the subsidiary companies, but also on the performance of the appointed operator of the hotel properties.

Currently the members of the Monitoring Committee are: Mr. Joseph M Pisani, an executive director on the board of CPHCL, who acts as Chairman; Mr. Lino Soler, an economist and accountant by profession, who is a full time executive at Corinthia; and Mr. Joe Caruana, a former General Manager of Mid Med Bank who is independent of the Group and is also member of the Audit Committee of CPHCL.

7.4 Property Audit

Property audits commenced two years ago and these are carried out by QPM. These audits, which are unannounced, comprise a full review of each property twice a year when a physical inspection of the building and the assets is undertaken by experienced engineers. The audit covers 27 "areas" of the property in question of which seven have been identified as being critical. These critical areas include the guest bedrooms, the guest bathrooms, the fire and safety systems, the kitchens, adherence to procedures relating to fire and flood, as well as the checking of safety certifications such as the fire alarm system, the sprinkler system, the lightening installations, boilers, pressure vessels. A detailed report is submitted to the owners including a review of the maintenance systems and quality of the maintenance works and recommendations on the replacement of plant and equipment.

7.5 The Administrative Support Services Agreement

The Company has renewed its Administrative Support Services Agreement with CPHCL, which had originally been entered into on 22 April 2000. The agreement ensures that the Company can sustain its streamlined organisational structure at the top executive and central administrative level by having continued and guaranteed access to the top executive staff and support personnel of the Corinthia Group. The agreement further evidences the commitment of the Corinthia Group to the Company and its future development and growth.

The agreement which expired on 24 April 2004 was renewed for an additional three years and will expire on 24 April 2007. In terms of the current agreement, CPHCL is entitled to receive from the Company a fixed fee of Lm125,000 (€300,000) and a variable amount equivalent to 0.5% of the turnover of each of the Company's hotel subsidiaries with an overall cap of Lm250,000 (€600,000) per annum for the fixed fee and the variable amount. The Directors believe that this is a reasonable charge to the Company in consideration for the support services guaranteed by CPHCL.

7.6 Future Development

The Directors believe that at the current stage of the Company's development, the organisational structure of the Company will, at top executive level, remain particularly dependent on the support, experience and expertise of the Corinthia Group, inter alia through the Administrative Support Services Agreement. This is expected to enable the Company to make significant savings on costs in the recruitment of top executives and support staff in the shorter to medium term, until the Company is closer to entering its mature stage and its revenue generation could sustain an independent executive team. With further acquisitions and economies of scale, the Company should then be better placed to sustain a top executive structure that would be self-reliant, thus diluting the reliance on the Corinthia Group at an executive level.

At the subsidiary level, the Directors believe that the current organisational structures are adequate and shall continue to build the organisation's structure at this level on the same model adopted so far. The Directors will maintain these structures under continuous review to ensure that they meet the changing demands of the business and to strengthen the checks and balances necessary for better corporate governance.

7.7 Major Shareholder

The Corinthia Group currently owns 78% of the share capital of the Company. In terms of the Memorandum and Articles of Association of the Company, CPHCL is entitled to appoint a majority of the Directors of the Company and will accordingly retain control over the management and operations of the Company. The close association with the Corinthia Group is central to the attainment by the Company of its investment objectives and the implementation of its strategies. The Corinthia Group intends accordingly to retain management control of the Company during its development stages with a view to providing its expertise and know-how in the industry.

The Company adopts measures in line with the Code of Corporate Governance to ensure that the relationship with CPHCL is retained at arm's length, including adherence to Rules on Related Party Transactions requiring the sanction of the Audit Committee which has a majority of independent Non-Executive Directors.

8. AUDIT COMMITTEE PRACTICES

8.1 Audit Committee

The Audit Committee's primary objective is to assist the Board in fulfilling its oversight responsibilities over the financial reporting processes, financial policies and internal control structure. The Committee oversees the conduct of the internal and external audit and acts to facilitate communication between the Board, management, the external auditors and the internal audit team. The internal and external auditors attend these meetings, upon the direct request of the Audit Committee. The Audit Committee reports directly to the Board of Directors. In 2005, the Committee met twelve times.

The Committee is made up of a majority of non-executive directors who are appointed for a period of three years. Mr. Frank Xerri de Caro, a non-executive director, acts as Chairman, whilst Mr. Joseph Fenech (the Managing Director) and Mr. Lawrence Zammit act as members. The Company Secretary, Mr. Alfred Fabri acts as Secretary to the Committee.

8.2 Internal Audit

The role of the internal auditor is to carry out systematic risk-based reviews and appraisals of the operations of the Company (as well as of the subsidiaries and associates of the Group) for the purpose of advising management and the Board, through the Audit Committee, on the efficiency and effectiveness of internal management policies, practices and controls. The function is expected to promote the application of best practices within the organisation. Following 2003, the internal audit function has taken on another dimension, namely that of advising the Audit Committee on aspects of the regulatory framework which affect the day-to-day operations of the hotels, such as for example data protection.

The internal auditor reports directly to the Audit Committee.

9. COMPLIANCE WITH CORPORATE GOVERNANCE REGIME

The Company supports the Code of Principles of Good Corporate Governance (the "Code") originally issued by the Malta Stock Exchange which now forms part of the Listing Rules, and it notes that adoption of the Code has resulted in positive effects accruing to the Company.

The Board deems that, during the reporting periods referred to in this Registration Document, the Company has been substantially in compliance with the requirements of the Code to the extent that was considered complementary to the size, nature and operations of the Company.

10. HISTORICAL INFORMATION

The historical information about the Company has been included in Annexes 1 – 3 to this Document. There were no significant changes to the financial or trading position of the Issuer since the end of the financial period to which the unaudited Interim Financial Statements relate.

11. LITIGATION

There is no litigation against the Company, including actual or pending legal or arbitration proceedings, which the Directors consider could have significant effects on the Group's financial position or profitability.

12. ADDITIONAL INFORMATION

12.1 Share Capital

The authorised share capital of the Company is €750 million. The issued share capital is €139.05 million fully paid up, divided into 139.05 million ordinary shares of a nominal value of one Euro each share.

On the dates hereunder mentioned the Company allotted the number of shares appearing in the following table:

| Date of allotment | No of Shares | Shareholder/ Process | Consideration |
|-----------------------|--------------|--|--|
| Initial share capital | 20,000 | Corinthia Group | Lm20,000 in Cash |
| 24 April 2000 | 24,790,000 | Corinthia Group | Transfer to the Company of 100% shareholding in Five Star Hotels Limited; 100% shareholding in Corinthia Investments Hungary Kft.; and 20% shareholding in each of QPM Ltd. and CHI Ltd. |
| 19 May 2000 | 10,000,000 | IPO | Lm10,000,000 in cash |
| 20 October 2000 | 5,190,000 | C P H C L | Lm5,190,000 in cash |
| 27 December 2001 | 6,582,793 | Rights Issue | Lm6,582,793 in cash |
| 11 June 2002 | 1,417,207 | Rights Issue | Lm1,417,207 in cash |
| 9 December 2003 | N/A | Conversion of designation of share capital | Conversion of the denomination of share capital from the Maltese Lira to the Euro |
| 10 December 2003 | 3,445 | Rights Issue | €3,445 in cash |
| 3 December 2004 | 10,000,000 | C P H C L | Capitalisation of Loans |
| 8 April 2005 | 10,000,000 | C P H C L | €10,000,000 in cash |

The Company's ordinary shares were first admitted to the Official List of the MSE on 2 June 2000, and trading commenced on 5 June 2000.

There is more than 10% of the Company's authorised share capital which is unissued. However, in terms of the Company's Memorandum and Articles of Association none of such capital shall be issued in such a way as would effectively alter the control of the Company or nature of its business without the prior approval of the Company in general meeting.

There is no capital of the Company which is currently under option, save for the conversion rights of the convertible bonds currently in issue.

12.2 Memorandum and Articles of Association

(a) Objects

The Memorandum and Articles of Association of the Company is registered with the Malta Financial Services Authority. The main object of the Company is to carry on the business of a finance and investment company in connection with the ownership, development, operation and financing of hotels, resorts, leisure facilities, tourism related activities and such other activities as may from time to time be ancillary or complimentary to the foregoing whether in Malta or overseas. Clause 3 of the Memorandum of Association contains the full list of objects of the Company. A copy of the Memorandum and Articles of Association of the Company may be inspected during the lifetime of this Registration Document at the registered office of the Company and at the Registrar of Companies of the Malta Financial Services Authority.

(b) Voting Rights & Restrictions

The Company's Memorandum and Articles of Association contain certain provisions which restrict the voting rights of shareholdings in excess of 7.5% if held by one shareholder. If at any time a shareholder holds in excess of 7.5% of the voting shares of the Company, such shareholder will not have the right to vote at meetings of shareholders of the Company in respect of that portion of shares which exceeds the 7.5% ceiling. Founding shareholders, custodial and depository institutions are exempted from the voting limit requirement. Subject to such limitations, the holders of shares are entitled to vote at meetings of the shareholders of the Company on the basis of one vote for each share held.

(c) Appointment of Directors

At present, in terms of the Memorandum and Articles of Association, the Board shall consist of not less than four and not more than nine directors who are appointed as follows:

- A shareholder or a number of members who individually or between them hold 11% plus one share of the issued share capital of the Company (a 'Qualifying Holding') shall be entitled to appoint one Director for every Qualifying Holding;
- Any shareholder who does not appoint a Director or Directors in terms of the Qualifying Holding will participate in the annual election of Directors at the Annual General Meeting of the Company;
- Shareholders who are entitled to appoint Directors in terms of the Qualifying Holding shall be entitled to participate in the annual election of Directors provided that in such an election they only use such shares not otherwise used as a Qualifying Holding.

(d) Powers of Directors

The Directors are vested with the management of the Company, and their powers of management and administration emanate directly from the Memorandum and Articles of Association and the law. The Directors are empowered to act on behalf of the Company and in this respect have the authority to enter into contracts, sue and be sued in representation of the Company. In terms of the Memorandum and Articles of Association they may do all such things that are not by the Memorandum and Articles of Association reserved for the Company in general meeting.

Directors may not vote on any proposal, issue, arrangement or contract in which they have a personal material interest.

The maximum limit of aggregate emoluments of the Directors is, in terms of the Memorandum and Articles of Association, to be established by the shareholders in general meeting. Within that limit the Directors shall have the power to vote remuneration to themselves or any number of their body. Any increases in the maximum limit of Directors' aggregate emoluments have to be approved by the general meeting.

In terms of the Memorandum and Articles of Association, the Board of Directors may exercise all the powers of the Company to borrow money and give security therefor, subject to the limit established in the Memorandum and Articles of Association. That limit is currently four times the Company's capital and reserves. The shareholders in general meeting have the over-riding authority to change, amend, restrict and or otherwise modify such limit and the Directors' borrowing powers.

There are no provisions in the Company's Memorandum and Articles of Association regulating the retirement or non-retirement of Directors over an age limit.

13. MATERIAL CONTRACTS

The Company was established on 29 March 2000 and since its inception has entered into contracts of a material nature with the promoters and with third parties. In addition the Company has entered into two other material contracts. The following is a brief summary of those transactions, although more information may be found in Section 3.2 above:

| Date | Value | Summary |
|-----------------|---------------|---|
| 14 August 2001 | €47 million | Acquisition of 100 per cent shareholding in the company Alfa Investimentos Turisticos Lda |
| 16 January 2002 | €51.5 million | Acquisition of Nevskij Palace Hotel |

Save for what is otherwise disclosed in this document the Company has not entered into any other material contract which is not in the ordinary course of its business.

14. DOCUMENTS AVAILABLE FOR INSPECTION

For the duration period of this Registration Document the following documents shall be available for inspection at the registered address of the Company:

- (a) Memorandum and Articles of Association;
- (b) Consolidated Audited Financial Statements of the Company for the years ended 31 December 2004 and 2003.

These documents are also available for inspection in electronic form on the Company's website at www.corinthiacorporate.com



INTERNATIONAL HOTEL INVESTMENTS p.l.c.

ANNEX 1

Directors' Reports
and Financial Statements 2004

Company Registration Number: C 26136

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DIRECTORS' REPORT

For the Year Ended 31 December 2004

The Directors present their report, together with the audited financial statements of International Hotel Investments p.l.c. ("the Company") and the Group of which it is the parent, for the year ended 31 December 2004.

Board of Directors

Mr Alfred Pisani (Chairman and Chief Executive Officer)
Mr Louis E Galea (Deputy Chairman) (Deceased 13 April 2005)
Mr Joseph Fenech (Managing Director)
Dr Joseph J Vella
Mr Frank Xerri de Caro (Appointed 2 July 2004)
Mr Lawrence Zammit
Mr Abdurazagh I Zmirli (Appointed 1 January 2005)

Principal Activities

International Hotel Investments p.l.c. carries on the business of an investment company in connection with the ownership, development and operation of hotels, leisure facilities, and other activities related to the tourism industry. The Company holds a number of investments in subsidiary and associated companies (refer to notes 12(b) and 13(b) to the financial statements), through which it furthers the business of the Group.

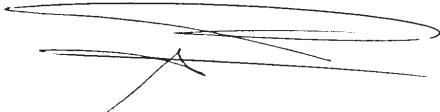
Review of Business Development and Financial Position

The results of the operations for the year are as set out in the profit and loss account on page 29 of the financial statements.

Reserves

The movements on reserves are as set out on pages 32 and 33 of the financial statements.

Approved by the Board of Directors on 5 May 2005 and signed on its behalf by:



Mr Alfred Pisani
Chairman and Chief Executive Officer



Mr Joseph Fenech
Managing Director

22 Europa Centre
Floriana VLT15
Malta

SHAREHOLDER AND OTHER INFORMATION

The following information is being published in terms of the Listing Rules of the Listing Authority.

Number of Shareholders

| Range | Total Shareholders | |
|---------------|--------------------|--------------|
| | 31/12/04 | 17/04/05 |
| 1 to 1000 | 381 | 389 |
| 1001 to 5000 | 2,219 | 2,208 |
| 5001 and over | 805 | 807 |
| | <u>3,405</u> | <u>3,404</u> |

Shareholders are entitled to vote at meetings of the shareholders of the Company on the basis of one vote for each share held. They are entitled to receive dividends as declared from time to time. The shares in issue shall, at all time, rank *pari passu* with respect to any distribution whether of dividends or capital, in a winding up or otherwise.

Shareholders Holding 5% or more of the Share Capital

| | Number of Shares | Percentage Holding (%) |
|---|------------------|------------------------|
| Corinthia Palace Hotel Company Limited: | | |
| At 31 December 2004 | 99,288,375 | 76.93 |
| At 17 April 2005 | 109,288,375 | 78.59 |

Directors' Interest in the Shareholding of the Company

| | Number of Shares held | |
|------------------------|-----------------------|-------------------|
| | 31/12/04 | 17/04/05 |
| Mr Joseph Fenech | 64,487 | 64,487 |
| Dr Joseph J Vella | 49,605 | 49,605 |
| Mr Louis E Galea | 5,953 | Deceased 13/04/05 |
| Mr Frank Xerri de Caro | - | - |
| Mr Lawrence Zammit | - | - |
| Mr Abdurazagh I Zmirli | Appointed 01/01/05 | - |

Mr Alfred Pisani has a beneficial interest in the Company of 182,064 ordinary shares through the shareholding of A & A Pisani & Company Limited in Corinthia Palace Hotel Company Limited.

SHAREHOLDER AND OTHER INFORMATION

Contracts of Significance

The following information is given in terms of Listing Rules 9.51.3 and 9.51.14.

Administrative Support Services Agreement with Corinthia Palace Hotel Company Limited

The Company has an Administrative Support Services Agreement with Corinthia Palace Hotel Company Limited. The agreement ensures that the Company can sustain its streamlined organisational structure at senior level by having continued and guaranteed access to the top executive staff and support personnel of the Corinthia Group of which the Company is a member. In terms of the agreement, Corinthia Palace Hotel Company Limited is entitled to receive from the Company a fixed fee of Lm125,000 (EUR287,000) and a variable amount equivalent to 0.5% of the total turnover of each of the Company's hotel subsidiaries with an overall cap of Lm250,000 (EUR575,000) per annum.

Management Agreements with C.H.I. Limited (CHI)

The Group has appointed CHI in order to operate, manage, and provide consultancy at the following hotels:

- Corinthia San Gorg Hotel in Malta
- Corinthia Nevskij Palace Hotel in The Russian Federation
- Corinthia Grand Hotel Royal in Hungary
- Corinthia Alfa Hotel in Portugal

The agreements ensure that the hotel properties are supported by an experienced hotel operator and can make use of the "Corinthia" brand. In terms of the agreements CHI is entitled to receive the following fees:

- Management fee of 2% based on Total Revenue
- Marketing fee of 1.5% based on Room Revenue
- Incentive fee of 10% on the achievement of pre-agreed budgeted Gross Operating Profit levels

In the case of the Corinthia Alfa Hotel, the agreement also provided for the provision of assistance and advice for the re-opening of the hotel at a pre-determined fee of EUR225,000.

Company Secretary and Registered Address

Mr Alfred Fabri
22 Europa Centre
Floriana VLT 15
Malta

Telephone (+356) 21 233 141

CORPORATE GOVERNANCE DISCLOSURES - DIRECTORS' STATEMENT OF COMPLIANCE

As from January 2004 the Listing Authority has assumed responsibility for the monitoring of the compliance of listed companies in Malta. The Code of Principles of Good Corporate Governance ("the Code" or "the Principles") was originally issued by the Malta Stock Exchange ("the MSE") and now features as part of the new Listing Rules. By virtue of Listing Rule 8.26, listed companies are required to include a Statement of Compliance in their Annual Report setting out the extent to which they have adopted these Principles.

The Board of Directors ("the Directors" or "the Board") of International Hotel Investments p.l.c. ("IHI" or "the Company") reiterate their support for the Code and note that the adoption of the Code has resulted in positive effects accruing to the Company.

Compliance

The Board deems that, during the reporting period in question, the Company has been in compliance with the Code to the extent that was considered complementary to the size and operations of the Company. Instances of divergence from the Code are disclosed and explained below.

The Board

The Board of Directors is entrusted with the overall direction and management of the Company, including the establishment of strategies for future development, and the approval of any proposed acquisitions by the Company in pursuing its investment strategies. Its responsibilities also involve the oversight of the Company's internal control procedures and financial performance, and the review of business risks facing the Company, thus ensuring that these are adequately identified, evaluated, managed and minimised. All the Directors have access to independent professional advice at the expense of the Company, should they so require.

The Board of Directors consists of two executive directors and currently four non-executive directors following the demise of Mr Louis E Galea on 13 April 2005. The present mix of executive and non-executive is considered to create a healthy balance and serves to unite all shareholders' interests, whilst providing direction to the Company's management to help maintain a sustainable organisation. The Board is made up as follows:

| <i>Executive Directors</i> | | <i>Date of first appointment</i> |
|--------------------------------|--------------------------------------|----------------------------------|
| Mr Alfred Pisani | Chairman and Chief Executive Officer | 29 March 2000 |
| Mr Joseph Fenech | Managing Director | 29 March 2000 |
| <i>Non-Executive Directors</i> | | <i>Date of first appointment</i> |
| Dr Joseph J Vella | | 29 March 2000 |
| Mr Lawrence Zammit | | 27 June 2001 |
| Mr Frank Xerri de Caro | | 2 July 2004 |
| Mr Abdurazagh I Zmirli | | 1 January 2005 |

Mr Alfred Fabri acts as Secretary to the Board of Directors.

In accordance with the requirements of the Articles of Association the term of office of the following directors, Mr Alfred Pisani, the late Mr Louis E Galea, Mr Joseph Fenech, Dr J J Vella and Mr Lawrence Zammit, lapsed at the Annual General Meeting held on 2 July 2004, at which date they were re-appointed for a further term. At the same meeting Mr Frank Xerri de Caro was appointed to the Board whereas Mr Abdurazagh I Zmirli was appointed with effect from 1 January 2005.

The roles of Chairman and Chief Executive Officer are both carried out by Mr Alfred Pisani. Although the Code recommends that the role of Chairman and Chief Executive Officer are kept separate, the Directors believe that, in view of the particular circumstances of the Company, Mr Pisani should occupy both positions.

CORPORATE GOVERNANCE DISCLOSURES - DIRECTORS' STATEMENT OF COMPLIANCE

The non-executive directors constitute a majority on the Board and are independent of Corinthia Palace Hotel Company Limited (IHI's parent). Their main functions are to monitor the operations of the executive directors and their performance as well as to analyse any investment opportunities that are proposed by the executive directors. In addition, the non-executive directors have the role of acting as an important check on the possible conflicts of interest of the executive directors, which may exist as a result of their dual role as executive directors of the Company and their role as officers of Corinthia Palace Hotel Company Limited and its other subsidiaries.

The Board met 13 times during the period under review.

Terms of Appointment of Directors

The appointment of Directors to the Board is reserved to shareholders or a number of members who individually or between them have a "qualifying holding", defined as 11% of the total issued share capital of the Company having voting rights.

A shareholder or a number of members who individually or between them hold the qualifying holding (11%) plus one share of the issued share capital of the Company are entitled to appoint one director for every such 11% held. Any shareholder who does not appoint a director or directors in terms of the qualifying holding, will participate in the annual election of directors at the Annual General Meeting of the Company. Shareholders who are entitled to appoint directors in terms of the qualifying holding shall be entitled to participate in the annual election of directors, provided that in such an election they only use such shares, not otherwise used as part of the qualifying holding.

Corinthia Palace Hotel Company Limited currently owns 78.59% of the share capital of IHI. In terms of the Memorandum and Articles of Association of the Company, Corinthia Palace Hotel Company Limited is therefore entitled to appoint a majority of the directors of the Company.

All Directors may be removed from their post by the shareholder appointing them, or by any ordinary resolution of the shareholders in general meeting. Unless appointed for a longer or shorter period or unless they resign or are removed, the directors shall, unless otherwise specified in the letter of their appointment hold office for a period of one year. Directors are eligible for re-appointment upon the lapse of the period stated in their letter of appointment.

Save for the service contracts of the executive directors, none of the other Directors of the Company have a service contract with the Company. The signed contracts with the executive directors cover a three-year period.

Remuneration

There are no loans outstanding by the Company to any of its directors, nor any guarantees issued for their benefit by the Company. For the financial year ending 31 December 2004, the Company paid an aggregate of EUR110,215 to its directors. The Board has resolved to disclose Directors' fees in an aggregate rather than as separate figures for each director as required by the Code.

The Articles of Association set out that the maximum limit of aggregate emoluments of the directors is to be established by the shareholders in Annual General Meeting. The Annual General Meeting held on 27 June 2003 increased the aggregate amount of emoluments to directors to a maximum of Lm60,000 (EUR145,239). Within this limit, the directors have the power to fix their remuneration levels. The Company has adopted a practice whereby the executive Directors vote at meetings deciding the remuneration packages of the non-executive Directors, from which the latter abstain.

In 2004, the Nomination and Remuneration Committees were merged. During the year the merged Committee met four times. The function of this Committee is to propose the appointment of senior executives of IHI and its subsidiaries, and their remuneration package, together with those of the executive Directors.

The members of the Committee are both non-executive directors on the Board, Mr Frank Xerri de Caro and Dr Joseph J Vella, with Mr Alfred Fabri acting as Secretary to the Committee.

The Directors' interest in the shareholding of the Company is included in the Shareholder and Other Information on page 32.

The Directors are fully aware of their obligations regarding dealings in securities of the Company as required by the Listing Rules of the Listing Authority in force during the year. Moreover, they are notified, by means of a letter, of block-out periods, prior to the issue of the Company's interim and annual financial information, during which they may not trade in the Company's shares.

CORPORATE GOVERNANCE DISCLOSURES - DIRECTORS' STATEMENT OF COMPLIANCE

Board-appointed Committees

The Board has established the following Committees:

Audit Committee

The Audit Committee's primary objective is to assist the Board in fulfilling its oversight responsibilities over the financial reporting processes, financial policies and internal control structure. The Committee oversees the conduct of the internal and external audit and acts to facilitate communication between the Board, management, the external auditors and the internal audit team.

During the year under review, the Committee met eight times. The internal and external auditors attended these meetings, upon the direct request of the Audit Committee. The Committee, set up in 2002, is made up of a majority of non-executive directors who are appointed for a period of three years and reports directly to the Board of Directors.

Mr Frank Xerri de Caro, a non-executive director, acts as Chairman, whilst Mr Joseph Fenech (the Managing Director) and Mr Lawrence Zammit act as members. The Company Secretary, Mr Alfred Fabri acts as Secretary to the Committee.

The Audit Committee has been approved in terms of Listing Rule 8.65.1 to review related party transactions of the Group, by means of a letter from the Listing Authority to the Company dated 28 September 2004, thereby foregoing the need for approval of transactions with related parties in a general meeting.

Internal Audit

The role of the internal auditor is to carry out systematic risk-based reviews and appraisals of the operations of the Company (as well as of the subsidiaries and associates of the Group) for the purpose of advising management and the Board, through the Audit Committee, on the efficiency and effectiveness of internal management policies, practices and controls. The function is expected to promote the application of best practices within the organisation. During 2004, the internal audit function has taken on another dimension, namely that of advising the Audit Committee on aspects of the regulatory framework which affect the day-to-day operations of the hotels.

The internal auditor reports directly to the Audit Committee.

Monitoring Committee

The Committee is responsible for ensuring that proper budgets are set for every hotel owned by the Company in order to achieve maximum returns on investments. The Committee also monitors closely the performance of the hotels throughout the year to ensure that such budgets are actually achieved and that corrective action is taken as necessary in the light of changing circumstances.

Mr Joseph M Pisani acts as Chairman, with Mr Joseph C Caruana, and Mr Lino Soler as members. Mr Lino Soler acts as Secretary to the Monitoring Committee.

The Committee reports directly to the Directors of the Company.

In 2004, the Committee met every month to review the performance of each hotel. Meetings were also held as necessary with C.H.I. Limited, the operator of the Company's hotels.

Related Parties Transactions Committee

The Directors are fully aware that the close association of the Company with Corinthia Palace Hotel Company Limited and its other subsidiaries is central to the attainment by the Company of its investment objectives and implementation of its strategies. In compliance with the thrust of the Code, which aims to instil greater transparency in the operations of listed companies, and due to the fact that the Company transacts extensively with such and other related entities, the Directors have felt the need to set up a Related Parties Transactions Committee. The primary objective of the Committee is to assist the Board in ensuring that transactions entered into with related parties are carried out on an arm's length basis and are for the benefit of the Company, and that the Company and its subsidiaries accurately report all related party transactions in the notes to their financial statements.

CORPORATE GOVERNANCE DISCLOSURES - DIRECTORS' STATEMENT OF COMPLIANCE

The Committee is currently made up of two members, namely, Mr Joseph Fenech and Dr Joseph J Vella whilst Mr Alfred Fabri acts as Secretary.

The internal audit function performs an analysis of related party transactions which is then submitted to the Committee. This Committee reports on related party transactions for deliberation by the Audit Committee as authorised under Listing Rule 8.65.1.

Management and Employees

The Company is an investment Company, which does not require an elaborate management structure. The Company's CEO and Managing Director are the only two executive directors of the Company. They are supported in their executive roles by Corinthia Palace Hotel Company Limited, with whom the Company entered into an Administrative Support Services Agreement. This agreement was last renewed on 31 December 2004 and covers two years from that date.

The Agreement ensures that the Company can sustain its streamlined organisational structure at the top executive and central administrative level by having continued and guaranteed access to the top executive staff and support personnel of Corinthia Palace Hotel Company Limited and its other subsidiaries. The fees for services rendered are considered reasonable by the Board. The Agreement further evidences the commitment of Corinthia Palace Hotel Company Limited and its other subsidiaries to IHI and its future development and growth.

Commitment to Shareholders and an Informed Market

The Company is highly committed to having an open and communicative relationship with its shareholders and investors at large. In this respect, over and above the statutory and regulatory requirements relating to the Annual General Meeting, publication of interim and annual financial statements, and respective Company announcements, the Company seeks to address the diverse information needs of its broad spectrum of shareholders in various ways. It invests considerable time and effort in maintaining its website and making it user friendly, with a section dedicated specifically to investors. As a result of these press releases, the investing public is kept abreast of all developments and key events concerning the Company, whether these take place in Malta or abroad.

The Company's commitment to its shareholders is exemplified by the special reductions and concessions, which it makes available to its investors.

In order to better serve the investing public, the Board has appointed the Company Secretary, to be responsible for shareholder relations.

The Company holds an additional meeting for stockbrokers and institutional investors twice a year, to coincide with the publication of the financial statements.

Going Concern

The Directors have reviewed the Group's operational and cash flow forecasts. On the basis of this review, after making enquiries and, in the light of the current financial position, the existing banking facilities and other funding arrangements, and those that are in the course of negotiation, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, in preparing the financial statements, they continue to adopt the going concern basis as explained in note 1(b) to these financial statements.

Approved by the Board of Directors on 5 May 2005 and signed on its behalf by:



Mr Frank Xerri de Caro
Director and Chairman of Audit Committee



Mr Lawrence Zammit
Director

REPORT OF THE AUDITORS

To the Members of International Hotel Investments p.l.c.

Pursuant to Listing Rule 8.28 issued by the Listing Authority



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Listing Rules 8.26 and 8.27 issued by the Listing Authority, require the Company's directors to include in their annual report a statement of compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance, and the effective measures they have taken to ensure compliance with these Principles.

Our responsibility, as auditors of the Company, is laid down by Listing Rule 8.28, which requires us to include a report on this statement of compliance.

We read the statement of compliance and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with these financial statements. Our responsibilities do not extend to considering whether this statement is consistent with other information included in the annual report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the statement of compliance covers all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures, nor on the ability of the Company to continue in operational existence.

In our opinion, the directors' Statement of Compliance set out on pages 22 to 25 provides the disclosures required by Listing Rules 8.26 and 8.27 issued by the Listing Authority.

Hilary Galea-Lauri (Partner) for and on behalf of

KPMG

Certified Public Accountants

5 May 2005

KPMG is a member firm of KPMG International, a Swiss cooperative

Partners & Directors

Joseph C. Schembri
Raymond Azzopardi
David Bamber
Mark Bamber
David Caruana
Alfred V Cremona

Hilary Galea-Lauri
Noel Mizzi
Eric Muscat
Anthony Pace
Pierre Portelli
André Zarb
Anthony Zarb

Associate Directors

Juanita Bencini
Franco Vassallo

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act, 1995 requires the Directors to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company and the Group as at the end of the financial period and of the profit or loss of the Company and the Group for that period.

In preparing such financial statements, the Directors are required to:

- adopt the going concern basis unless it is inappropriate to presume that the Group will continue in business;
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items on a prudent basis; and
- report comparative figures corresponding to those of the preceding accounting period.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT

To the Members of International Hotel Investments p.l.c.



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Marina Street
Pietà MSD 08
Malta

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Fax (+356) 2566 1000
E-mail kpmg@kpmg.com.mt
Web page <http://www.kpmg.com.mt>

We have audited the financial statements set out on pages 29 to 78. As described on page 27, these financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. 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 the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2004 and of the results of their operations and their cash flows for the year then ended in accordance with the requirements of International Financial Reporting Standards promulgated by the International Accounting Standards Board, and have been properly prepared in accordance with the provisions of the Companies Act, 1995 enacted in Malta.

Whilst not qualifying our opinion, we draw attention to note 1(b) to the financial statements, explaining the going concern basis underlying the preparation of the financial statements, whereby the Directors envisage that the Group will have adequate resources available to continue in operational existence for the foreseeable future.

Hilary Galea-Lauri (Partner) for and on behalf of

KPMG

Certified Public Accountants

5 May 2005

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Associate Directors

Juanita Bencini
Franco Vassallo

PROFIT AND LOSS ACCOUNTS

For the Year Ended 31 December 2004

| | Note | The Group | | The Company | |
|---|-------|---------------------|--------------|--------------------|-------------|
| | 30 | 2004 | 2003 | 2004 | 2003 |
| | | EUR | EUR | EUR | EUR |
| Revenue | 2 | 46,623,923 | 34,719,489 | 1,972,950 | 1,252,891 |
| Direct Costs | | (31,575,021) | (23,929,800) | (3,798,584) | (2,822,045) |
| Gross Profit/(Loss) | | 15,048,902 | 10,789,689 | (1,825,634) | (1,569,154) |
| Marketing Costs | | (3,179,934) | (2,991,418) | - | - |
| Administrative Expenses | | (10,945,104) | (10,050,737) | (572,749) | (1,156,976) |
| Net Impairment Losses | 3 | (2,170,600) | (18,260,384) | - | - |
| Revaluation to Fair Value of Available-for-Sale Investments | 12(a) | - | - | (812,296) | 6,859,978 |
| Operating Net Exchange Differences | | 236,861 | (155,244) | 171,376 | 788,566 |
| Other Net Operating (Charges)/Income | | (203,202) | 209,207 | - | - |
| Operating (Loss)/Profit | 4 | (1,213,077) | (20,458,887) | (3,039,303) | 4,922,414 |
| Staff Indemnities | 5 | - | (1,165,000) | - | - |
| Pre-Operating Expenses | 5 | (2,269,027) | (2,926,000) | - | - |
| Interest Receivable and Similar Income | 6 | 502,847 | 526,787 | - | - |
| Interest Payable and Similar Charges | 7 | (8,783,994) | (8,071,071) | - | - |
| Other Net Exchange Differences | | (40,641) | 1,611,560 | - | - |
| Revaluation to Fair Value of Investment Property | 11 | - | 22,842,102 | - | - |
| Income from Associates | 13(a) | 458,863 | 263,494 | - | - |
| (Loss)/Profit before Taxation | | (11,345,029) | (7,377,015) | (3,039,303) | 4,922,414 |
| Taxation | 8 | 3,230,298 | (5,161,781) | 360,421 | (2,249,957) |
| (Loss)/Profit for the Year | | (8,114,731) | (12,538,796) | (2,678,882) | 2,672,457 |
| (Loss)/Earnings per Share | 9 | (0.07) | (0.10) | (0.02) | 0.02 |

BALANCE SHEETS

At 31 December 2004

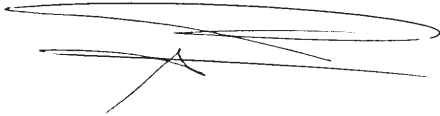
| | Note | The Group | | The Company | |
|--|------|---------------------|--------------|---------------------|-------------|
| | | 2004 | 2003 | 2004 | 2003 |
| | | EUR | EUR | EUR | EUR |
| Non-Current Assets | | | | | |
| Property, Plant and Equipment | 10 | 299,249,198 | 285,109,941 | - | - |
| Investment Property | 11 | 33,400,000 | 33,400,000 | - | - |
| Investments in Subsidiary Companies | 12 | - | - | 169,703,390 | 156,608,617 |
| Investments in Associated Companies | 13 | 1,981,018 | 1,982,455 | 913,496 | 913,496 |
| Derivative Financial Instrument | 14 | 351,488 | 178,083 | 351,488 | 178,083 |
| Loans Receivable | 15 | 1,470,000 | 1,470,000 | 15,509,835 | 15,509,835 |
| | | 336,451,704 | 322,140,479 | 186,478,209 | 173,210,031 |
| Current Assets | | | | | |
| Inventories | | 2,121,293 | 1,622,386 | - | - |
| Trade Debtors | | 5,036,545 | 3,663,368 | - | - |
| Other Debtors | 16 | 2,646,862 | 6,117,574 | 5,304,787 | 4,875,287 |
| Taxation Recoverable | | 633,979 | 98,112 | - | - |
| Cash at Bank and in Hand | | 2,854,831 | 5,228,975 | 20,655 | 26,284 |
| | | 13,293,510 | 16,730,415 | 5,325,442 | 4,901,571 |
| Current Liabilities | | | | | |
| Bank Borrowings | 17 | 24,283,668 | 11,382,674 | 12,000,000 | 2,000,000 |
| Other Interest-Bearing Liabilities | 19 | 3,879,980 | 1,099,369 | 116,684 | 454,670 |
| Trade Creditors | | 4,660,648 | 4,917,748 | 296,020 | 389,689 |
| Other Creditors | 20 | 25,652,167 | 28,342,013 | 3,239,261 | 3,901,317 |
| | | 58,476,463 | 45,741,804 | 15,651,965 | 6,745,676 |
| Net Current Liabilities | | (45,182,953) | (29,011,389) | (10,326,523) | (1,844,105) |
| Total Assets less Current Liabilities | | 291,268,751 | 293,129,090 | 176,151,686 | 171,365,926 |
| Non-Current Liabilities | | | | | |
| Bank Borrowings | 17 | 98,468,209 | 104,808,040 | 11,000,000 | 13,000,040 |
| Debt Securities in Issue | 18 | 31,929,829 | 31,887,753 | 31,929,829 | 31,887,753 |
| Other Interest-Bearing Liabilities | 19 | 3,324,837 | 1,888,300 | - | 216,825 |
| Deferred Taxation | 21 | 23,055,950 | 26,940,094 | 2,056,220 | 2,416,789 |
| Provision for Charges | | 194,650 | 345,000 | - | - |
| | | 156,973,475 | 165,869,187 | 44,986,049 | 47,521,407 |
| | | 134,295,276 | 127,259,903 | 131,165,637 | 123,844,519 |

BALANCE SHEETS

At 31 December 2004

| | Note | The Group | | The Company | |
|--|-------|--------------------|-------------|--------------------|-------------|
| | 30 | 2004 | 2003 | 2004 | 2003 |
| | | EUR | EUR | EUR | EUR |
| Capital and Reserves | | | | | |
| Called Up Issued Share Capital | 22 | 129,053,489 | 119,053,489 | 129,053,489 | 119,053,489 |
| Revaluation Reserve | 23(a) | 13,869,923 | 8,624,343 | - | - |
| Translation Reserve | 23(b) | (1,230,969) | (1,135,493) | - | - |
| Reporting Currency Conversion Difference | 23(c) | 443,352 | 443,352 | 443,352 | 443,352 |
| Convertible Bonds Reserve | 23(d) | 832,200 | 832,200 | 832,200 | 832,200 |
| Other Reserve | 23(e) | 812,988 | 627,736 | 4,743,982 | 5,086,722 |
| Accumulated Losses | 23(f) | (9,485,707) | (1,185,724) | (3,907,386) | (1,571,244) |
| | | 134,295,276 | 127,259,903 | 131,165,637 | 123,844,519 |

The financial statements on pages 29 to 78 were approved by the Board of Directors on 5 May 2005 and were signed on its behalf by:



Mr Alfred Pisani
Chairman and Chief Executive Officer



Mr Joseph Fenech
Managing Director

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2004

| The Group | Total | Called Up | Revaluation | Translation | Reporting | Convertible | Other | Retained |
|---|--------------------|--------------------|-------------------|--------------------|----------------|----------------|----------------|----------------------|
| | | Issued Share | Reserve* | Reserve | Currency | Bonds | | (Accumulated |
| | EUR | Capital | EUR | EUR | Conversion | Reserve* | Reserve* | Earnings/ Losses) |
| | EUR | EUR | EUR | EUR | Difference* | EUR | EUR | EUR |
| At 1 January 2003 | 140,293,952 | 119,051,165 | 8,624,343 | (637,916) | 443,352 | 832,200 | - | 11,980,808 |
| Issue of Shares | 2,324 | 2,324 | - | - | - | - | - | - |
| Foreign Exchange Translation Differences | (497,577) | - | - | (497,577) | - | - | - | - |
| Loss for the Year | (12,538,796) | - | - | - | - | - | - | (12,538,796) |
| Transfer to Other Reserve | - | - | - | - | - | - | 627,736 | (627,736) |
| At 31 December 2003 | 127,259,903 | 119,053,489 | 8,624,343 | (1,135,493) | 443,352 | 832,200 | 627,736 | (1,185,724) |
| Issue of Shares | 10,000,000 | 10,000,000 | - | - | - | - | - | - |
| Adjustment to Deferred Taxation on Prior Year Revaluation of Hotel Property (Note 21(c)) | 1,459,504 | - | 1,459,504 | - | - | - | - | - |
| Revaluation of Hotel Property, Net of Deferred Taxation (Note 23(a)) | 3,786,076 | - | 3,786,076 | - | - | - | - | - |
| Foreign Exchange Translation Differences | (95,476) | - | - | (95,476) | - | - | - | - |
| Loss for the Year | (8,114,731) | - | - | - | - | - | - | (8,114,731) |
| Transfer to Other Reserve | - | - | - | - | - | - | 185,252 | (185,252) |
| At 31 December 2004 | 134,295,276 | 129,053,489 | 13,869,923 | (1,230,969) | 443,352 | 832,200 | 812,988 | (9,485,707) |

* Not available for distribution by way of dividends.

STATEMENT OF CHANGES IN EQUITY*For the Year Ended 31 December 2004*

| The Company | Total | Called Up Issued Share Capital | Reporting Currency Conversion Difference* | Convertible Bonds Reserve* | Other Reserve* | Retained Earnings/ (Accumulated Losses) |
|-----------------------------|--------------------|---|--|---|---------------------------|--|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| At 1 January 2003 | 121,169,738 | 119,051,165 | 443,352 | 832,200 | - | 843,021 |
| Issue of Shares | 2,324 | 2,324 | - | - | - | - |
| Loss for the Year | 2,672,457 | - | - | - | - | 2,672,457 |
| Transfer to Other Reserve | - | - | - | - | 5,086,722 | (5,086,722) |
| At 31 December 2003 | 123,844,519 | 119,053,489 | 443,352 | 832,200 | 5,086,722 | (1,571,244) |
| Issue of Shares | 10,000,000 | 10,000,000 | - | - | - | - |
| Loss for the Year | (2,678,882) | - | - | - | - | (2,678,882) |
| Transfer from Other Reserve | - | - | - | - | (342,740) | 342,740 |
| At 31 December 2004 | 131,165,637 | 129,053,489 | 443,352 | 832,200 | 4,743,982 | (3,907,386) |

* Not available for distribution by way of dividends.

CASH FLOW STATEMENTS

For the Year Ended 31 December 2004

| | Note | The Group | | The Company | |
|---|------|---------------------|--------------|---------------------|-------------|
| | 30 | 2004 | 2003 | 2004 | 2003 |
| | | EUR | EUR | EUR | EUR |
| Operating Activities | | | | | |
| (Loss)/Profit before Taxation | | (11,345,029) | (7,377,015) | (3,039,303) | 4,922,414 |
| Adjustments for: | | | | | |
| Depreciation | | 9,917,339 | 6,974,981 | - | 12,614 |
| Loss on Disposal of Tangible Assets | | 335,960 | 416,000 | - | - |
| Provision for Charges | | (150,350) | (216,000) | - | - |
| Capitalised Development Costs Written Off | | - | 443,410 | - | 443,410 |
| Net Impairment Losses | | 2,170,600 | 18,260,384 | - | - |
| Revaluation to Fair Value of Available-for-Sale Investments | | - | - | 812,296 | (6,859,978) |
| Staff Indemnities | | - | 1,165,000 | - | - |
| Pre-Operating Expenses | | 2,269,027 | 2,926,000 | - | - |
| Interest Receivable and Similar Income | | (329,441) | (348,704) | - | - |
| Fair Value Gain on Interest Rate Swap | | (173,405) | (178,083) | (173,405) | (178,083) |
| Interest Payable and Similar Charges | | 8,574,452 | 7,880,927 | - | - |
| Imputed Interest and Amortisation of Transaction Costs | | 209,544 | 190,144 | 209,545 | 190,144 |
| Realised Exchange Differences | | (236,861) | (604,629) | (59,778) | (901) |
| Unrealised Exchange Differences | | 92,075 | (1,269,927) | (111,598) | (787,665) |
| Revaluation to Fair Value of Investment Property | | - | (22,842,102) | - | - |
| Income from Associates | | (458,863) | (263,494) | - | - |
| | | 10,875,048 | 5,156,892 | (2,362,243) | (2,258,045) |
| Working Capital Changes: | | | | | |
| Inventories | | (502,130) | 230,134 | - | - |
| Debtors | | (1,496,747) | 1,856,906 | (439,265) | (664,869) |
| Advance Deposits | | (1,930,659) | 2,585,979 | - | - |
| Other Creditors | | 2,685,370 | (521,451) | 549,950 | 1,161,646 |
| Net Cash Generated from/(Absorbed by Operations) | | 9,630,882 | 9,308,460 | (2,251,558) | (1,761,268) |
| Staff Indemnities | | - | (1,165,000) | - | - |
| Pre-Operating Expenses | | (2,269,027) | (2,926,000) | - | - |
| Taxation Paid | | (915,452) | (875,493) | - | (185,676) |
| Net Cash from/(used in) Operating Activities | | 6,446,403 | 4,341,967 | (2,251,558) | (1,946,944) |
| Investing Activities | | | | | |
| Payments to Acquire Property, Plant and Equipment | | (17,869,561) | (30,804,068) | (1,475,645) | (878,019) |
| Proceeds from Disposal of Property, Plant and Equipment | | 257,019 | 54,698 | - | - |
| Net Loans Advanced to Subsidiary Companies, Capitalised as part of Net Investment | | - | - | (13,907,069) | (1,181,287) |
| Interest Received | | 310,267 | 297,881 | - | - |
| Payments for Costs Incidental to the Acquisition of Investments in Group Companies | | - | (64,631) | - | (64,631) |
| Net Cash used in Investing Activities | | (17,302,275) | (30,516,120) | (15,382,714) | (2,123,937) |
| Carried Forward | | (10,855,872) | (26,174,153) | (17,634,272) | (4,070,881) |

CASH FLOW STATEMENTS

For the Year Ended 31 December 2004

| | Note | The Group | | The Company | |
|--|------|---------------------|--------------|---------------------|--------------|
| | 30 | 2004 | 2003 | 2004 | 2003 |
| | | EUR | EUR | EUR | EUR |
| Brought Forward | | (10,855,872) | (26,174,153) | (17,634,272) | (4,070,881) |
| Financing Activities | | | | | |
| Proceeds from Issue of Shares | | 10,000,000 | 2,324 | 10,000,000 | 2,324 |
| Funds Previously Held by Custodian Bank | | - | 1,718,000 | - | - |
| Bank Finance | | 15,000,000 | 45,500,040 | 10,000,000 | 15,000,040 |
| Repayment of Bank Borrowings | | (9,182,548) | (19,152,750) | (2,000,040) | - |
| Proceeds from Issue of Bonds | | - | 21,835,887 | - | 21,835,887 |
| Loans Advanced by Parent Company and its Other Subsidiary Companies | | - | - | 194,823 | - |
| Repayment of Loans Advanced by Parent Company and its Other Subsidiary Companies | | (100,142) | (26,148,254) | (549,863) | (26,214,367) |
| Loan Advanced by Group Company | | - | - | - | 76,558 |
| Repayment of Loans Advanced by Group Companies | | - | - | - | (6,781,854) |
| Interest Paid | | (7,975,399) | (6,344,543) | - | - |
| Net Cash from Financing Activities | | 7,741,911 | 17,410,704 | 17,644,920 | 3,918,588 |
| Effect of Exchange Rate Fluctuations: | | | | | |
| On the Translation of Cash Flows of Foreign Operations | | (46,823) | (2,205) | - | - |
| On Cash and Cash Equivalents | | 11,755 | 52,848 | (16,277) | - |
| Net Decrease in Cash and Cash Equivalents | | (3,149,029) | (8,712,806) | (5,629) | (152,293) |
| Cash and Cash Equivalents at Beginning of Year | | 3,383,649 | 12,096,455 | 26,284 | 178,577 |
| Cash and Cash Equivalents at End of Year | 24 | 234,620 | 3,383,649 | 20,655 | 26,284 |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies

International Hotel Investments p.l.c. (referred to as “IHI”) is a company domiciled in Malta. The consolidated financial statements comprise those of IHI (also referred to as “the Company”) and its subsidiaries (together referred to as “the Group”) and the Group’s interest in associates. IHI is, in turn, a subsidiary company of Corinthia Palace Hotel Company Limited (referred to as “the Parent Company” or “CPHCL”).

(a) Statement of Compliance

The financial statements have been prepared in accordance with the provisions of the Companies Act, 1995 (the “Act”) enacted in Malta, which requires adherence to International Financial Reporting Standards (IFRSs) and their interpretations adopted by the International Accounting Standards Board (IASB).

The Act specifies that in the event that any one of its provisions is in conflict or not compatible with IFRSs or its application is compatible with the obligation for the financial statements to give a true and fair view, that provision shall be departed from in order to give a true and fair view.

IFRS 3, *Business Combinations*, IAS 36 (Revised 2004), *Impairment of Assets*, and IAS 38 (Revised 2004), *Intangible Assets*, have been adopted before their effective date.

(b) Basis of Preparation

The financial statements are prepared on the going concern basis (see below) and on the historical cost basis, except that the following assets are stated at their fair value: property, investments in subsidiary companies and derivative financial instruments.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 29.

The accounting policies have been consistently applied by Group enterprises and are consistent with those used in previous years.

Going Concern Basis

The Directors have considered the going concern basis underlying the preparation of these financial statements, which assumes that the Group’s lenders will continue to provide the financial support necessary to enable it to finance its ongoing investment and refurbishment programmes relating to its hotel properties, and meet its debts as they fall due.

During the initial years of operation, the Group has undertaken substantial capital investment, incurring costs in the acquisition and redevelopment of four hotel properties which created a heavy outflow of capital with no significant returns. Such acquisitions have been financed mainly through the raising of capital by way of equity and bonds listed on the Malta Stock Exchange and loans advanced by its bankers.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(b) Basis of Preparation (Cont.)

Going Concern Basis (Cont.)

The Group's business is in the main dependent on the operation of city centre hotel properties. The hotel industry globally has been characterised by changes in economic and market conditions, which have adversely affected the Group's business and operating results. Furthermore, one of the Group's hotels, the Corinthia Alfa Hotel and Congress Centre in Lisbon was launched during May 2004 and, in line with industry norms, witnessed a slow build-up in its performance in its first months of operation.

The Directors envisage that the lifting of the economic embargo against Libya in 2004, the re-opening of the Corinthia Alfa Hotel and Congress Centre in Lisbon in May 2004, together with the accession of Malta and Hungary to the European Union also in May 2004 and the recovery of the hospitality industry, will contribute positively and will serve to enhance the Group's ability to generate future income streams. In this scenario, the Directors are confident that the Group will retain market share across all its hotel operations at room rates sufficient to sustain profitable operations, such that the recoverable amounts of the hotel properties are at least equal to the carrying amounts at which they are stated at 31 December 2004.

On the strength of their assessment, the Directors anticipate that the Group will continue to operate within the banking limits currently agreed and within those that they expect will be agreed when the Group's bankers consider renewing the facilities for further terms. Additional funding arrangements negotiated or in the course of negotiation are outlined below:

- One of the Group's subsidiaries has successfully negotiated long-term funding from its bankers for EUR12.5 million in connection with the refurbishment of its hotel property situated in Portugal. Drawdown of this amount is subject to fulfilling a number of conditions precedent attached to this facility, expected to be made available and utilised during 2005. In view of an initial moratorium on repayments, this loan will substitute an equal amount of liabilities falling due within one year from balance sheet date. In addition, the overdraft facility available in the operation of this hotel has been increased by a further EUR250,000.
- Another of the Group's subsidiaries has extended the financing period for certain liabilities owed to a third party and totalling EUR2 million till 31 March 2006. The terms of this agreement have been agreed to in principle by the subsidiary company and the third party.
- Facilities amounting to EUR7 million have been negotiated to fund in part the Group's capital expenditure commitments as set out in Note 26 to these financial statements.
- Since balance sheet date, the parent company has injected EUR10 million by way of equity (Note 22(b)) and has committed itself, together with its other subsidiaries, to continue providing the Group sufficient financial support, as may be required from time to time, to enable it to pay its debts, fund its own operations and continue to operate as a going concern. In addition, the Parent Company and its other subsidiaries have irrevocably subordinated their rights to repayment of amounts owing by the Group. Also, the repayment date of amounts totalling EUR6.9 million (Note 25(c)) due by the Group to its Parent Company and its other subsidiaries at balance sheet date, has since been postponed for more than 2 years from this date.

Based on the foregoing, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. As a result, the financial statements do not include any adjustments in the event that the Directors' expectations do not materialise, and/or the Group does not succeed to secure or renew the funding arrangements outlined above.

(c) Measurement and Presentation Currencies

The measurement currency adopted is the Euro (EUR) as this better provides information that reflects the economic substance of the underlying events and circumstances relevant to the Group of which it is the parent. With the exception of a subsidiary company registered in Malta, all the significant subsidiary companies use the Euro as the currency for measuring items in their financial statements. The Group has determined the Euro as the currency for preparing its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(d) Basis of Consolidation

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity 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 Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include 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 its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) *Eliminations on Consolidation*

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised profits arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Foreign Currency

(i) *Foreign Currency Transactions*

Transactions in foreign currencies are translated to Euro at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account. Any unrealised exchange gains at balance sheet date are transferred from the profit and loss (reserve) account to a non-distributable reserve. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value, are translated to Euro at foreign exchange rate ruling at the dates the values were determined.

(ii) *Financial Statements of Foreign Operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Euro at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Euro at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity (Translation Reserve).

(iii) *Net Investment in Foreign Operations*

Exchange differences arising from the translation of the net investment in foreign operations are taken to Translation Reserve. They are released into the profit and loss account upon disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(e) Foreign Currency (Cont.)

(iv) *Exchange Differences Arising on Intra-Group Balances*

Exchange differences arising on a monetary item that, in substance, forms part of the net investment of the Company or of one of its subsidiaries, in a foreign entity, is recognised in the profit and loss account in the respective company's financial statements, but classified as equity, through the Translation Reserve, in those of the Group, until disposal of the net investment, at which time they are recognised in the profit and loss account. Such monetary items are those for which settlement is neither planned nor likely to occur in the foreseeable future and exclude trade receivable and trade payables.

(f) Property, Plant and Equipment

(i) *Owned Assets*

Tangible assets are initially measured at cost. Subsequent to initial recognition, land and buildings are revalued periodically, such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. All tangible assets, other than freehold land, crockery and utensils and assets in the course of construction, are stated net of accumulated depreciation (see below) and impairment losses (refer accounting policy (n)).

Any surpluses arising on revaluation are credited to a revaluation reserve. Any deficiencies resulting from decreases in value are deducted from this reserve to the extent that it is sufficient to absorb them, with any excess charged to the profit and loss account.

The cost of constructed assets includes the cost of materials, direct labour and an appropriate proportion of overheads, and, where applicable, interest costs incurred in financing (refer accounting policy (s)(ii)), together with any other costs, to the extent that they are incurred prior to the commencement of the use of these assets. The latter costs also include local property taxes. Where an item of tangible assets comprises major components having different useful lives, they are accounted for as separate items of tangible assets.

(ii) *Leased Assets*

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Tangible assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses (refer accounting policy (n)). Operating lease payments are accounted for in accordance with accounting policy (s)(i).

(iii) *Subsequent Expenditure*

Expenditure incurred to replace a component of an item of a tangible asset that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditure is recognised in the profit and loss account as an expense when incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(f) Property, Plant and Equipment (Cont.)

(iv) *Depreciation*

Depreciation is calculated to write down the carrying amount of all tangible assets, other than freehold land, crockery and utensils and assets in the course of construction, by equal annual instalments over their expected useful economic lives. Crockery and utensils, which are included in hotel plant and equipment, are dealt with on a replacement basis.

The rates of depreciation used for the other tangible assets are based on the following useful lives:

| | Years |
|------------------------------------|--------------------|
| • Freehold Buildings | 25 - 50 |
| • Leasehold Land and Buildings | Over Term of Lease |
| • Hotel Plant and Equipment | 3 - 15 |
| • Furniture, Fixtures and Fittings | 3 - 10 |
| • Motor Vehicles | 5 |

(g) Investment Property

Investment property is stated at fair value, determined annually by the Directors, relying on expert opinions. Any gain or loss arising from a change in fair value is recognised in the profit and loss account. Rental income from investment property is accounted for as described in accounting policy (r)(iv).

(h) Investments

Investments in subsidiaries included in the balance sheet of the Company are accounted for as available-for-sale financial assets as described in IAS 39, *Financial Instruments: Recognition and Measurement*. These investments are accounted for in the Group's financial statements as set out in accounting policy (d)(i).

On initial recognition, available-for-sale financial assets are measured at cost, being the fair value of the consideration given. Transaction costs are included in the initial measurement of such assets. After initial recognition, such assets are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal. Gains or losses arising from a change in the fair value of these assets are included in net profit or loss for the period in which they arise.

Investments in associates are shown in the balance sheet of the Company at cost. These investments are accounted for in the Group's financial statements as set out in accounting policy (d)(ii).

(i) Derivative Financial Instruments

The Company uses derivative financial instruments in the form of interest rate swaps to hedge its exposure to interest rate risks. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequently to initial recognition, derivative financial instruments are stated at fair value. Where a derivative financial instrument is designated as a hedge, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in the profit and loss account immediately. Gains or losses resulting from changes in the fair value of derivatives accounted for as trading instruments are also recognised in the profit and loss account.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date taking into account current interest rates and the current creditworthiness of the swap counterparties.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(j) Loans Receivable

Loans receivable originated by the Company which have a fixed maturity are measured at amortised cost using the effective interest rate method, whereas those that do not have a fixed maturity are measured at the fair value of the consideration given.

Loans advanced by the Company to its subsidiary companies for which settlement is neither planned nor likely to occur in the foreseeable future, are treated as an extension to the Company's net investment in those subsidiary companies and included as part of the carrying amount of investments in subsidiaries (refer accounting policy (h)).

Loans receivable are subject to review for impairment as set out in accounting policy (n).

(k) Inventories

Inventories of food, beverage and consumables are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of these inventories is based on the weighted average principle and includes expenditure incurred in acquiring and bringing them to their existing location and condition.

(l) Trade and Other Receivables

Trade and other receivables, excluding loans receivable originated by the Company (refer accounting policy (j)), are stated at their cost less impairment losses (refer accounting policy (n)).

(m) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call bank deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(n) Impairment

The carrying amounts of assets other than investment property (refer accounting policy (g)), inventories (refer accounting policy (k)) and deferred tax assets (refer accounting policy (u)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount (see (i) below) is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless the asset is carried at revalued amount, in which case the impairment is treated as a revaluation decrease, to the extent of the credit balance on the revaluation reserve.

(i) *Calculation of Recoverable Amount*

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) *Reversals of Impairment*

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 had been recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(o) Interest-Bearing Borrowings

(i) *Convertible Bonds*

Convertible bonds that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments, net of attributable transaction costs. The equity component of the convertible bonds is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The liability component is stated at amortised cost, with the difference between such cost and redemption value being recognised in the profit and loss account over the term of the bonds, on an effective interest basis.

(ii) *Other Interest-Bearing Borrowings*

Other interest-bearing borrowings are recognised initially at cost less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis.

(p) Trade and Other Payables

Trade and other payables are stated at cost.

(q) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(r) Revenue

(i) Revenue from services is recognised when the outcome of the transaction can be estimated reliably and there are no significant uncertainties concerning the derivation of consideration or associated costs.

(ii) Interest income is recognised in the profit and loss account on a time proportion basis that takes into account the effective yield on the asset.

(iii) Dividend income is recognised in the profit and loss account on the date when the right to receive payment is established.

(iv) Rental income from investment property is recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(s) Expenses

(i) *Operating Lease Payments*

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease payments made.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1 Significant Accounting Policies (Cont.)

(s) Expenses (Cont.)

(ii) *Borrowing Costs*

Borrowing costs are recognised as an expense during the period in which they are incurred, except to the extent that they specifically relate to a qualifying asset, in which case they are capitalised. The interest expense component of finance lease payments is recognised in the profit and loss account using the effective interest rate method.

(t) Employee Benefits

The Group contributes towards State pensions in accordance with legislation applicable in the various jurisdictions in which it operates. Related costs are expensed in the period in which they are incurred.

(u) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised and/or sufficient taxable temporary differences exist. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(v) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment), or in providing services rendered within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

2 Segment Disclosures

The Group is principally engaged in one specific business segment, namely, the ownership, development, and operation of hotels and other leisure facilities, all related to the tourism industry. It operates in three principal geographical areas, namely, the Mediterranean basin, in European member countries and other countries situated in Europe. Segment information is only presented for the Group's geographical segments.

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the geographical location of the hotels and other leisure facilities. Segment results, assets and liabilities include those directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, other borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

2 Segment Disclosures (Cont.)

| | Malta | | | | Other European Union Countries | | Other European Countries | | Consolidation Adjustments | | The Group | |
|--|------------------|--------------------|--------------------|-----------|--------------------------------|--------------|--------------------------|------------|---------------------------|-------------|--------------------|--------------|
| | Hotel Property | Corporate Business | | | | | | | | | | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| Revenue | | | | | | | | | | | | |
| External | 8,771,904 | 9,594,843 | 301,714 | 311,310 | 21,313,487 | 7,741,339 | 16,538,532 | 17,383,307 | (301,714) | (311,310) | 46,623,923 | 34,719,489 |
| Inter-Segment | - | - | 1,671,236 | 941,581 | - | - | - | 3,525,000 | (1,671,236) | (4,466,581) | - | - |
| | 8,771,904 | 9,594,843 | 1,972,950 | 1,252,891 | 21,313,487 | 7,741,339 | 16,538,532 | 20,908,307 | (1,972,950) | (4,777,891) | 46,623,923 | 34,719,489 |
| Segment Result - Operating (Loss)/Profit | (525,597) | (8,327,886) | (3,039,303) | 4,922,414 | (5,993,115) | (15,947,153) | 5,621,075 | 5,594,645 | 2,723,863 | (6,700,907) | (1,213,077) | (20,458,887) |
| Staff Indemnities | - | - | - | - | - | (1,165,000) | - | - | - | - | - | (1,165,000) |
| Pre-Operating Expenses | - | - | - | - | (2,269,027) | (2,926,000) | - | - | - | - | (2,269,027) | (2,926,000) |
| Interest Receivable and Similar Income | | | | | | | | | | | 502,847 | 526,787 |
| Interest Payable and Similar Charges | | | | | | | | | | | (8,783,994) | (8,071,071) |
| Other Net Exchange Differences | | | | | | | | | | | (40,641) | 1,611,560 |
| Revaluation to Fair Value of Investment Property | | | | | | | | | | | - | 22,842,102 |
| Income from Associates | - | - | 458,863 | 263,494 | - | - | - | - | - | - | 458,863 | 263,494 |
| Taxation | | | | | | | | | | | 3,230,298 | (5,161,781) |
| Loss for the Year | | | | | | | | | | | (8,114,731) | (12,538,796) |

2 Segment Disclosures (Cont.)

| | Malta | | | | | | | | | | | |
|------------------------------|-------------------|------------|--------------------|-------------|--------------------------------|-------------|--------------------------|-------------|---------------------------|---------------|--------------------|-------------|
| | Hotel Property | | Corporate Business | | Other European Union Countries | | Other European Countries | | Consolidation Adjustments | | The Group | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| Segment Assets | 34,422,724 | 36,799,287 | 190,890,155 | 177,198,106 | 227,934,109 | 237,833,144 | 107,965,914 | 100,650,991 | (213,980,795) | (215,691,201) | 347,232,107 | 336,790,327 |
| Investments in Associates | - | - | 913,496 | 913,496 | - | - | - | - | 1,067,522 | 1,068,959 | 1,981,018 | 1,982,455 |
| Unallocated Assets | | | | | | | | | | | 532,089 | 98,112 |
| Total Assets | | | | | | | | | | | 349,745,214 | 338,870,894 |
| Segment Liabilities | 3,564,310 | 3,721,680 | 3,535,281 | 4,291,006 | 60,458,392 | 97,068,069 | 21,299,440 | 6,743,634 | (58,544,608) | (78,564,628) | 30,312,815 | 33,259,761 |
| Interest-Bearing Liabilities | - | - | 55,046,513 | 47,559,288 | - | - | - | - | - | - | 161,886,523 | 151,066,136 |
| Deferred Taxation | | | | | | | | | | | 23,055,950 | 26,940,094 |
| Provisions for Charges | | | | | | | | | | | 194,650 | 345,000 |
| Total Liabilities | | | | | | | | | | | 215,449,938 | 211,610,991 |
| Capital Expenditure | 67,009 | 200,462 | - | - | 19,521,426 | 28,842,992 | 2,461,572 | (741,159) | - | - | 22,050,007 | 28,302,295 |
| Depreciation | 1,851,449 | 1,907,876 | - | 12,614 | 6,855,944 | 3,744,340 | 1,209,946 | 1,310,151 | - | - | 9,917,339 | 6,974,981 |
| Net Impairment Losses | - | 4,054,225 | - | - | 2,170,600 | 6,450,000 | - | - | - | - | 2,170,600 | 10,504,225 |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

2 Segment Disclosures (Cont.)

| The Company | 2004 | 2003 |
|--|------------------|-----------|
| | EUR | EUR |
| Interest Receivable on: | | |
| Loans Advanced to Group Companies | 749,376 | 685,417 |
| Loan Advanced to Related Company | 47,302 | 51,077 |
| Bank Deposits | 1,073 | 27,460 |
| | 797,751 | 763,954 |
| Dividend Received from Associated Company | 460,300 | - |
| Fair Value Gain on Interest Rate Swap (Note 14) | 173,405 | 178,083 |
| Interest Rate Differential of Interest Rate Swap (Note 14) | 79,934 | 54,690 |
| Management Fees Charged to Group Companies | 461,560 | 256,164 |
| | 1,972,950 | 1,252,891 |

3 Net Impairment Losses

| | 2004 | 2003 |
|-----------------------|--------------------|------------|
| | EUR | EUR |
| Incurred | | |
| Goodwill | - | 7,756,159 |
| Property (Note 10(e)) | 6,500,000 | 10,504,225 |
| | 6,500,000 | 18,260,384 |
| Reversed | | |
| Property Note (10(e)) | (4,329,400) | - |
| | 2,170,600 | 18,260,384 |

4 Operating (Loss)/Profit

(a) The operating results are stated after charging the following:

| | The Group | | The Company | |
|-------------------------|------------------|---------|--------------------|--------|
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| Operating Lease Charges | 279,049 | 333,427 | - | - |
| Directors' Fees | 110,215 | 94,765 | 105,541 | 90,072 |
| Auditors' Remuneration | 121,617 | 109,971 | 27,157 | 23,167 |

NOTES TO THE FINANCIAL STATEMENTS*For the Year Ended 31 December 2004***4 Operating (Loss)/Profit** (Cont.)

(b) Staff costs incurred by the Group during the year are analysed as follows:

| | 2004 | 2003 |
|---|--------------------|-------------|
| | EUR | EUR |
| Wages and Salaries | 12,339,767 | 10,663,486 |
| Social Security Costs | 2,339,852 | 1,802,069 |
| | 14,679,619 | 12,465,555 |
| Staff Indemnities | - | (1,165,000) |
| Payroll Costs included within Pre-Operating Expenses (Note 5) | (1,173,983) | (1,253,000) |
| | 13,505,636 | 10,047,555 |

The weekly average number of persons employed by the Group during the year was as follows:

| | 2004 | 2003 |
|-------------------------------|--------------|------|
| | No. | No. |
| Management and Administration | 257 | 187 |
| Operating | 890 | 792 |
| | 1,147 | 979 |

5 Staff Indemnities and Pre-Operating Expenses

| | 2004 | 2003 |
|-----------------------------------|--------------------|-------------|
| | EUR | EUR |
| Staff Indemnities: | | |
| Alfa Investimentos Turisticos Lda | - | (1,165,000) |
| Pre-Operating Expenses: | | |
| Alfa Investimentos Turisticos Lda | (2,269,027) | (2,926,000) |

Pre-Operating Expenses relate to costs incurred in relation to the period from the beginning of the year to the date that the Hotel opened for business on 1 May 2004.

NOTES TO THE FINANCIAL STATEMENTS*For the Year Ended 31 December 2004***6 Interest Receivable and Similar Income**

| | 2004 | 2003 |
|--|----------------|-------------|
| | EUR | EUR |
| Interest Receivable on: | | |
| Loan Advanced to Related Company (Note 25(d)) | 67,826 | 51,077 |
| Bank Deposits | 181,682 | 242,937 |
| | <hr/> | <hr/> |
| | 249,508 | 294,014 |
| Fair Value Gain on Interest Rate Swap (Note 14) | 173,405 | 178,083 |
| Interest Rate Differential of Interest Rate Swap (Note 14) | 79,934 | 54,690 |
| | <hr/> | <hr/> |
| | 502,847 | 526,787 |
| | <hr/> <hr/> | <hr/> <hr/> |

7 Interest Payable and Similar Charges

| | 2004 | 2003 |
|--|------------------|-------------|
| | EUR | EUR |
| Interest Payable on: | | |
| Bank Borrowings | 5,914,262 | 5,779,880 |
| Debt Securities in Issue | 1,964,574 | 1,793,054 |
| Loans Advanced by Parent Company and its Subsidiaries (Note 25(d)) | 490,533 | 307,993 |
| Capital Creditors | 205,083 | - |
| | <hr/> | <hr/> |
| | 8,574,452 | 7,880,927 |
| Imputed Interest on Convertible Bonds and Amortisation of Bond Issue Costs (Note 18) | 209,542 | 190,144 |
| | <hr/> | <hr/> |
| | 8,783,994 | 8,071,071 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

8 Taxation

| (a) | The Group | | The Company | |
|---|------------------|-------------|--------------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| Current Taxation | | | | |
| Income Tax on the Taxable Income for the Year | (559,752) | (788,968) | - | - |
| Tax Over Provided for in Prior Years | 180,314 | 200,855 | - | - |
| Final Withholding Tax on Interest Received | (148) | (9) | (148) | (9) |
| | (379,586) | (588,122) | (148) | (9) |
| Deferred Taxation | | | | |
| Origination and Reversal of Temporary Differences | 984,767 | (1,610,378) | 360,569 | (2,249,948) |
| Reduction in Tax Rates in Foreign Jurisdictions | - | 2,569,803 | - | - |
| Impairment Losses on Property | - | 2,450,979 | - | - |
| Adjustment Relating to the Prior Year | | | | |
| Revaluation to Fair Value of Investment Property (Note 21(b)) | 2,688,631 | - | - | - |
| Revaluation to Fair Value of Investment Property | - | (8,170,736) | - | - |
| Benefit of Tax Losses Recognised | (63,514) | 186,673 | - | - |
| Note 21(a) | 3,609,884 | (4,573,659) | 360,569 | (2,249,948) |
| Tax Income/(Expense) | 3,230,298 | (5,161,781) | 360,421 | (2,249,957) |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

8 Taxation (Cont.)

(b) The tax income/(expense) for the year and the result of the accounting (loss)/profit multiplied by the applicable tax rate enacted in Malta, the Company's country of incorporation, are reconciled as follows:

| | The Group | | The Company | |
|--|---------------------|-------------|--------------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| (Loss)/Profit before Taxation | (11,345,029) | (7,377,015) | (3,039,303) | 4,922,414 |
| Tax at the domestic rate of 35% | 3,970,760 | 2,581,955 | 1,063,756 | (1,722,845) |
| • Effect of different tax rates in foreign jurisdictions | (773,237) | (3,087,842) | - | - |
| • Effect of reduction in tax rates in foreign jurisdictions | - | 2,569,803 | - | - |
| • Tax effect of double taxation treaty relief | 398,119 | 621,651 | - | - |
| • Effect of adjustment relating to the prior year revaluation to fair value of investment property | 2,688,631 | - | - | - |
| • Tax over provided for in prior years | 180,314 | 200,855 | - | - |
| • Adjustment to opening deferred tax asset | (42,840) | - | (42,840) | - |
| • Effect of different tax rates on bank interest received | 189 | 11 | 189 | 11 |
| • Tax effect of tax free dividends received from associated company | - | - | 161,105 | - |
| • Tax effect of expenses not deductible for tax purposes | (1,121,788) | (704,096) | (821,789) | (527,123) |
| • Tax benefit of unrelieved losses not recognised | (2,206,058) | (4,995,808) | - | - |
| • Tax effect of impairment loss on goodwill | - | (2,566,899) | - | - |
| • Tax effect of other consolidation adjustments | 163,073 | 275,575 | - | - |
| • Tax effect of other non-temporary differences | (26,865) | (56,986) | - | - |
| Tax Income/(Expense) for the Year | 3,230,298 | (5,161,781) | 360,421 | (2,249,957) |

NOTES TO THE FINANCIAL STATEMENTS*For the Year Ended 31 December 2004***9 (Loss)/Earnings per Share**

All shares in issue are ordinary by class of shares.

(a) Basic (Loss)/Earnings per Share

The calculation of the basic (loss)/earnings per share for the year is based on the (loss)/profit attributable to the shareholders and the weighted average number of shares outstanding during the year, calculated as follows:

| | 2004 | 2003 |
|---|--------------------|--------------|
| | EUR | EUR |
| <i>(Loss)/Profit Attributable to Shareholders</i> | | |
| The Group | (8,114,731) | (12,538,796) |
| The Company | (2,678,882) | 2,672,457 |

Weighted Average Number of Shares

| | 2004 | | 2003 | |
|---|----------------------------------|-------------------------------------|-------------------------|----------------------------|
| | Issued Shares No. | Weighted Average No. | Issued Shares No. | Weighted Average No. |
| At Beginning of Year | 119,053,489 | 119,053,489 | 48,000,000 | 48,000,000 |
| Effect of Shares Issued in December 2004 (Note 22(b)) | 10,000,000 | 792,350 | - | - |
| Effect of Change in the Nominal Value of Shares from EUR2.48 to EUR1 | - | - | 71,051,165 | 71,051,165 |
| Effect of Shares Issued in December 2003 | - | - | 2,324 | 140 |
| At End of Year | 129,053,489 | 119,845,839 | 119,053,489 | 119,051,305 |

NOTES TO THE FINANCIAL STATEMENTS*For the Year Ended 31 December 2004***9 (Loss)/Earnings per Share (Cont.)**(b) Diluted Earnings per Share

The calculation of the loss for the year attributable to the shareholders for the purpose of calculating the diluted earnings per share is arrived at after taking into account changes in expenses that would result from the conversion of the dilutive potential ordinary shares as follows:

| | The Group | | The Company | |
|--|--------------------|--------------|--------------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| (Loss)/Profit Attributable to Shareholders | (8,114,731) | (12,538,796) | (2,678,882) | 2,672,457 |
| After-Tax Effect of Interest on Convertible Bonds | 482,268 | 465,228 | 482,268 | 465,228 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| (Loss)/Profit Attributable to the Shareholders (Diluted) | (7,632,463) | (12,073,568) | (2,196,614) | 3,137,685 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

The weighted average number of shares outstanding is increased by the weighted average number of additional shares which would have been outstanding, assuming the conversion of all dilutive potential shares. The additional amount of shares to be issued upon conversion is dependent on the arithmetic average of the daily trade weighted average price (TWAP) arrived at as explained in Note 18(b) to these financial statements. The fully diluted earnings per share cannot be ascertained since it is not possible to forecast this price at date of conversion.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

10 Property, Plant and Equipment

| (a) | Revalued Amount | | Cost | | | |
|--|--------------------|--------------------|---------------------------|----------------------------------|----------------|---|
| | Total | Land and Buildings | Hotel Plant and Equipment | Furniture, Fixtures and Fittings | Motor Vehicles | Payments on Account and Buildings in the Course of Construction |
| | EUR | EUR | EUR | EUR | EUR | EUR |
| Cost/Revalued Amount | | | | | | |
| At 1 January 2004 | 315,366,256 | 192,933,824 | 21,561,136 | 10,084,853 | 282,919 | 90,503,524 |
| Effect of Movement in Foreign Exchange Rates | (326,282) | (208,704) | (56,771) | (60,009) | (798) | - |
| Additions | 22,050,007 | - | 347,865 | 225,554 | 36,815 | 21,439,773 |
| Reallocations | - | 87,109,553 | 7,626,403 | 12,809,919 | - | (107,545,875) |
| Disposals | (643,216) | (456,424) | (95,726) | (26,933) | (830) | (63,303) |
| Revaluation Surplus (Note 23(a)) | 1,864,585 | 1,864,585 | - | - | - | - |
| At 31 December 2004 | 338,311,350 | 281,242,834 | 29,382,907 | 23,033,384 | 318,106 | 4,334,119 |
| Depreciation and Impairment Losses | | | | | | |
| At 1 January 2004 | 30,256,315 | 15,116,918 | 7,111,151 | 7,861,189 | 167,057 | - |
| Effect of Movement in Foreign Exchange Rates | (114,771) | (35,262) | (30,896) | (47,856) | (757) | - |
| Depreciation Charge for the Year | 9,917,339 | 4,810,948 | 2,738,114 | 2,330,833 | 37,444 | - |
| Net Impairment Losses (Note 10(e)) | 2,170,600 | 2,170,600 | - | - | - | - |
| Reallocations | - | (4,158) | (735,956) | 740,114 | - | - |
| Disposals | (50,237) | - | (35,795) | (14,442) | - | - |
| Revaluation Surplus (Note 23(a)) | (3,117,094) | (3,117,094) | - | - | - | - |
| At 31 December 2004 | 39,062,152 | 18,941,952 | 9,046,618 | 10,869,838 | 203,744 | - |
| Carrying Amount | | | | | | |
| At 31 December 2004 | 299,249,198 | 262,300,882 | 20,336,289 | 12,163,546 | 114,362 | 4,334,119 |
| At 31 December 2003 | 285,109,941 | 177,816,906 | 14,449,985 | 2,223,664 | 115,862 | 90,503,524 |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

10 Property, Plant and Equipment (Cont.)

- (b) Land underlying the hotel belonging to Five Star Hotels Limited, a subsidiary company, comprises costs attributable to the acquisition, on temporary emphyteusis for a period of ninety-nine years reckoned from 1 September 1992, of a site situated in St George's Bay limits of St Julian's, Malta. The land and buildings are subject to hypothecs in favour of the Group's bankers for funds borrowed (Note 17(b)). In addition, this property has been hypothecated in favour of the Parent Company's bankers in connection with borrowing facilities availed of by this company (Note 25(e)). These hypothecs rank after a special hypothec in favour of the Commissioner of Lands.

Another subsidiary company, IHI Benelux B.V., owns a hotel complex (hotel and shops/offices) and adjacent sites, located in St Petersburg. The hotel complex is mortgaged in favour of a bank as collateral for funds borrowed (Note 17(b)). The land underlying the hotel complex is held on a long-term lease basis. The initial lease is for 49 years with the option to renew for further periods of 49 years.

The Corinthia Grand Hotel Royal and the Corinthia Alfa Hotel, both hotel properties owned and operated by the Group, have been hypothecated as collateral in favour of credit institutions for funds borrowed (Note 17(b)).

- (c) On 31 December 2004, the directors accounted for the revalued amount of the Corinthia Nevskij Palace Hotel, owned by I.H.I. Benelux B.V., on the basis of an open market valuation of EUR57,300,000. The resulting revaluation surplus on the net book values has been credited to the revaluation reserve (Note 23(a)). This valuation was carried out by HVS International, specialists in hotel consulting and valuation. The valuers relied upon information provided by Corinthia Hotels International Limited (the hotel's operator) and knowledge of the St Petersburg hotel market, current at that time.
- (d) The carrying amount of the land and buildings that would have been included in these financial statements had these assets been carried at cost less accumulated depreciation thereon amounts to EUR180,779,618 (2003: EUR175,052,911).

(e) *Impairment Losses*

In line with the requirements of IAS 36 (Revised 2004), *Impairment of Assets*, the directors have assessed whether there are any indications that the value of the Group's hotel properties may be impaired. In assessing such indications, the directors considered, *inter alia*, evidence available from internal reporting, indicating whether the economic performances of the hotels did not match with expectations.

On the basis that indications of impairment existed for the following hotel properties, the directors estimated the recoverable amount for each property:

| Hotel Property | Recognised at 01/01/04 | Increase/ (Reversal) | Recognised at 31/12/04 |
|-----------------------------|---------------------------------------|---------------------------------|---------------------------------------|
| | EUR | EUR | EUR |
| Corinthia San Gorg Hotel | 4,054,225 | - | 4,054,225 |
| Corinthia Grand Hotel Royal | 6,450,000 | (4,329,400) | 2,120,600 |
| Corinthia Alfa Hotel | - | 6,500,000 | 6,500,000 |
| | <u>10,504,225</u> | <u>2,170,600</u> | <u>12,674,825</u> |

On the basis of an open market valuation, the carrying amount of the Corinthia San Gorg Hotel as at 31 December 2004 did not exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

10 Property, Plant and Equipment (Cont.)(e) *Impairment Losses* (Cont.)

In assessing the recoverable amount of the Corinthia Grand Hotel Royal and the Corinthia Alfa Hotel by reference to their value in use (relying on professional independent opinions) the future cash inflows and outflows to be derived from the continuing use of the hotels and from their ultimate disposal were estimated in the currency in which they will be generated, and discounted by applying appropriate discount rates to those future cash flows - 5.6% for the Corinthia Grand Hotel Royal and 7.34% for the Corinthia Alfa Hotel.

The previous estimate of the value in use of the Corinthia Grand Hotel Royal amounted to EUR110,950,000. The partial reversal of the impairment in relation to this hotel property recognised in the previous year resulted from a revision in long-term projections of the hotel and a re-assessment of the discount rate.

11 Investment Property

Investment property owned by a subsidiary company, IHI Benelux B.V., comprises land and buildings adjacent to and surrounding the Corinthia Nevskij Palace Hotel situated in St Petersburg, also owned by this company (Note 10(c)). These properties are held on a long-term lease basis. The initial lease is for 49 years, with the option to renew for further periods of 49 years. These properties are held for a currently undetermined future use.

The Group obtained the free and unencumbered title of these properties during 2003 and accounted for the resulting increase amounting to EUR22,842,102 in its fair value to 31 December 2003, as determined by the directors relying on the expert opinion of Colliers International, a firm of international real estate consultants licensed to conduct property valuations in the Russian Federation.

On 31 December 2004, the fair value attributed to these properties amounted to USD44,800,000 (2003: USD41,900,000), which when converted into Euros using the rates of exchange at the respective balance sheet dates amounted to EUR33,400,000. The valuation, again conducted by Colliers International, has been prepared in conformity with International Valuation Standards (IVS) 1 - 3, taking into account information, including but not limited to, relevant market and financial data, assembled by them through direct research, as well as representations provided by the directors. Colliers International has not independently corroborated this information and representations.

12 Investments in Subsidiary Companies

(a)

| | Total | Capital Subscribed | Loans Receivable | Fair Value Changes |
|----------------------------|--------------------|-------------------------------|-----------------------------|-----------------------------------|
| | EUR | EUR | EUR | EUR |
| At 1 January 2004 | 156,608,617 | 71,374,387 | 78,374,252 | 6,859,978 |
| Loans Advanced during Year | 13,907,069 | - | 13,907,069 | - |
| Net Decrease in Fair Value | (812,296) | - | - | (812,296) |
| At 31 December 2004 | 169,703,390 | 71,374,387 | 92,281,321 | 6,047,682 |

NOTES TO THE FINANCIAL STATEMENTS*For the Year Ended 31 December 2004***12 Investments in Subsidiary Companies** (Cont.)

| (b) Unquoted Investments | Registered Office | Nature of Business |
|---|---|--|
| <u>Subsidiary Companies – 100% Holdings</u> | | |
| Five Star Hotels Limited | 22 Europa Centre Floriana Malta | Owns and Operates the Corinthia San Gorg Malta |
| Alfa Investimentos Turisticos Lda | Avenida Columbana Bardolo Pinheiro Lisboa 1099 – 031 Portugal | Owns and Operates the Corinthia Alfa Hotel and Congress Centre Lisbon |
| IHI Lisbon Limited | 22 Europa Centre Floriana Malta | Investment Company Holding an Equity Stake in Alfa Investimentos Turisticos Lda |
| IHI St Petersburg LLC (Note 12(c)) | 57 Nevskij Prospect St Petersburg 191025 Russian Federation | Investment Company |
| IHI Benelux B.V. (Note 12(d)) | Frederick Roeskestraat 123 1076 EE Amsterdam PO Box 72888 1070 AC Amsterdam The Netherlands | Owns and operates the Corinthia Nevskij Palace Hotel St Petersburg |
| IHI Hungary Rt (Note 12(e)) | Erzsebet Krt 43-49 H-1073, Budapest Hungary | Owns and Operates the Corinthia Grand Hotel Royal Budapest |
| IHI Zagreb d.d. | Centar Kaptol Nova Ves 11 10000 Zagreb Croatia | Investment Company |
| Mediterranean Hotel Resorts Limited | Sailsbury House 1-9 Union Street St Helier Jersey JE 4 8 RH Channel Islands | Investment Company |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

12 Investments in Subsidiary Companies (Cont.)

- (c) The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The Group's financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of IHI Benelux B.V., one of the Company's subsidiaries operating in St Petersburg. The future business environment may differ from management's assessment. The impact of this environment on the operations and financial position of this company is not at present affected by these risks.
- (d) The entire issued and paid-up share capital of IHI Benelux B.V. is pledged in favour of Creditanstalt A.G., of Schottengasse 6, 1010 Vienna, Austria as collateral for a bank loan, originally for EUR18,600,000 and which at balance sheet date amounted to EUR15,970,014 (Note 17(b)), by means of a notarial deed. The shareholders of this company will continue to exercise the voting rights attached to these shares.
- (e) IHI together with its subsidiary company IHI Hungary Rt, ("the Borrower") had entered into an agreement with Kereskedemi És Hitelbank Rt ("K&H Bank") and Országos Takarékpénztár És Kereskedemi Rt ("OTP Bank") for a facility, for EUR49,000,000 and which at balance sheet date amounted to EUR42,410,956 (Note 17(b)). In accordance with the terms of the facility, IHI, as owner of the Borrower, has deposited the shares it holds in this subsidiary into an account held with OTP Bank.

13 Investments in Associated Companies

| (a) | The Group | The Company |
|--|------------------|--------------------|
| | EUR | EUR |
| At 1 January 2004 | 1,982,455 | 913,496 |
| Group's Share of Results of Associated Companies | 458,863 | - |
| Dividend Received from Associated Company | (460,300) | - |
| | <hr/> | <hr/> |
| At 31 December 2004 | 1,981,018 | 913,496 |
| | <hr/> <hr/> | <hr/> <hr/> |

| (b) Unquoted Investments | Registered Office | Nature of Business |
|--|---------------------------------------|--|
| <u>Associated Companies - 20% Holdings</u> | | |
| C.H.I. Limited | 22 Europa Centre Floriana Malta | Hotel Management Company Operating the Hotel Properties owned by IHI and its Parent Company |
| Quality Project Management Limited | 22 Europa Centre Floriana Malta | Project Management Company |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

14 Derivative Financial Instrument

The interest rate swap agreement is subject to the following terms:

| | |
|---|--------------------------|
| | EUR |
| Notional Amount with Remaining Life of More Than One Year Maturity - 2008 | 8,000,000 |
| Interest Rate: | |
| Receive Fixed Interest at the Rate of | 6.2% per annum |
| Pay Variable Interest at the Rate of | 6 month EURIBOR + 2.955% |

15 Loans Receivable

| | | | | |
|-----------------------|------------------|-----------|--------------------|------------|
| (a) | The Group | | The Company | |
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| Amounts Owed to: | | | | |
| Group Company | - | - | 14,039,835 | 14,039,835 |
| Other Related Company | 1,470,000 | 1,470,000 | 1,470,000 | 1,470,000 |
| | 1,470,000 | 1,470,000 | 15,509,835 | 15,509,835 |

| | | | | |
|-------------------------------|-------------------|-------------------------|---------------------|-----------------|
| (b) | Terms | | | |
| | EUR | Interest | Repayable By | Security |
| Group Company | | | | |
| IHI Benelux B.V. | 14,039,835 | 6 Month EURIBOR + 3% | 31 December 2010 | None |
| Related Company | | | | |
| Corinthia Investments Limited | 1,470,000 | EURIBOR + 1% | 31 December 2015 | None |
| | <u>15,509,835</u> | | | |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

16 Other Debtors

| (a) | The Group | | The Company | |
|--|------------------|-----------|------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| Amounts Owed by: | | | | |
| Parent Company | 68,984 | 58,218 | - | - |
| Group Companies | - | - | 4,699,665 | 4,710,547 |
| Associated Companies | 94,422 | 396,786 | 9,531 | 15,192 |
| Related Companies | 354,185 | 201,251 | 98,379 | - |
| Other Related Parties | 212 | 49,072 | - | - |
| Loan Owed by Related Company | 122,195 | - | - | - |
| Recoverable VAT on Capital Expenditure | 363,449 | 4,050,562 | - | 42,942 |
| Other Debtors | 815,577 | 919,585 | 103,231 | 29,800 |
| Prepayments and Accrued Income | 827,838 | 442,100 | 393,981 | 76,806 |
| | 2,646,862 | 6,117,574 | 5,304,787 | 4,875,287 |

(b) The amounts owed by related parties are all unsecured and interest free.

(c) The loan owed by the related company is unsecured, bears interest at the rate of 6 month EURIBOR + 1% and is repayable on demand.

(d) Recoverable VAT includes EUR287,243 (2003: EUR144,006) expected to be refunded after more than one year from balance sheet date.

17 Bank Borrowings

| (a) | The Group | | The Company | |
|--------------------|--------------------|-------------|-------------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| Bank Loans | 120,131,666 | 114,345,388 | 23,000,000 | 15,000,040 |
| Bank Overdraft | 2,620,211 | 1,845,326 | - | - |
| | 122,751,877 | 116,190,714 | 23,000,000 | 15,000,040 |
| Current | | | | |
| Bank Loans | 21,663,457 | 9,537,348 | 12,000,000 | 2,000,000 |
| Bank Overdraft | 2,620,211 | 1,845,326 | - | - |
| | 24,283,668 | 11,382,674 | 12,000,000 | 2,000,000 |
| Non-Current | | | | |
| Bank Loans | 98,468,209 | 104,808,040 | 11,000,000 | 13,000,040 |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

17 Bank Borrowings (Cont.)

(b)

| Group Company | Interest | By | Repayment | | | Security | |
|---|------------|-------------------------|-----------------|-------------|-----------|-----------|--|
| | | | Within | Between | After | | |
| | | | 1 Year | 2 - 5 Years | 5 Years | | |
| | EUR | | EUR | EUR | EUR | | |
| International Hotel Investments p.l.c.: | | | | | | | |
| Bank Loan | 8,000,000 | 6 Month EURIBOR + 2.25% | 8 October 2008 | 2,000,000 | 6,000,000 | - | Second General Hypothec for EUR20 million over all Company's assets present and future. |
| Bank Loan | 5,000,000 | 6 Month EURIBOR + 3% | 31 March 2005 | 5,000,000 | - | - | Guarantee by Five Star Hotels Limited for EUR20 million. General Hypothecary Guarantee over all present and future assets and Special Hypothecary Guarantee for EUR20 million by Five Star Hotels Limited over the Corinthia San Gorg Hotel. |
| | | | | | | | General Hypthecary Guarantee over all present and future assets and liabilities and Special Hypothecary Guarantee for EUR10 million by Marina San Gorg Limited over the Corinthia Marina Hotel. |
| | | | | | | | Second General and Special Hypothecary Guarantee given by Alfa Investimentos Turisticos Lda over the Corinthia Alfa Hotel for EUR 10 million. |
| | | | | | | | General and Special Hypothecary Guarantee for EUR10 million over property owned by a related company. |
| Bank Loan | 10,000,000 | 6 Month EURIBOR + 2% | 30 October 2011 | 5,000,000 | 3,333,000 | 1,667,000 | First General Hypothec for EUR10 million over all assets present and future. |
| | | | | | | | Second Ranking Mortgage guarantee by Thermal Hotel Aquincum Rt over the Corinthia Aquincum Hotel. |
| | 23,000,000 | | | 12,000,000 | 9,333,000 | 1,667,000 | |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

17 Bank Borrowings (Cont.)

(b)

| Group Company | Interest | By | Repayment | | | Security | |
|---------------------------------------|--------------------|---|-------------------|-------------------|-------------------|-------------------|---|
| | | | Within | Between | After | | |
| | | | 1 Year | 2 - 5 Years | 5 Years | | |
| | EUR | | EUR | EUR | EUR | | |
| Five Star Hotels Limited: | | | | | | | |
| Bank Overdraft | 1,620,211 | 4.75% | On Demand | 1,620,211 | - | - | General hypothec over assets belonging to Five Star Hotels |
| Bank Loan | 3,250,696 | 4.75% | 27 January 2007 | 1,558,585 | 1,692,111 | - | Limited supported by a special hypothec and privilege over the Corinthia San Gorg Hotel. |
| Alfa Investimentos Turisticos Lda: | | | | | | | |
| Bank Overdraft | 1,000,000 | 3 Month EURIBOR + 2.5% | 15 January 2005 | 1,000,000 | - | - | Bills of Exchange. |
| Bank Loan | 30,500,000 | 1 - 5 Years 4.7025%, thereafter at 3 Month EURIBOR + 1.25% | 24 March 2022 | - | 3,355,000 | 27,145,000 | Secured by mortgages over the Corinthia Alfa Hotel including land. |
| Bank Loan | 5,000,000 | 3 Month EURIBOR + 2.5% | 15 January 2005 | 5,000,000 | - | - | Bill of Exchange. |
| IHI Benelux B.V.: | | | | | | | |
| Bank Loan | 15,970,014 | 6 Month EURIBOR + 3% | 31 December 2011 | 1,900,000 | 8,920,000 | 5,150,014 | Secured over the Corinthia Nevskij Palace Hotel and a pledge over the shares of IHI Benelux B.V. (Note 12(d)). |
| IHI Hungary Rt.: | | | | | | | |
| Bank Loan | 42,410,956 | 3 Month EURIBOR + 2.2% | 10 September 2019 | 1,204,872 | 5,660,101 | 35,545,983 | Secured by mortgages over the Corinthia Grand Hotel Royal and by a security deposit over the shares of IHI Hungary Rt. (Note 12(e)) and by a cash collateral amounting to EUR736,439 (Note 24(b)). In addition, IHI plc, CPHCL and Corinthia Investments Limited have provided additional financial guarantees to the bankers granting this loan. As part of this loan agreement no repayment of Group loans can be effected except with the consent of the Security Agent. |
| | 99,751,877 | | | 12,283,668 | 19,627,212 | 67,840,997 | |
| | 122,751,877 | | | 24,283,668 | 28,960,212 | 69,507,997 | |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

18 Debt Securities in Issue

| (a) | 2004 | 2003 |
|--|-------------------------------|-------------------------|
| | EUR | EUR |
| Convertible Bonds (Note 18(b)) | 10,456,020 | 10,375,887 |
| Lm Bond (Note 18(c)) | 13,553,330 | 13,617,916 |
| Euro Bond (Note 18(c)) | 7,920,479 | 7,893,950 |
| | <hr/> 31,929,829 <hr/> | <hr/> 31,887,753 <hr/> |
| (b) <u>Convertible Bonds</u> | | EUR |
| Proceeds from Issue | | 12,283,000 |
| Transaction Costs | | (365,681) |
| | | <hr/> |
| Net Proceeds | | 11,917,319 |
| Amount Classified as Equity (Note 23(d)) | | (1,324,506) |
| Imputed Interest and Amortisation of Transaction Costs to 31 December 2003 | | 482,274 |
| Reporting Currency Conversion Difference | | (335,500) |
| Provision for Exchange Fluctuations | | (363,700) |
| | | <hr/> |
| At 31 December 2003 | | 10,375,887 |
| Imputed Interest and Amortisation of Transaction Costs for 2004 | | 156,133 |
| Provision for Exchange Fluctuations | | (76,000) |
| | | <hr/> |
| At 31 December 2004 | | 10,456,020 <hr/> |

Conversion Terms, Dates and Prices

During the period ended 31 December 2000 the Company issued 50,000 bonds with a face value of Lm100 each, which, unless previously purchased and cancelled or converted in accordance with the terms of issue, shall be redeemable at par on the 29 May 2010. Any bonds purchased by the Company on the open market shall be cancelled. The Company reserves the right to purchase bonds on the open market without notice.

Bondholders shall be entitled to exercise their conversion option on a conversion date during the conversion period by converting their bonds, or part thereof, into fully paid ordinary shares of the Company at the conversion price determined as set out below. Upon conversion, the right of the converting bondholder to repayment of the bond to be converted and any interest for the period between the applicable conversion date and redemption date shall be extinguished and released, and in consideration and in exchange thereof, the Company shall issue fully paid up ordinary shares as provided in the terms and conditions of issue. A conversion of part of a bond shall not be allowed.

The bonds entitle the holders thereof to an original entitlement of 100 shares for every bond. In the event that upon conversion the conversion price is higher than the share issue price, and a bondholder wishes to retain such original entitlement, such bondholder shall pay the cash difference as determined in accordance with the terms of the issue of the bonds. A bondholder may elect not to pay such cash difference and in lieu thereof shall accept the issue of a lower number of shares than his original entitlement. Shares shall not be issued at below their nominal value.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

18 Debt Securities in Issue (Cont.)

(b) (Cont.)

Conversion Terms, Dates and Prices (Cont.)

A bondholder may exercise the conversion option during the conversion period, which commences on the 29 November 2005 and ends on 29 November 2009. In the case of bonds converted on any of the following conversion dates during any conversion term, the conversion price shall be determined in accordance with the arithmetic average of the daily trade weighted average price (TWAP) quoted by the Malta Stock Exchange during the three months immediately preceding the reference date less a percentage, as follows:

| Conversion Term | Conversion Dates | % |
|------------------------|--|----------|
| First | 29 November 2005; 29 May 2006 and 29 November 2006 | 10 |
| Second | 29 May 2007; 29 November 2007 and 28 May 2008 | 15 |
| Third | 29 November 2008; 29 May 2009 and 29 November 2009 | 20 |

Interest

The bonds carry an interest rate of 5% per annum payable annually in arrears on the 29 May in each year.

Security

The bonds constitute the general, direct, unconditional, unsecured and unsubordinated obligations of the Company and will rank *pari passu*, without any priority or preference, with all other present and future unsecured and unsubordinated obligations of the Company.

(c) *Lm and Euro Bonds*

During the year 2003, the Company offered to the general public an aggregate of Lm5,200,000 Bonds maturing in 2013, subject to an over-allotment option for a further amount of Lm4,170,000 in either or a combination of Bonds denominated in Maltese Lira and Bonds denominated in Euros. After the application of the over-allotment option, the bonds allotted by the Company amounted to Lm6,017,500 (equivalent to EUR14,308,927) 6.3% Bonds and EUR8,058,000 6.20% - 6.8% Bonds.

| | Lm Bond | Euro Bond |
|---|-------------------|------------------|
| | EUR | EUR |
| Proceeds from Issue | 14,308,927 | 8,058,000 |
| Transaction Costs | (345,056) | (185,984) |
| Net Proceeds | 13,963,871 | 7,872,016 |
| Amortisation of Transaction Costs to 31 December 2003 | 22,229 | 21,934 |
| Provision for Exchange Fluctuations to 31 December 2003 | (368,184) | - |
| At 31 December 2003 | 13,617,916 | 7,893,950 |
| Amortisation of Transaction Costs | 26,880 | 26,529 |
| Provision for Exchange Fluctuations | (91,466) | - |
| At 31 December 2004 | 13,553,330 | 7,920,479 |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

18 Debt Securities in Issue (Cont.)(c) *Lm and Euro Bonds* (Cont.)*Terms of Repayment*

Unless previously purchased and cancelled, the bonds will be redeemed at their nominal value (together with interest accrued to the date fixed for redemption) on 15 February 2013. The Company may at any time purchase Bonds in the open market or otherwise at any price. Any purchase by tender shall be made available to all bondholders alike. All bonds so redeemed or purchased will be cancelled forthwith and may not be re-issued or re-sold.

Interest

The Lm Bond carries an interest rate of 6.3% per annum whereas the Euro Bond carries interest at the rate of 6.2% per annum for the interest payment dates falling between the years 2004 up to and including 2010 and at the rate of 6.8% for the rest of the term of the Bond. In either case interest shall be payable annually in arrears on 15 February each year between the years 2004 and 2013.

Security

The bonds constitute the general, direct, unconditional, unsecured and unsubordinated obligations of the Company and will rank *pari passu*, without any priority or preference, with all other present and future unsecured and unsubordinated obligations of the Company.

19 Other Interest-Bearing Liabilities

(a)

| | The Group | | The Company | |
|-------------------------|------------------|-----------|--------------------|---------|
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| Amounts Owed to: | | | | |
| Parent Company | 553,969 | 656,999 | 116,684 | 216,825 |
| Associated Companies | 4,549,642 | 454,670 | - | 454,670 |
| Other Related Companies | 2,101,206 | 1,876,000 | - | - |
| | 7,204,817 | 2,987,669 | 116,684 | 671,495 |
| Current | | | | |
| Amounts Owed to: | | | | |
| Parent Company | 553,969 | 440,174 | 116,684 | - |
| Associated Companies | 2,896,280 | 454,670 | - | 454,670 |
| Other Related Companies | 429,731 | 204,525 | - | - |
| | 3,879,980 | 1,099,369 | 116,684 | 454,670 |
| Non-Current | | | | |
| Amounts Owed to: | | | | |
| Parent Company | - | 216,825 | - | 216,825 |
| Associated Companies | 1,653,362 | - | - | - |
| Other Related Company | 1,671,475 | 1,671,475 | - | - |
| | 3,324,837 | 1,888,300 | - | 216,825 |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

19 Other Interest-Bearing Liabilities (Cont.)

(b) The terms of the amounts owed to the related parties are as follows:

| | | Terms | | |
|---------------------------|------------------|--------------|------------------------------|----------|
| | EUR | Interest | Repayable By | Security |
| Parent Company | 116,684 | 5.0% | On Demand | None |
| Parent Company | 437,285 | 5.5% | On Demand | None |
| Associated Companies | 2,883,010 | 4.0% | On Demand | None |
| Associated Companies | 1,653,362 | 4.5% | 31/12/2006 | None |
| Associated Companies | 13,270 | 5.0% | On Demand | None |
| Related Company | 70,509 | 5.5% | On Demand | None |
| Related Company | 359,222 | 7.0% | On Demand | None |
| Thermal Hotel Aquincum Rt | 1,671,475 | EURIBOR + 1% | Subordinated (Note 17(b)) | None |
| | <u>7,204,817</u> | | | |

20 Other Creditors

| (a) | The Group | | The Company | |
|-------------------------|--------------------------|-------------------|-------------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| Advance Deposits | 1,331,507 | 3,262,476 | - | - |
| Amounts Owed to: | | | | |
| Parent Company | 714,892 | 833,074 | 700,275 | 486,348 |
| Group Companies | - | - | 70,707 | 76,558 |
| Associated Companies | 671,349 | 2,930,182 | 18,558 | - |
| Other Related Companies | 414,809 | 3,577,675 | 50,752 | 42,036 |
| Capital Creditors | 13,654,898 | 12,034,395 | 171,277 | 1,646,922 |
| Other Creditors | 1,503,738 | 1,214,306 | 19,188 | - |
| Accruals | 7,360,974 | 4,489,905 | 2,208,504 | 1,649,453 |
| | <u>25,652,167</u> | <u>28,342,013</u> | <u>3,239,261</u> | <u>3,901,317</u> |

(b) The amounts owed to related parties are all unsecured and interest free.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

21 Deferred Taxation

(a) This amount represents the deferred tax liability in respect of the following net taxable temporary differences:

| | The Group | | | The Company | | |
|---|--------------------|-------------|-------------|------------------|-----------|----------|
| | 2004 | 2003 | Movement | 2004 | 2003 | Movement |
| | EUR | EUR | EUR | EUR | EUR | EUR |
| Property, Plant and Equipment: | | | | | | |
| Excess of Capital Allowances over Depreciation | 3,812,814 | 3,246,614 | (566,200) | - | - | - |
| Revaluation of Land and Buildings | 18,781,964 | 20,417,164 | 1,635,200 | - | - | - |
| Revaluation of Investment Property (Note 21(b)) | 5,482,104 | 8,170,736 | 2,688,632 | - | - | - |
| Available-for-Sale Investments | - | - | - | 2,116,684 | 2,400,992 | 284,308 |
| Derivative Financial Instruments | 123,021 | 62,329 | (60,692) | 123,021 | 62,329 | (60,692) |
| Provision for Doubtful Debts | (416,300) | (126,223) | 290,077 | - | - | - |
| Accrued Charges | (280,461) | (278,755) | 1,706 | - | - | - |
| Provision for Exchange Differences | 66,903 | 49,659 | (17,244) | 315,208 | 275,683 | (39,525) |
| Equity Component of Convertible Bonds | 281,621 | 321,587 | 39,966 | 281,621 | 321,587 | 39,966 |
| Unrelieved Tax Losses and Unabsorbed Capital Allowances | (4,795,716) | (4,923,017) | (127,301) | (780,314) | (643,802) | 136,512 |
| | 23,055,950 | 26,940,094 | (3,884,144) | 2,056,220 | 2,416,789 | 360,569 |
| Recognised Directly in Equity | | | | | | |
| Adjustment to Deferred Taxation on Prior Year Revaluation of Hotel Property (Note 21(b)) | | | 1,459,504 | | | - |
| Deferred Taxation on Revaluation of Hotel Property carried out at Year End (Note 23(a)) | | | (1,195,603) | | | - |
| Exchange Translation Reserve: Deferred Tax Liabilities for Foreign Entities Translated at Foreign Exchange Rates at Year End | | | 10,359 | | | - |
| Recognised in the Profit and Loss Account (Note 8(a)) | | | (3,609,884) | | | 360,569 |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

21 Deferred Taxation (Cont.)

- (b) On the strength of professional tax advice received during the current year, the charge for deferred taxation on the revaluation of immovable properties located in the Russian Federation taken in the previous year has been revised downwards by applying the tax rate applicable in the jurisdiction where these properties are situated instead of the higher tax rate applicable in the jurisdiction where the owning company is located. The effect of such a reduction insofar as it relates to investment property has been recognised in the profit and loss account (EUR2,688,631 - Note 8(a)), whereas that relating to the hotel property has been recognised in equity (EUR1,459,504 - Note 23(a)).
- (c) Deferred tax benefits arising out of certain tax losses which may become available for set-off against future taxable income have not been recognised in these financial statements as it cannot be determined whether the respective group companies can claim the right to utilise such losses.

22 Share Capital

| (a) | 2004 | 2003 |
|---------------------------------|-----------------------------|-----------------------------|
| | EUR | EUR |
| Authorised Share Capital | | |
| Ordinary Shares of EUR1 each | 750,000,000 | 750,000,000 |
| | <u> </u> | <u> </u> |
| Issued and Fully Paid Up | | |
| Ordinary Shares of EUR1 each | 129,053,489 | 119,053,489 |
| | <u> </u> | <u> </u> |

- (b) During the year, the Company issued and allotted 20,000,000 shares of EUR1 nominal value at par. The shares were allotted to the parent company, Corinthia Palace Hotel Company Limited. An amount of 10,000,000 shares was subscribed to in 2004, while the remaining 10,000,000 shares have been subscribed to in April 2005.
- (c) Shareholders are entitled to vote at meetings of the shareholders of the Company on the basis of one vote for each share held. They are entitled to receive dividends as declared from time to time. The shares in issue shall, at all times, rank *pari passu* with respect to any distribution whether of dividends or capital, in a winding up or otherwise.

23 Reserves

- (a) The Revaluation Reserve is arrived at as follows:

| | Revaluation Surplus | Deferred Taxation | Net |
|--|--------------------------------|------------------------------|-----------------------------|
| | EUR | EUR | EUR |
| At 31 December 2003 | 13,268,220 | (4,643,877) | 8,624,343 |
| Adjustment to Deferred Taxation on the Prior Year Revaluation of Hotel Property (Note 21(b)) | - | 1,459,504 | 1,459,504 |
| Revaluation of Hotel Property carried out at Year End (Note 10(c)) | 4,981,679 | (1,195,603) | 3,786,076 |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2004 | 18,249,899 | (4,379,976) | 13,869,923 |
| | <u> </u> | <u> </u> | <u> </u> |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

23 Reserves (Cont.)

- (b) The Translation Reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign entities.
- (c) The Reporting Currency Conversion Difference represents the excess of total assets over the aggregate of total liabilities and funds attributable to the shareholders, following the re-denomination of the paid up share capital from Maltese Liri to Euro in 2003.
- (d) The Convertible Bonds Reserve comprises the value of the option granted to bondholders to convert their convertible bonds into ordinary shares of the Company, and is arrived at as follows:

| | EUR |
|---|-------------|
| Amount of Convertible Bonds classified as Equity (Note 18(b)) | 1,324,506 |
| Transaction Costs | (44,198) |
| | <hr/> |
| Deferred Taxation | 1,280,308 |
| | (448,108) |
| | <hr/> |
| | 832,200 |
| | <hr/> <hr/> |

- (e) The Other Reserve represents the following unrealised gains:

| | Gain | Deferred Taxation | Net |
|---------------------------------------|-------------|------------------------------|-------------|
| | EUR | EUR | EUR |
| The Group | | | |
| Fair Value Gain on Interest Rate Swap | 351,489 | (123,021) | 228,468 |
| Exchange Gains | 899,261 | (314,741) | 584,520 |
| | <hr/> | <hr/> | <hr/> |
| | 1,250,750 | (437,762) | 812,988 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| The Company | | | |
| Fair Value Gains: | | | |
| Available-for-Sale Investments | 6,047,682 | (2,116,688) | 3,930,994 |
| Interest Rate Swap | 351,489 | (123,021) | 228,468 |
| Exchange Gains | 899,261 | (314,741) | 584,520 |
| | <hr/> | <hr/> | <hr/> |
| | 7,298,432 | (2,554,450) | 4,743,982 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

- (f) The loss for the year has been transferred to accumulated losses as set out in the statement of changes in equity for the year ended 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

24 Cash and Cash Equivalents

| (a) | The Group | | The Company | |
|------------------------------|--------------------|-------------|---------------|--------|
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| Cash at Bank and in Hand | 2,854,831 | 5,228,975 | 20,655 | 26,284 |
| Bank Overdrafts (Note 17(a)) | (2,620,211) | (1,845,326) | - | - |
| | 234,620 | 3,383,649 | 20,655 | 26,284 |

(b) Cash at bank includes an amount of EUR736,439 (2003: EUR1,851,915) pledged by way of collateral for amounts borrowed (Note 17(b)).

25 Related Party Disclosures

- (a) The Company has a related party relationship with its Parent Company (Note 31) of which IHI is a subsidiary and other entities forming part of the Corinthia Group of Companies. All transactions entered into with Group companies forming part of the IHI Group have been eliminated in the preparation of the consolidated financial statements of IHI.
- (b) In the course of its operations, the Group has a number of concessions in place with its shareholders, officers, executives and other related parties, whereby special offers are made available for hospitality services rendered to them in line with industry practice. All transactions with other related parties are carried out on an arm's length basis.
- (c) Information regarding balances with related parties is set out in notes 15, 16, 19 and 20 to the financial statements. The net balance due at 31 December 2004 by IHI Group to its Parent Company and its other subsidiaries amounted to EUR6,895,869 (2003: EUR8,202,345).
- (d) During the year, the Group entered into transactions with related parties as detailed below, in addition to those as set out in the Cash Flow Statement:

| | The Group | | The Company | |
|--|----------------|---------|-------------|------|
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| Revenue | | | | |
| Services Rendered to the Parent Company and its Subsidiaries by: | | | | |
| Five Star Hotels Limited | 183,555 | 193,116 | - | - |
| IHI Hungary Rt | 20,715 | - | - | - |
| Alfa Investimentos Turisticos Lda | 42,208 | - | - | - |
| IHI Benelux B.V. | 400 | - | - | - |
| Services Rendered to Associated Companies by: | | | | |
| Five Star Hotels Limited | 54,229 | 87,628 | - | - |
| IHI Hungary Rt | 32,489 | - | - | - |
| IHI Benelux B.V. | 58,218 | - | - | - |
| Services Rendered to Other Related Parties by: | | | | |
| Five Star Hotels Limited | - | 43,510 | - | - |
| | 391,814 | 324,254 | - | - |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

25 Related Party Disclosures (Cont.)

| (d) (Cont.) | The Group | | The Company | |
|--|------------------|-----------|--------------------|---------|
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| Direct Costs | | | | |
| Charged by the Parent Company and its Subsidiaries to: | | | | |
| Five Star Hotels Limited | 417,279 | 362,581 | - | - |
| IHI Hungary Rt | 184,408 | 152,944 | - | - |
| Alfa Investimentos Turisticos Lda | 2,088 | - | - | - |
| IHI Benelux B.V. | 574 | - | - | - |
| | 604,349 | 515,525 | - | - |
| Marketing Costs | | | | |
| Charged by C.H.I. Limited to: | | | | |
| Five Star Hotels Limited | 134,107 | 146,690 | - | - |
| IHI Hungary Rt | 103,150 | - | - | - |
| Alfa Investimentos Turisticos Lda | 143,183 | 5,000 | - | - |
| IHI Benelux B.V. | 158,999 | 33,000 | - | - |
| IHI St Petersburg LLC | - | 141,284 | - | - |
| | 539,439 | 325,974 | - | - |
| Administrative Expenses | | | | |
| Management Fee Charged by Parent Company to: | | | | |
| IHI p.l.c. | 520,031 | 459,583 | 520,031 | 459,583 |
| Management Fee Charged by C.H.I. Limited to: | | | | |
| Five Star Hotels Limited | 178,810 | 195,585 | - | - |
| IHI Hungary Rt | 240,025 | - | - | - |
| Alfa Investimentos Turisticos Lda | 183,072 | 10,000 | - | - |
| IHI Benelux B.V. | 313,277 | - | - | - |
| Incentive Fee Charged by C.H.I. Limited to: | | | | |
| IHI Hungary Rt | 281,543 | - | - | - |
| Consultancy and Sub-Licence Fees Charged by C.H.I. Limited to: | | | | |
| IHI Benelux B.V. | 853,009 | 218,000 | - | - |
| IHI St Petersburg LLC | - | 1,054,890 | - | - |
| | 2,569,767 | 1,938,058 | 520,031 | 459,583 |
| carried forward | 3,713,555 | 2,779,557 | 520,031 | 459,583 |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

25 Related Party Disclosures (Cont.)

| (d) (Cont.) | The Group | | The Company | |
|--|------------------|-----------|--------------------|---------|
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| brought forward | 3,713,555 | 2,779,557 | 520,031 | 459,583 |
| Sundry Expenses | | | | |
| Charged by the Parent Company and its Subsidiary Companies to: | | | | |
| IHI p.l.c. | 29,464 | 29,650 | 29,464 | 29,650 |
| Five Star Hotels Limited | - | 128,900 | - | - |
| IHI Benelux B.V. | 7,535 | - | - | - |
| Charged/(Recharged) by/(to) C.H.I. Limited to: | | | | |
| IHI p.l.c. | - | 9,783 | - | 9,783 |
| Five Star Hotels Limited | 42,705 | 50,416 | - | - |
| IHI Hungary Rt | - | 285,898 | - | - |
| Alfa Investimentos Turisticos Lda | 359,030 | - | - | - |
| IHI Benelux B.V. | 105,955 | - | - | - |
| IHI St Petersburg LLC | (132,942) | 39,545 | - | - |
| Charged by QPM Limited to: | | | | |
| IHI p.l.c. | - | 9,228 | - | 9,228 |
| Five Star Hotels Limited | - | 5,426 | - | - |
| Recharged to the Parent Company and its Subsidiary Companies by: | | | | |
| Five Star Hotels Limited | - | (14,791) | - | - |
| IHI St Petersburg LLC | - | (19,455) | - | - |
| IHI Hungary Rt | - | (103,213) | - | - |
| Recharged to Associated Companies by: | | | | |
| Five Star Hotels Limited | - | (80,148) | - | - |
| | 411,747 | 341,239 | 29,464 | 48,661 |
| carried forward | 4,125,302 | 3,120,796 | 549,495 | 508,244 |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

25 Related Party Disclosures (Cont.)

(d) (Cont.)

| | The Group | | The Company | |
|---|------------------|-----------|--------------------|----------|
| | 2004 | 2003 | 2004 | 2003 |
| | EUR | EUR | EUR | EUR |
| brought forward | 4,125,302 | 3,120,796 | 549,495 | 508,244 |
| Pre-Operating Expenses | | | | |
| Charged/(Recharged) by/(to) the Parent Company and its Subsidiary Companies: | | | | |
| Alfa Investimentos Turisticos Lda: | | | | |
| Recharged | - | (14,000) | - | - |
| Charged/(Recharged) by/(to) CHI Limited and QPM Limited: | | | | |
| Alfa Investimentos Turisticos Lda: | | | | |
| Charged | - | 162,000 | - | - |
| Recharged | - | (19,000) | - | - |
| | - | 129,000 | - | - |
| Financing | | | | |
| Interest Receivable (Note 6) | (67,826) | (51,077) | (47,302) | (51,077) |
| Interest Payable (Note 7) | 490,533 | 307,993 | 168,288 | 256,681 |
| | 422,707 | 256,916 | 120,986 | 205,604 |
| Expensed | 4,548,009 | 3,506,712 | 670,481 | 713,848 |
| Tangible Fixed Assets | | | | |
| Construction and Related Services Provided by QPM Limited and Corinthia Construction Overseas Limited to: | | | | |
| IHI Hungary Rt | 180,634 | 10,120 | - | - |
| Alfa Investimentos Turisticos Lda | 974,440 | 1,065,000 | - | - |
| Capitalised | 1,155,074 | 1,075,120 | - | - |

NOTES TO THE FINANCIAL STATEMENTS*For the Year Ended 31 December 2004***25 Related Party Disclosures** (Cont.)

- (e) Five Star Hotels Limited, a subsidiary company, is party to a joint and several guarantee, and a general and special hypothecary guarantee over the Corinthia San Gorg Hotel, originally for EUR14,428,252, now standing at EUR6,362,838, in favour of Corinthia Palace Hotel Company Limited. In addition, this subsidiary company issued general hypothecary guarantees over all its assets and special hypothecary guarantees over the Corinthia San Gorg Hotel in favour of Corinthia Palace Hotel Company Limited (Note 10(b)).

26 Capital Expenditure Commitments

| | The Group | |
|--|-------------------|------------|
| | 2004 | 2003 |
| | EUR | EUR |
| Tangible Fixed Assets: | | |
| Contracted for: | | |
| IHI Hungary Rt. (Corinthia Grand Hotel Royal) | 2,927,000 | - |
| Alfa Investimentos Turisticos Lda (Corinthia Alfa Hotel and Congress Centre) | - | 20,000,000 |
| IHI Benelux B.V. (Corinthia Nevskij Palace Hotel) | 5,877,000 | 1,298,000 |
| | 8,804,000 | 21,298,000 |
| Authorised but not yet Contracted for: | | |
| Five Star Hotels Limited (Corinthia San Gorg) | 4,603,000 | 1,683,000 |
| IHI Hungary Rt. (Corinthia Grand Hotel Royal) | 1,174,000 | 4,150,000 |
| IHI Benelux B.V. (Corinthia Nevskij Palace Hotel) | 643,000 | 2,517,000 |
| | 6,420,000 | 8,350,000 |
| | 15,224,000 | 29,648,000 |

27 Financial Instruments

Exposure to credit, interest rate and foreign currency risks arises in the normal course of the Group's business.

(a) Credit Risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers requiring continuing credit. The Group does not require collateral in respect of financial assets. Credit risk with respect to debtors is limited due to the spread of customers comprising the Group's debtor base. Debtors are presented net of provisions towards doubtful recoveries.

The Group's cash is held with financial institutions which have credit ratings, such that management does not expect any institution to fail to meet repayments of amounts held on deposit.

At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

27 Financial Instruments (Cont.)

(b) Interest Rate Risk

The Group adopts a policy of ensuring that its exposure to changes in interest rates on interest-bearing borrowings due to the Parent Company and its other subsidiaries and to the bondholders is limited, by entering into financial arrangements subject to fixed rates of interest. Other financial arrangements with banks comprise a combination of facilities subject to fixed, EURIBOR and LIBOR rates of interest. EURIBOR (Euro Interbank Offered Rate) is the rate at which euro inter-bank term deposits within the euro zone are offered by one prime bank to another prime bank. LIBOR (London InterBank Offered Rate) is the rate on dollar-denominated deposits, also known as Eurodollars, traded between banks in London. Both these Offered Rates fluctuate daily.

In addition, with a view of mitigating interest rate risk, the Company entered into an interest rate swap agreement with a local financial institution. Swaps are over-the-counter agreements between two parties to exchange future cash flows based upon agreed notional amounts. As such therefore, under the interest rate swap agreement, the Company agreed with the counter-party to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The Group is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in interest rates relative to the contractual rates of the contract.

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

27 Financial Instruments (Cont.)

(b) Interest Rate Risk (Cont.)

| | | 2004 | | | | | | | 2003 | | | | | | |
|-------------------------------------|-------|-------------------------|----------------------|---------------------|---------------------|------------------|---------------------|---------------------|-------------------------|----------------------|---------------------|--------------------|------------------|---------------------|---------------------|
| | | Effective Interest Rate | Total | 6 Months or less | 6 - 12 Months | 1 - 2 Years | 2 - 5 Years | More than 5 Years | Effective Interest Rate | Total | 6 Months or less | 6 - 12 Months | 1 - 2 Years | 2 - 5 Years | More than 5 Years |
| | Note | % | EUR | EUR | EUR | EUR | EUR | EUR | % | EUR | EUR | EUR | EUR | EUR | EUR |
| Effect of Interest | | | | | | | | | | | | | | | |
| Rate Swap | 14(b) | 1.00 | - | 8,000,000 | - | - | (8,000,000) | - | 1.08 | - | 8,000,000 | - | - | - | (8,000,000) |
| Loan to Related Company: | | | | | | | | | | | | | | | |
| Euro Floating Rate Loan | 15(b) | 3.40 | 1,592,195 | 122,195 | - | 1,470,000 | - | - | 5.17 | 1,470,000 | - | - | 1,470,000 | - | - |
| Cash at Bank and in Hand | 24(a) | 0.50 | 2,854,831 | 2,854,831 | - | - | - | - | 0.53 | 5,228,975 | 5,228,975 | - | - | - | - |
| Bank Loans: | | | | | | | | | | | | | | | |
| Lm Floating Rate Loan | 17(b) | 4.13 | (3,250,696) | - | (3,250,696) | - | - | - | 4.75 | (4,751,348) | - | (4,751,348) | - | - | - |
| Euro Fixed Rate Loan | 17(b) | 4.71 | (30,500,000) | - | - | - | (30,500,000) | - | 4.70 | (30,500,000) | - | - | - | (30,500,000) | - |
| Euro Floating Rate Loans | 17(b) | 4.90 | (86,380,970) | (86,380,970) | - | - | - | - | 4.40 | (79,094,040) | (79,094,040) | - | - | - | - |
| Bank Overdrafts: | | | | | | | | | | | | | | | |
| Lm Floating Rate | 17(b) | 4.11 | (1,620,211) | - | (1,620,211) | - | - | - | 4.75 | (1,845,326) | - | (1,845,326) | - | - | - |
| Euro Floating Rate | 17(b) | 4.90 | (1,000,000) | (1,000,000) | - | - | - | - | - | - | - | - | - | - | - |
| Debt Securities in Issue: | | | | | | | | | | | | | | | |
| Lm Fixed Rate | | | | | | | | | | | | | | | |
| Convertible Bond | 18(b) | 5.60 | (10,456,020) | - | - | - | (10,456,020) | - | 5.00 | (10,375,887) | - | - | - | - | (10,375,887) |
| Lm Fixed Rate Bond | 18(c) | 6.49 | (13,553,330) | - | - | - | (13,553,330) | - | 6.30 | (13,617,916) | - | - | - | - | (13,617,916) |
| Euro Fixed Rate Bond | 18(c) | 6.31 | (7,920,479) | - | - | - | (7,920,479) | - | 6.50 | (7,893,950) | - | - | - | - | (7,893,950) |
| Other Interest-Bearing Liabilities: | | | | | | | | | | | | | | | |
| Lm Fixed Rate Loan | 19 | 3.44 | (546,877) | - | (546,877) | - | - | - | 6.00 | (440,172) | - | (440,172) | - | - | - |
| Lm Fixed Rate Loan | 19 | 7.81 | (507,793) | - | (507,793) | - | - | - | 7.00 | (37,019) | - | (37,019) | - | - | - |
| Lm Fixed Rate Loan | 19 | 3.41 | (359,223) | - | (359,223) | - | - | - | 8.00 | (167,507) | - | (167,507) | - | - | - |
| Euro Fixed Rate Loan | 19 | 5.00 | (129,955) | - | (129,955) | - | - | - | 5.00 | (216,826) | - | (216,826) | - | - | - |
| Euro Fixed Rate Loan | 19 | 1.25 | (2,336,132) | - | (2,336,132) | - | - | - | 5.00 | (454,670) | - | (454,670) | - | - | - |
| Euro Fixed Rate Loans | 19 | 2.63 | (1,653,362) | - | (1,653,362) | - | - | - | - | - | - | - | - | - | - |
| Euro Floating Rate Loans | 19 | 4.47 | (1,671,475) | - | - | (1,671,475) | - | - | 5.17 | (1,671,475) | - | - | (1,671,475) | - | - |
| | | | (157,439,497) | (76,403,944) | (10,404,249) | (201,475) | (38,500,000) | (31,929,829) | | (144,367,161) | (65,865,065) | (7,912,868) | (201,475) | (30,500,000) | (39,887,753) |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

27 Financial Instruments (Cont.)

(c) Foreign Currency Risk

The Group operates internationally and is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the Euro. The currencies giving rise to this risk are the Maltese Lira, Hungarian Forint, US Dollar, Russian Rouble, Pound Sterling and Croatian Kuna. In addition, the Group does not hedge its investments in its foreign subsidiaries and is similarly exposed to currency risk arising on the translation of the assets and liabilities of such subsidiaries. The Group relies on natural hedges between inflows and outflows in currencies other than the Euro, and does not otherwise hedge against exchange gains or losses which may arise on the realisation of amounts receivable and the settlement of amounts payable in foreign currencies, which amounts may be significant.

During the year ended 31 December 2004, the Group accounted for net exchange gains amounting to EUR196,220 (2003: net exchange gains EUR1,456,316), arising from transactions, and movements in monetary assets and liabilities denominated in foreign currencies. In addition, the net movement on the Translation Reserve, representing net foreign exchange losses arising on the translation of the net assets of foreign subsidiaries, amounted to EUR95,476 (2003: EUR497,577).

28 Contingent Liabilities

At balance sheet date, the Group had the following contingent liabilities arising from:

- (a) Guarantees amounting to EUR333,000 issued by the bankers of one of the subsidiary companies in favour of third parties.
- (b) Certain subsidiary companies within the Group are involved in litigation with:

| | EUR |
|---|-------------------|
| Former Employees relating to Termination of Employment | 61,000 |
| Third Party regarding the Termination of a Rental Agreement | 146,000 |
| | <u> </u> |

While liability is not admitted, if defence against these actions is unsuccessful, the disclosed amounts could become due. Based on legal advice, the directors do not expect the respective companies to be found liable. As a result no provision towards these amounts have been made in these financial statements.

- (c) The Group is subject to tax in various jurisdictions. A number of possible claims may be raised by the tax authorities in these jurisdictions which may expose it to additional amounts payable, should these authorities find against the respective companies. No provision has been made towards such amounts on the basis that the likelihood of occurrence of these claims is considered by the directors less likely than not.

29 Accounting Estimates and Judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Note 10 to the financial statements contains information about the assumptions and risk factors relating to the valuation of property, plant and equipment and impairment, whereas Note 11 includes details regarding the determination of fair value of the Group's investment property.

In Note 27(c) detailed analysis is given of the foreign exchange exposure of the Group and risks in relation to foreign exchange movements.

In order to establish the taxation provisions, management exercises significant judgement in view of the fact that the Group operates in various jurisdictions and as such there are diverse transactions for which the ultimate tax determination is uncertain. Provision is made for the estimated amount of taxation. In the event that the amount of actual tax due differs from the original amounts provided for, such

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

30 Comparative Amounts

- (a) The Group's results and cash flows for the comparative year include the results and cash flows for the two month operation of the Corinthia Alfa Hotel and Congress Centre in Lisbon, whereas the current year's figures include the results and cash flows for this hotel for the eight month period starting 1 May 2004.
- (b) Certain comparative amounts have been reclassified to conform with the current year's presentation. In addition, the following amounts relating to the comparative year were restated in view of the prior year adjustments effected during the current year:

| | The Group | | | The Company | | |
|--|-------------|---------------------|-------------|-------------|---------------------|-------------|
| | As | As | Change | As | As | Change |
| | Re-stated | Previously Reported | | Re-stated | Previously Reported | |
| EUR | EUR | EUR | EUR | EUR | EUR | |
| Profit and Loss Account | | | | | | |
| Revaluation to Fair Value of Available-for-Sale Investments - Effect of Adjustments to Carrying Amounts of Investments | - | - | - | 6,859,978 | 10,084,494 | (3,224,516) |
| Revaluation to Fair Value of Investment Property - Effect of Foreign Exchange Rate Movement to 31 December 2003 | 22,842,102 | 24,442,102 | (1,600,000) | - | - | - |
| Income from Associates - Share of Tax netted off | 263,494 | 360,877 | (97,383) | - | - | - |
| Taxation: | | | | | | |
| Deferred Tax effect of Adjustment to Fair Value of Available-for-Sale Investments | | | - | | | 1,128,581 |
| Deferred Tax effect of Foreign Exchange Rate Movement on Fair Value of Investment Property | | | 384,000 | | | - |
| Share of Tax on Income from Associates | | | 97,383 | | | - |
| Deferred Tax effect of Taxable Temporary Differences not previously recognised | | | (2,008,516) | | | - |
| | (5,161,781) | (3,634,648) | (1,527,133) | (2,249,957) | (3,378,538) | 1,128,581 |
| | | | (3,224,516) | | | (2,095,935) |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

30 Comparative Amounts (Cont.)

| | The Group | | | The Company | | |
|--|-------------|---------------------|-------------|-------------|---------------------|-------------|
| | As | As | Change | As | As | Change |
| | Re-stated | Previously Reported | | Re-stated | Previously Reported | |
| EUR | EUR | EUR | EUR | EUR | EUR | |
| Balance Sheet | | | | | | |
| Investment Property | 33,400,000 | 35,000,000 | (1,600,000) | - | - | - |
| Investment in Subsidiary Companies | - | - | - | 156,608,617 | 159,833,133 | (3,224,516) |
| Deferred Taxation | 26,940,094 | 25,315,578 | (1,624,516) | 2,416,789 | 3,545,370 | 1,128,581 |
| | | | (3,224,516) | | | (2,095,935) |
| Equity: | | | | | | |
| Other Reserve | - | - | - | 5,086,722 | 7,182,657 | (2,095,935) |
| (Accumulated Losses)/Retained Earnings | (1,185,724) | 2,038,792 | (3,224,516) | - | - | - |
| | | | (3,224,516) | | | (2,095,935) |

31 Parent Company

The Company is a subsidiary of Corinthia Palace Hotel Company Limited, the registered office of which is situated at 22 Europa Centre, Floriana, Malta.

The Parent Company prepares the consolidated financial statements of the Group of which IHI and its subsidiaries form part. These financial statements are filed and available for public inspection at the Registrar of Companies in Malta.



INTERNATIONAL HOTEL INVESTMENTS p.l.c.

ANNEX 2

Group Half-Yearly Report
For the period 1 January 2005 to 30 June 2005

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CONDENSED INCOME STATEMENT*For the period 1 January 2005 to 30 June 2005*

| | 1 January to 30 June 2005 | 1 January to 30 June 2004 |
|---|--------------------------------------|------------------------------|
| | EUR | EUR |
| Revenue | 26,034,183 | 22,341,319 |
| Direct Costs | (18,253,796) | (13,338,100) |
| Gross Profit | 7,780,387 | 8,953,219 |
| Other Operating Income | 276,239 | 91,565 |
| Other Operating Expenses | (8,437,597) | (8,763,302) |
| Operating (Loss)/Profit before financing costs | (380,881) | 281,482 |
| Net Financing Costs | (4,674,497) | (4,459,554) |
| Share of Profit on Associates | 169,422 | 127,932 |
| Loss before Taxation | (4,885,956) | (4,050,140) |
| Income Tax (Expense) / Income | (148,884) | 3,025,406 |
| Loss for the Period | (5,034,840) | (1,024,734) |
| Loss per Share | (0.04) | (0.01) |

CONDENSED BALANCE SHEET

At 30 June 2005

| | At 30 June | At 31 December |
|-------------------------------------|--------------------|----------------|
| | 2005 | 2004 |
| | EUR | EUR |
| Assets | | |
| Non-Current Assets | 334,012,490 | 336,451,704 |
| Current Assets | 15,015,771 | 13,293,510 |
| | 349,028,261 | 349,745,214 |
| Equity | | |
| Total Equity | 139,406,262 | 134,295,276 |
| Liabilities | | |
| Non-Current Liabilities | 171,699,273 | 156,973,475 |
| Current Liabilities | 37,922,726 | 58,476,463 |
| Total Liabilities | 209,621,999 | 215,449,938 |
| Total Equity and Liabilities | 349,028,261 | 349,745,214 |

CONDENSED CASH FLOW STATEMENT*For the period 1 January 2005 to 30 June 2005*

| | January to 30 June 2005 | 1 January to 30 June 2004 |
|--|------------------------------------|------------------------------|
| | EUR | EUR |
| Net Cash From Operating Activities | 8,168,090 | 3,576,861 |
| Net Cash Used in Investing Activities | (10,949,812) | (10,972,248) |
| Net Cash From Financing Activities | 2,740,638 | 6,049,838 |
| Effect of Exchange Rate Fluctuations on Cash Held | (18,099) | (17,255) |
| Net Decrease in Cash and Cash Equivalents | (59,183) | (1,362,804) |
| Cash and Cash Equivalents at Beginning of Period | 234,620 | 3,383,649 |
| Cash and Cash Equivalents at End of Period | 175,437 | 2,020,845 |

STATEMENT OF CHANGES IN EQUITY

For the period 1 January 2005 to 30 June 2005

| | Total | Share | Revaluation | Translation | Reporting | Convertible | Other | Accumulated |
|---|--------------------|--------------------|--------------------|--------------------|-------------------|--------------------|----------------|---------------------|
| | EUR | Capital | Reserve | Reserve | Currency | Bonds | Reserve | Losses |
| | | EUR | EUR | EUR | Conversion | Reserve | EUR | EUR |
| | | | | | Difference | | | |
| | | | | | EUR | EUR | | EUR |
| At 1 January 2004 | 127,259,903 | 119,053,489 | 8,624,343 | (1,135,493) | 443,352 | 832,200 | 627,763 | (1,185,724) |
| Deferred Taxation | 1,459,504 | - | 1,459,504 | - | - | - | - | - |
| Loss for the Period | (1,024,734) | - | - | - | - | - | - | (1,024,734) |
| Transfer to Other Reserve | - | - | - | - | - | - | - | - |
| Foreign Exchange Translation Differences | 180,196 | - | - | 180,196 | - | - | - | - |
| At 30 June 2004 | 127,874,869 | 119,053,489 | 10,083,847 | (955,297) | 443,352 | 832,200 | 627,736 | (2,210,458) |
| Issue of Shares | 10,000,000 | 10,000,000 | - | - | - | - | - | - |
| Revaluation of Hotel Property, Net of Deferred Taxation | 3,786,076 | - | 3,786,076 | - | - | - | - | - |
| Foreign Exchange Translation Differences | (275,672) | - | - | (275,672) | - | - | - | - |
| Loss for the Period | (7,089,997) | - | - | - | - | - | - | (7,089,997) |
| Transfer to Other Reserve | - | - | - | - | - | - | 185,252 | (185,252) |
| At 31 December 2004 | 134,295,276 | 129,053,489 | 13,869,923 | (1,230,969) | 443,352 | 832,200 | 812,988 | (9,485,707) |
| Issue of Shares | 10,000,000 | 10,000,000 | - | - | - | - | - | - |
| Foreign Exchange Translation Differences | 145,826 | - | - | 145,826 | - | - | - | - |
| Loss for the Period | (5,034,840) | - | - | - | - | - | - | (5,034,840) |
| Transfer to Other Reserve | - | - | - | - | - | - | (302,474) | 302,474 |
| At 30 June 2005 | 139,406,262 | 139,053,489 | 13,869,923 | (1,085,143) | 443,352 | 832,200 | 510,514 | (14,218,073) |

SELECTED EXPLANATORY NOTES

For the period 1 January 2005 to 30 June 2005

Segmental Information

| | Malta | | Other | Other | Consolidated | The Group |
|-----------------|-----------|-------------|-------------|-----------|--------------|------------|
| | Hotel | Corporate | European | European | Adjustments | |
| | Property | Business | Union | Countries | | |
| | EUR | EUR | Countries | EUR | EUR | EUR |
| Segment Revenue | 4,064,399 | 696,382 | 13,808,628 | 8,161,156 | (696,382) | 26,034,183 |
| Segment Result | (486,903) | (1,939,647) | (2,484,019) | 2,939,804 | 1,589,848 | (380,881) |

Basis of Preparation

The published figures have been extracted from the unaudited management consolidated financial statements of International Hotel Investments p.l.c. ("the Group") for the six months ended 30 June 2005 and its comparative period in 2004. Comparative Balance Sheet information as at 31 December has been extracted from the audited financial statements of the the Group for the year ended on that date. This report is being published in terms of Listing Rule 9.54 issued by the Malta Financial Services Authority - Listing Authority, and has been prepared in accordance with the applicable Listing Rules and the International Accounting Standard 34, 'Interim Financial reporting'. The financial statements published in this Half-Yearly Report are condensed in accordance with the form and content requirements of this standard.

The Group Half-Yearly Report is presented by reference to one of the alternative formats set out in the Third Schedule to the Companies Act, 1995 and the over-riding requirements of the IAS 1, Presentation of Financial Statements. During the current period, the Directors changed the format of the Balance Sheet, as allowed by the Act, to reflect current practices in financial reporting.

Accounting Policies

The accounting policies adopted in the preparation of this Group Half-Yearly report are the same as those adopted in the preparation of the audited financial statements for the year ended 31 December 2004.

Review of Performance

The Group's turnover for the six-month period to 30 June 2005 amounted to Euro 26.03 million, reflecting an increase of 16% on the turnover levels for the corresponding period last year. The main reason for this increase were a full six months of trading in 2005 for the Corinthia Alfa Hotel in Lisbon compared to with a six-week trading performance in the first six months of 2004, coupled with the fact that higher revenues were also generated by the Corinthia Grand Hotel Royal in Budapest once this property achieved a higher level of operational maturity. The Group registered an operating loss of Euro 0.38 million against a corresponding profit of Euro 0.28 million last year. It must, however, be pointed out that whilst at face value it appears that with a higher turnover the Group's operating margins decreased, this year's operating results are burdened by a higher incidence of depreciation on the Corinthia Alfa Hotel.

Net financing costs amounted to Euro 4.67 million as compared to Euro 4.45 million during the comparative period 2004, an increase of Euro 0.22 million. This was mainly due to interest incurred on short-term banking facilities.

During the period under review, the Group registered a Loss before Taxation of Euro 4.88 million compared to a Loss before Taxation for the comparative period last year of Euro 4.05 million. In 2004, the Group had recognised a positive one-time reversal of a deferred tax charge previously taken in 2003 on the fair value adjustment of the properties adjacent to the Corinthia Nevskij Place Hotel in the Russian Federation.

SELECTED EXPLANATORY NOTES

For the period 1 January 2005 to 30 June 2005

State of Affairs

During the first six months of 2005, the Group issued and allotted 10 million shares of Euro 1 each to its parent company, Corinthia Palace Hotel Company Limited, and drew upon long-term banking facilities in the amount of Euro 12.5 million. These funds were utilised to settle the bridge loans that had been made available to the Group by financial institutions and the outstanding amounts payable to capital creditors in connection with the refurbishment of the Corinthia Alfa Hotel. The above resulted in an improvement in net working capital from a deficiency of Euro 45 million at the end of last year to a deficiency of Euro 23 million at the end of June 2005.

Outlook

The Group remains confident that the operating performance before depreciation for the current financial year will be better than that achieved in 2004 even though the expectations for the Corinthia Alfa Hotel, in view of a soft market environment, will be below those registered in 2004 when the results were positively influenced by the one-time performance of the European football finals. However, a stronger overall performance by the other three hotels in Malta, Budapest and the Russian Federation respectively, will mitigate the shortfalls in the performance of the Lisbon hotel. In the meantime, the removal of the US Sanctions continues to leave a positive impact on the Group's operations. Notwithstanding the above, it appears that this year's performance will not meet prior expectations. However, the planned refurbishment of the Corinthia San Gorg Hotel commencing in the next few months, the imminent completion of the Spa and the apartments at the Corinthia Grand Hotel Royal and the new project in Russia starting next year should further contribute to the long-term profitability of the Group.

Tangible Fixed Assets

Tangible fixed assets acquired during the period amounted to Euro 3,051,715 mainly with respect to the soft refurbishment of the Corinthia Nevskij Palace Hotel in Russia.

Capital Expenditure Commitments

| | EUR |
|--|-------------------|
| Tangible Fixed Assets Contracted for: | |
| IHI Benelux BV | 4,544,000 |
| IHI Hungary zRt | 4,570,000 |
| | <hr/> |
| | 9,114,000 |
| Authorised but not yet Contracted for: | |
| Five Star Hotels Limited | 5,825,000 |
| IHI Benelux BV | 503,000 |
| | <hr/> |
| | 15,442,000 |
| | <hr/> <hr/> |

Related Party Transactions

The Company has a related party relationship with its parent company, Corinthia Palace Hotel Company Limited, and other entities forming part of the Corinthia Group of Companies, of which IHI is a subsidiary. Transactions entered into with these companies are subject to review by the Related Parties Transaction Committee which provides comfort to the Audit Committee and the Board of Directors that such transactions are carried out on an arm's length basis and are for the benefit of the Group. All transactions entered into with Group companies forming part of the IHI Group have been eliminated in the preparation of the consolidated Half-Yearly Report of IHI.

In the course of its operations, the Group has a number of arrangements in place with its officers, executives, shareholders and other related parties, whereby special offers are made available for hospitality services rendered to them.

This Half-Yearly Report was approved by the Board of Directors on the 27th October 2005.



INTERNATIONAL HOTEL INVESTMENTS p.l.c.

ANNEX 3

Historical Financial Information

FROFIT AND LOSS ACCOUNTS

| | 1 January to 30 June 2005 EUR | 1 January to 31 December 2004 EUR | 1 January to 31 December 2003 EUR |
|--|-------------------------------------|---|---|
| Revenue | 26,034,183 | 46,623,923 | 34,719,489 |
| Operating Loss before financing costs | (380,881) | (3,482,104) | (24,549,887) |
| Net Financing Costs | (4,674,497) | (8,321,788) | (5,932,724) |
| Revaluation to Fair Value of Investment Property | - | - | 22,842,102 |
| Share of Profit of Associates | 169,422 | 458,863 | 263,494 |
| Loss before taxation | (4,885,956) | (11,345,029) | (7,377,015) |
| Taxation | (148,884) | 3,230,298 | (5,161,781) |
| Loss after Taxation | (5,034,840) | (8,114,731) | (12,538,796) |
| Included in Operating Loss before financing costs are the following Net Impairment Losses | - | (2,170,600) | (18,260,384) |

BALANCE SHEETS

| | At 30 June 2005 EUR | At 31 December 2004 EUR | At 31 December 2003 EUR |
|-------------------------------------|---------------------------|-------------------------------|-------------------------------|
| Tangible Assets | 330,177,691 | 332,649,198 | 318,509,941 |
| Financial Assets | 3,834,799 | 3,802,506 | 3,630,538 |
| Current Assets | 15,015,771 | 13,293,510 | 16,730,415 |
| Liabilities | (37,922,726) | (58,476,463) | (45,741,804) |
| Net Current Liabilities | (22,906,955) | (45,182,953) | (29,011,389) |
| Non Current Liabilities | (171,699,273) | (133,917,525) | (138,929,093) |
| Deferred Taxation | - | (23,055,950) | (26,940,094) |
| Net Assets | 139,406,262 | 134,295,276 | 127,259,903 |
| Equity | 139,406,262 | 134,295,276 | 127,259,903 |
| Indebtedness | | | |
| Included in Net Current Liabilities | | | |
| Bank Borrowings | 11,735,973 | 24,283,668 | 11,382,674 |
| Other Interest-Bearing Liabilities | 3,882,746 | 3,879,980 | 1,099,369 |
| | 15,618,719 | 28,163,648 | 12,482,043 |
| Included in Non-Current Liabilities | | | |
| Bank Borrowings | 105,219,236 | 98,468,209 | 104,808,040 |
| Other Interest-Bearing Liabilities | 7,043,054 | 3,324,837 | 1,888,300 |
| Bonds | 32,348,903 | 31,929,829 | 31,887,753 |
| | 144,611,193 | 133,722,875 | 138,584,093 |
| Total Indebtedness | 160,229,912 | 161,886,523 | 151,066,136 |



INTERNATIONAL HOTEL INVESTMENTS p.l.c.

SECURITIES NOTE

In respect of an issue of €12.5 million 6.5% Bonds 2012 -2014

Issued by

International Hotel Investments p.l.c.

This document is a Securities Note issued in accordance with the provisions of Chapter 6 of the Listing Rules issued by the Listing Authority and in accordance with the provisions of Commission Regulation (EC) No 809/2004 of April 29, 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in a prospectus.

This Securities Note is issued pursuant to the requirements of Rule 6.4.3 of the Listing Rules and contains information about the Bonds being issued and offered through an intermediaries offer by International Hotel Investments p.l.c. (the "Company"). Application has been made for admission to trading on the Malta Stock Exchange of the Bonds. This Securities Note should be read in conjunction with the most updated Registration Document issued by the Company from time to time that provides details of the Issuer.

The Bonds shall constitute the general, direct, unconditional, unsecured and unsubordinated obligations of the Company and will rank pari passu without any priority or preference with all other present and future unsecured and unsubordinated obligations of the Company.

This document is dated 17 March 2006

Legal Counsel
Camilleri Preziosi

Sponsoring Stockbroker
Charts Investment Management Service Limited

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IMPORTANT INFORMATION

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS AND CONTAINS INFORMATION ON AN ISSUE OF BONDS OF €12.5 MILLION BY INTERNATIONAL HOTEL INVESTMENTS PLC (THE “COMPANY”) TO INTERMEDIARIES WHETHER FOR THEIR OWN ACCOUNT OR FOR THE ACCOUNT OF UNDERLYING CUSTOMERS OR FOR FUTURE DISTRIBUTION. THE BONDS WILL BE ISSUED AT PAR AND WILL BEAR INTEREST AT THE RATE OF 6.5 PER CENT PER ANNUM. THE BONDS WILL BE REDEEMED AT THE COMPANY’S OPTION ON ANY OF THE INTEREST PAYMENT DATES FALLING IN EACH OF THE YEARS 2012, 2013 AND 2014 AT PAR.

THIS DOCUMENT INCLUDES INFORMATION GIVEN IN COMPLIANCE WITH THE LISTING RULES OF THE LISTING AUTHORITY FOR THE PURPOSE OF GIVING INFORMATION WITH REGARD TO THE BONDS. ALL OF THE DIRECTORS OF THE COMPANY, WHOSE NAMES APPEAR UNDER THE HEADING DIRECTORS (THE “DIRECTORS”), ARE THE PERSONS RESPONSIBLE FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE DIRECTORS OF THE COMPANY (WHO HAVE ALL TAKEN REASONABLE CARE TO ENSURE SUCH IS THE CASE), THE INFORMATION CONTAINED IN THIS PROSPECTUS IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. THE DIRECTORS ACCEPT RESPONSIBILITY ACCORDINGLY.

NO BROKER, DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORISED BY THE COMPANY OR ITS DIRECTORS, TO ISSUE ANY ADVERTISEMENT OR TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE SALE OF THE BONDS (AS DEFINED HEREIN) OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND IN THE DOCUMENTS REFERRED TO HEREIN IN CONNECTION WITH THE ISSUE HEREBY MADE, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE COMPANY OR ITS DIRECTORS.

THE LISTING AUTHORITY ACCEPTS NO RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS, MAKES NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS PROSPECTUS.

THIS SECURITIES NOTE DOES NOT CONSTITUTE, AND MAY NOT BE USED FOR PURPOSES OF, AN OFFER OR INVITATION TO SUBSCRIBE FOR BONDS BY ANY PERSON IN ANY JURISDICTION (I) IN WHICH SUCH OFFER OR INVITATION IS NOT AUTHORISED OR (II) IN WHICH THE PERSON MAKING SUCH OFFER OR INVITATION IS NOT QUALIFIED TO DO SO OR (III) TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR INVITATION.

IT IS THE RESPONSIBILITY OF ANY PERSONS IN POSSESSION OF THIS DOCUMENT AND ANY PERSONS WISHING TO APPLY FOR BONDS TO INFORM THEMSELVES OF, AND TO OBSERVE AND COMPLY WITH, ALL APPLICABLE LAWS AND REGULATIONS OF ANY RELEVANT JURISDICTION. PROSPECTIVE APPLICANTS FOR BONDS SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS OF SO APPLYING AND ANY APPLICABLE EXCHANGE CONTROL REQUIREMENTS AND TAXES IN THE COUNTRIES OF THEIR NATIONALITY, RESIDENCE OR DOMICILE.

THE BONDS HAVE NOT BEEN NOR WILL THEY BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “1933 ACT”) OR UNDER ANY STATE SECURITIES LAW AND, EXCEPT WITH THE SPECIFIC CONSENT OF THE DIRECTORS, MAY NOT BE OFFERED OR SOLD DIRECTLY OR INDIRECTLY, IN THE UNITED STATES OF AMERICA, ITS TERRITORIES OR POSSESSIONS OR ANY AREA SUBJECT TO ITS JURISDICTION (THE “UNITED STATES”) OR TO ANY UNITED STATES PERSON (AS DEFINED IN REGULATIONS OF SUCH ACT, AS AMENDED FROM TIME TO TIME). IN ADDITION THE COMPANY WILL NOT BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “1940 ACT”) AND THE INVESTORS WILL NOT BE ENTITLED TO THE BENEFITS OF THE 1940 ACT. BASED ON INTERPRETATIONS OF THE 1940 ACT BY THE STAFF OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION RELATING TO FOREIGN INVESTMENT COMPANIES, IF THE COMPANY HAS MORE THAN 100 BENEFICIAL OWNERS OF ITS SECURITIES WHO ARE UNITED STATES PERSONS, IT MAY BECOME SUBJECT TO THE 1940 ACT. THE DIRECTORS WILL NOT KNOWINGLY PERMIT THE NUMBER OF HOLDERS WHO ARE UNITED STATES PERSONS TO EXCEED 70.

A COPY OF THIS DOCUMENT HAS BEEN REGISTERED WITH THE LISTING AUTHORITY IN SATISFACTION OF THE LISTING RULES, THE MALTA STOCK EXCHANGE IN SATISFACTION OF THE MALTA STOCK EXCHANGE BYE-LAWS AND HAS BEEN DULY FILED WITH THE REGISTRAR OF COMPANIES, IN ACCORDANCE WITH THE ACT.

STATEMENTS MADE IN THIS DOCUMENT ARE, EXCEPT WHERE OTHERWISE STATED, BASED ON THE LAW AND PRACTICE CURRENTLY IN FORCE IN MALTA AND ARE SUBJECT TO CHANGES THEREIN.

APPLICATION HAS BEEN MADE TO THE LISTING AUTHORITY FOR THE BONDS TO BE CONSIDERED AS ADMISSIBLE TO LISTING ON A RECOGNISED INVESTMENT EXCHANGE. IN ADDITION, APPLICATION HAS ALSO BEEN MADE TO THE COUNCIL OF THE MALTA STOCK EXCHANGE, AS A RECOGNISED INVESTMENT EXCHANGE, FOR THE BONDS TO BE ADMITTED TO THE OFFICIAL LIST UPON ISSUE AND SUBSCRIPTION BY THE INTERMEDIARIES. DEALINGS ARE EXPECTED TO COMMENCE ON THE SAID EXCHANGE ON 27 MARCH 2006.

THE VALUE OF INVESTMENTS CAN GO UP OR DOWN AND PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE. THE NOMINAL VALUE OF THE BONDS ON OFFER WILL BE REPAYABLE IN FULL UPON REDEMPTION. IF YOU NEED ADVICE YOU SHOULD CONSULT A LICENSED STOCKBROKER OR AN INVESTMENT ADVISOR LICENSED UNDER THE INVESTMENT SERVICES ACT, CAP. 370 OF THE LAWS OF MALTA.

ALL AMOUNTS EXPRESSED IN ONE CURRENCY WITH AN EQUIVALENT AMOUNT IN ANOTHER CURRENCY IN THIS DOCUMENT ARE TAKEN, IN THE CASE OF HISTORICAL VALUES AT THE HISTORICAL EXCHANGE RATES APPLICABLE AT THE TIME OF THE TRANSACTION AND IN ALL OTHER CASES AT A FIXED EXCHANGE RATE, SUBJECT TO ROUNDING OF €1:Lm0.4293

DEFINITIONS

In this document the following words and expressions shall bear the following meanings except where the context otherwise requires:

| | |
|-----------------------------------|--|
| Act | the Companies Act, Cap. 386 of the Laws of Malta; |
| Bonds | the €12.5 million Bonds redeemable on any Interest Payment Date falling in each of the years 2012, 2013 and 2014 and which shall bear interest at the rate of 6.5 per cent per annum from the Issue Date and each of the years falling between the years 2007 and 2014 unless previously redeemed; |
| Bondholder | a holder of Bonds; |
| Bond Offer Price | the price of €100 for each Bond; |
| Company, Issuer or IHI | International Hotel Investments p.l.c.; |
| Corinthia Group | CPHCL and the companies in which CPHCL has a controlling interest; |
| CPHCL | Corinthia Palace Hotel Company Limited, a company registered under the laws of Malta, and the parent company of the Corinthia Group; |
| Designated Early Redemption Dates | 27 March 2012 and 27 March 2013; |
| Directors or Board | the directors of the Company whose names and addresses are set out under the heading "Directors"; |
| € or Euro | the lawful currency from time to time of the European Union; |
| Interest Payment Date | 27 March of each year between and including each of the years 2007 and the year 2014, unless previously redeemed; |
| Intermediaries | the persons with and through whom the Bond Issue shall be placed; |
| Issue Date | 27 March 2006; |
| Malta Stock Exchange or MSE | the Malta Stock Exchange as defined by the Financial Markets Act (Cap.345 of the Laws of Malta); |
| Maltese Liri | the lawful currency from time to time of the Republic of Malta; |
| Prospectus | this document together with the Registration Document dated 27 March 2006 and the Summary Note dated 27 March 2006; |
| Redemption Date | 27 March 2014 or at the Issuer's option either of the Designated Early Redemption Dates; |
| Redemption Value | €100 per Bond. |

1. DIRECTORS

The Directors of the Company, whose names are set out hereunder, are the persons responsible for the information contained in this Document.

| | |
|---------------------|--------------------------------------|
| Alfred Pisani | Chairman and Chief Executive Officer |
| Joseph Fenech | Managing Director |
| Simon Naudi | Executive Director |
| Abdurazagh Zmirli | Non-Executive Director |
| Frank Xerri de Caro | Non-Executive Director |
| Joseph J. Vella | Non-Executive Director |
| Lawrence Zammit | Non-Executive Director |

ALL OF THE DIRECTORS OF THE COMPANY, WHOSE NAMES APPEAR ABOVE (THE "DIRECTORS"), ARE THE PERSONS RESPONSIBLE FOR THE INFORMATION CONTAINED IN THIS DOCUMENT. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE DIRECTORS OF THE COMPANY (WHO HAVE ALL TAKEN REASONABLE CARE TO ENSURE SUCH IS THE CASE), THE INFORMATION CONTAINED IN THIS DOCUMENT IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. THE DIRECTORS ACCEPT RESPONSIBILITY ACCORDINGLY.

2. RISK FACTORS

Emerging Markets

The Company is exposed to investments in emerging markets. Accordingly there are certain risk factors which are peculiar to such investments and which require careful consideration by prospective investors since they are not usually associated with investment in the more developed capital markets of North America, Japan and Western Europe. Emerging markets present different economic and political conditions from those of the more developed markets and could possibly present less social, political and economic stability. Emerging markets that the Company may target for its investments may include countries which have a closed economy and which will render investment in such markets more risky than investments in more developed markets.

Emerging markets may be undergoing substantial political, economic and social reform and investment may be made in countries which at the particular moment of the investment may be in a period of transition where the consequences of reform may not be entirely clear. The consequences, however, may be profound, and investors should take into account their unpredictability.

The value of the Company's investment may be affected by uncertainties, such as political and diplomatic developments, social and economic instability, changes in government policies, taxation, high inflation, interest rates, exchange controls and other restrictions on the repatriation of capital as well as other developments in the laws or regulations of such countries and in particular the risks of expropriation, nationalisation and/or confiscation of assets.

The underdeveloped legal and judicial systems in some emerging countries, including those in which the Company may be investing, may pose difficulties for the Company to enforce its legal rights pursuant to the investments made in such countries.

Businesses in emerging markets may not be operating in a market-oriented economy as known in other developed markets. Although emerging country risk remains part of the overall risk of the Company's portfolio, the entry into the European Union of both Malta and Hungary, which are two of the jurisdictions in which the Company owns property, should operate to stabilize emerging country risk in the overall portfolio of the Company.

The St. Petersburg Project

The Company's main project over the next two years is the completion of the St. Petersburg project (See "Summary of Project" below). The extension of the Corinthia Nevskij Palace Hotel on one site and the development of another site adjoining the Hotel as a retail and office centre will commit the Company to substantial capital expenditure. Notwithstanding that the Company shall take all such measures as are desirable to ensure that hotel operations are not significantly disturbed or curtailed, it is expected that the construction project will impact on the hotel operations and it is likely that it shall have an effect on the revenue generated from the Hotel until such time as the construction phase of the project is completed. In addition, notwithstanding that the Company has taken all reasonable precautions to ensure that the project is finalised on time and within the estimated costs detailed elsewhere in this Document, there can be no guarantee that this will be the case.

Other Considerations

The Company will be relying heavily on the contacts and expertise of the Corinthia Group to undertake its development programmes of refurbishment. In addition, the Company is also dependent on the three Executive Directors the retention of whose services cannot be guaranteed, notwithstanding that two of them have definite term service contracts with the Company. The departure from the Company of any one of the Executive Directors could, in the short term, adversely affect the Company.

Forward Looking Statements

This Document contains forward-looking statements that include, among others, statements concerning the Company's strategies and plans relating to the attainment of those objectives, its capital requirements and other statements of expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts and which may involve predictions of future circumstances. Investors can generally identify forward-looking statements by the use of terminology such as "may", "will", "expect", "intend", "plan", "estimate", "anticipate", "believe", or similar phrases. These forward-looking statements are inherently subject to a number of risks, uncertainties, and assumptions. Important factors that could cause actual results to differ materially from the expectations of the Company's Directors include those risks identified under the heading "RISK FACTORS"; and elsewhere in this Securities Note.

The Company cautions the reader that these forward-looking statements are subject to risks and uncertainties that could cause actual events or results to differ from those expressed or implied by the statements and no assurance is given that the future results or expectations will be achieved.

3. KEY INFORMATION

3.1 Purpose of the Issue and Use of Proceeds

The Bond Issue is intended to fund part of the project costs for the extension of the existing Corinthia Nevskij Palace Hotel in St. Petersburg, Russia and the development of the two sites adjoining the Hotel. The remaining financing of this project will be funded through bank finance and a shareholder's loan to be made available by CPHCL.

3.1.1 Summary of the Project

The project consists of two main developments as follows:

- (i) The Company is currently planning the extension of the existing Corinthia Nevskij Palace Hotel in St. Petersburg, Russia consisting of the construction of an additional 103 executive rooms, together with the construction of the largest hotel conference centre in St. Petersburg accommodating over 1,000 conference delegates in its main hall. In addition, the extension project also comprises the upgrading of the Hotel's public areas including the main lobby and restaurants. This extension and upgrading project is intended to compliment the extensive upgrading programme of the Hotel's existing 288 rooms carried out in 2004-2005; and
- (ii) Additionally, the Company intends to develop, adjacent to the Hotel, a site to provide approximately 13,000 square metres of retail and office space to be leased out to third parties.

3.1.2 Funding of the Project

The extension and development project briefly described above is estimated to cost around €75 million. The Company has made arrangements for bank funding from three Austrian Banks for part funding of the project. The facilities are subject to standard conditions of the international markets for project funding of this nature. One such condition is that part of the bank funding is to be applied to re-finance existing facilities used by the Company for the acquisition of the hotel, the balance of which currently stands in the region of €17 million. Another condition is that before any further funding is made available by the banks the Company is to inject a further €19.5 million into the project. Following that injection the banks will then allow drawdown of the remaining €55.5 million of the new facility, that should see the project to completion. Apart from security over the property being developed two other guarantees shall also be provided by the Issuer, namely a cost overrun guarantee and a completion guarantee. The liability of IHI under these guarantees therefore is that it would have to make good for any additional costs that may need to be incurred for the completion of the project. Save for its liability under these guarantees the banks shall have no recourse neither to the Company nor to any of IHI's other properties, revenues or assets.

3.1.3 Funding of the €19.5 million Injection

The proceeds from the Bond will be used for the purpose of funding part of the injection which is required under the banking facility arrangements with the banks and will be used specifically for injection into the project to release the availability of the bank facilities. The balance of €7 million shall be injected by CPHCL into IHI as a shareholder's loan under commercial terms and on an arm's length basis. The terms of the loan agreement are principally the following:

- | | |
|-------------------------------|--|
| • Maturity | Not earlier than 31 December 2012 |
| • Interest Rate and repayment | 3 month Euribor rate + 175bp |
| • Subordination | In favour of the Senior lenders |
| • Capital repayment | Bullet payment on maturity; earlier if cash flow permits |

3.2 Estimated Total Expenses and Estimated Net Proceeds

The gross proceeds of the Bond Issue will amount to €12.5 million and Bond Issue costs are estimated to reach €125,000. In consequence, total net proceeds from the Bond Issue are expected to be €12.375 million.

4. INFORMATION CONCERNING THE SECURITIES

4.1 Description and Type of Securities

The Bonds constitute the unconditional debt obligations of the Company that bind the Company to pay to Bondholders interest on each Interest Payment Date and the nominal value of the Bond on the Redemption Date. The Bonds shall be issued at a nominal value of €100 per Bond in uncertificated form and following admission of the Bonds to the Official List of the Malta Stock Exchange, the Bonds shall be held in book-entry form by the Central Security Depository of the Malta Stock Exchange. The Bonds shall be denominated in Euros.

4.2 Status

The Bonds shall constitute the general, direct, unconditional, unsecured and unsubordinated obligations of the Company and will rank pari passu without any priority or preference with all other present and future unsecured and unsubordinated obligations of the Company.

4.3 Terms and Conditions of Issue

The full terms and conditions of the issue of the Bonds are contained in Annex 1 attached to this Securities Note.

4.4 Interest

The Bonds shall accrue interest at the rate of 6.5 per cent per annum payable annually on 27 March of each year. Interest shall accrue as from 27 March 2006. The first Interest Payment Date shall be 27 March 2007.

4.5 Maturity & Redemption

The Bonds shall become due for final redemption on 27 March 2014. The Issuer reserves the right to redeem the Bonds or any part of the Issue at any time prior to the stated maturity on either of the Interest Payment Dates falling in 2012 and/or 2013. Redemption of the Bonds shall be made at the face value of the Bonds. In addition, the Issuer reserves the right to purchase from the market at any time after issue, Bonds for cancellation.

4.6 Intermediaries Offer

The Bonds shall be issued and subscribed for by intermediaries either for their own account or on behalf of investors represented by such intermediaries. The Issuer shall not, unless due notice in writing is given to it, verify the relations existing between an intermediary and its client and shall only and at all times recognise as a Bondholder the person registered as such in the register of bonds held for this purpose.

4.7 Authorisations

The issue of the Bonds was authorised by the Issuer's Board of Directors by resolution dated 6 March 2006. The Listing Authority authorised the Bonds as admissible to listing on a Recognised Investment Exchange pursuant to the Listing Rules by virtue of a letter dated 16 March 2006. The Bonds are being created as debt instruments of the Company under the Act.

5. DETAILS OF THE BOND ISSUE

5.1 The Bonds are being placed initially with Intermediaries who have entered into conditional Subscription Agreements with the Issuer for the subscription of the Bonds with effect from the Issue Date. In terms of each Subscription Agreement the Issuer conditionally bound itself to issue and each Intermediary bound itself to subscribe for a number of Bonds. The undertaking of the Issuer to issue the Bonds and the undertaking of each Intermediary to subscribe for the number of Bonds set out in the respective Subscription Agreements is conditional on the Bonds being admitted to trading on the Official List of the Malta Stock Exchange. Accordingly, it is expected that upon due admission of the Bonds to the Official List of the Malta Stock Exchange, the Subscription Agreements will become binding on each of the Issuer and the Intermediaries, whereupon the Issuer shall issue and each Intermediary shall settle the transaction by paying the equivalent in Euros for the Bonds subscribed for. The terms and conditions under which the Bonds shall be issued are contained in Annex 1 to this Document.

5.2 In terms of the Subscription Agreements Intermediaries will settle the Bonds against delivery with effect from the Issue Date.

5.3 Intermediaries subscribing for Bonds may do so for their own account or for the account of underlying customers, including retail customers and shall in addition be entitled to distribute any portion of the Bonds subscribed for upon commencement of trading.

5.4 The Bonds are the subject of an Intermediary's offer. It is expected that institutional investors will subscribe to the Bonds by not later than 27 March 2006, and have executed appropriate Subscription Agreements as per 5.1 above.

6. ADMISSION TO TRADING

The Bonds are expected to be admitted to the Official List of the Malta Stock Exchange with effect from 27 March 2006 and trading is expected to commence on 28 March 2006.

7. ADDITIONAL INFORMATION

7.1 Taxation

Tax on Interest

Unless the Issuer is otherwise advised by a Bondholder resident in Malta who is not a fund or a collective investment scheme, interest shall be paid by the Issuer to such Bondholder net of a deduction for tax at source at the rate of 15 per cent pursuant to section 33 of the Income Tax Act (Cap. 123 of the Laws of Malta). This withholding tax is considered as a final tax and Bondholders who are physical persons need not declare the interest so received in their income tax return.

In the case of an election by a Bondholder resident in Malta to receive the interest due without the deduction of withholding tax, then interest will be paid gross by the Issuer and such Bondholder will be under an obligation to declare interest so received on his/her income tax return and be subject to tax thereon at the standard rate applicable to that Bondholder.

Any such election by a Bondholder at the time of application may be changed by the Bondholder by giving written notice to the Issuer or the MSE.

Non-resident Bondholders are not taxable in Malta on the interest received and will receive interest gross.

Tax on Capital Gains

Capital gains arising on disposal of the Bonds are not chargeable to Maltese income tax.

Duty on Documents and Transfers

No duty on documents and transfers is payable in respect of any transfer of the Bonds, if and for as long as the securities are listed on the MSE.

The information above does not constitute legal or tax advice, and is based on tax law and practice applicable at the date of this Document. Investors are reminded that tax law and practice may change from time to time.

INVESTORS AND PROSPECTIVE INVESTORS ARE URGED TO SEEK PROFESSIONAL ADVICE AS REGARDS BOTH MALTESE AND ANY FOREIGN TAX LEGISLATION APPLICABLE TO THE ACQUISITION, HOLDING AND DISPOSAL OF BONDS AS WELL AS INTEREST PAYMENTS MADE BY THE COMPANY. THE ABOVE IS A SUMMARY OF THE ANTICIPATED TAX TREATMENT APPLICABLE TO THE BONDS AND TO BONDHOLDERS. THIS INFORMATION, WHICH DOES NOT CONSTITUTE LEGAL OR TAX ADVICE, REFERS ONLY TO BONDHOLDERS WHO DO NOT DEAL IN SECURITIES IN THE COURSE OF THEIR NORMAL TRADING ACTIVITY.

ANNEX 1

Terms and Conditions of the Bond

The rights attaching to the Bonds are those set out in the terms and conditions of issue set out in this Annex.

1. GENERAL

- (a) Each Bond forms part of a duly authorised issue of registered Bonds of a nominal value of €100 each Bond issued by the Company at the Bond Offer Price of €100 per Bond, up to an aggregate principal amount of twelve million five hundred thousand Euros (€12,500,000) (except as otherwise provided under clause 9 “Further Issues” below) which shall bear interest at the rate of 6.5 per cent per annum.
- (b) Unless previously purchased and cancelled, the Bonds, shall be redeemable at the nominal value on 27 March 2014 or at the option of the Company on either 27 March 2012 or 27 March 2013.

2. FORM, DENOMINATION AND TITLE

The Bonds will be issued in fully registered form, without coupons, in denominations of any integral multiple of one hundred Euros (€100) provided that on original subscription by Intermediaries the Bonds will be issued for a minimum of two hundred and fifty thousand Euros (€250,000). The Bonds, and transfer thereof, shall be registered as provided under Clause 8 “Registration, Replacement, Transfer and Exchange” below. A person in whose name a Bond shall be registered shall (to the fullest extent permitted by law) be treated at all times and for all purposes as the absolute owner of such Bond regardless of any notice of ownership or trust.

3. INTEREST

- (a) The Bonds shall bear interest at the rate of 6.5 per cent per annum on the nominal value of the Bond, payable annually in arrears, on 27 March of each year the first payment becoming due on 27 March 2007 (each such day, an “Interest Payment Date”). Each Bond will cease to bear interest from and including its due date of redemption unless, the Bond is earlier redeemed on a Designated Early Redemption Date or unless upon due presentation, payment of the principal in respect of the Bond is improperly withheld or refused or unless the Company defaults in which event interest shall continue to accrue at the rate specified above or at the rate of two per cent (2%) per annum above the Central Bank of Malta minimum discount rate whichever is the greater; and
- (b) When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of a three hundred and sixty (360) day year consisting of twelve (12) months of thirty (30) days each, and, in the case of an incomplete month, the number of days elapsed.

4. STATUS AND NEGATIVE PLEDGE

- (a) The Bonds constitute general, direct, unconditional, unsecured and unsubordinated obligations of the Company and will rank pari passu, without any priority or preference, with all other present and future unsecured and unsubordinated obligations of the Company.
- (b) The Company undertakes for as long as any principal or interest under the Bonds or any of the Bonds remains outstanding, not to create or permit to subsist any Security Interest (as defined below), other than a Permitted Security Interest (as defined below), upon the whole or any part of its present or future assets or revenues to secure any Financial Indebtedness (as defined below) of the Company unless at the same time or prior thereto the Company’s indebtedness under the Bonds, shares in and is secured equally and rateably therewith, and the instrument creating such Security Interest so provides.

For the purposes of this Clause and of Clause 7 (“Events of Default”) below:

“Financial Indebtedness” means any indebtedness in respect of (A) monies borrowed; (B) any debenture, bond, note, loan stock or other security; (C) any acceptance credit; (D) the acquisition cost of any asset to the extent payable before or after the time of acquisition or possession by the party liable where the advance or deferred payment is arranged primarily as a method of raising finance for the acquisition of that asset; (E) leases entered into primarily as a method of raising finance for the acquisition of the asset leased; (F) amounts raised under any other transaction having the commercial effect of borrowing or raising of money; (G) any guarantee, indemnity or similar assurance against financial loss of any person;

“Security Interest” means any privilege, hypothec, pledge, lien, charge or other encumbrance or real right which grants rights of preference to a creditor over the assets of the Company;

“Permitted Security Interest” means (A) any Security Interest arising by operation of law; (B) any Security Interest securing temporary bank loans or overdrafts in the ordinary course of business; (C) any other Security Interest (in addition to (A) and (B) above) securing Financial Indebtedness of the Company, in an aggregate outstanding amount not exceeding 80 per cent of the difference between the value of the unencumbered assets of the Company and the aggregate principal amount of Bonds outstanding at the time.

Provided that the aggregate Security Interests referred to in (B) and (C) above do not result in the unencumbered assets of the Company being less than one hundred and six point five per cent (106.5%) of the aggregate principal amount of the Bonds still outstanding;

“unencumbered assets” means assets which are not subject to a Security Interest.

5. PAYMENTS

- (a) Payment of the principal amount of a Bond will be made in the currency in which that Bond is designated to the person in whose name such Bond is registered, with interest accrued to the date fixed for redemption, against surrender of such Bond at the registered office of the Company or at such other place in Malta as may be notified by the Company by way of a cheque drawn on a bank in Malta.
- (b) Payment of interest on a Bond will be made in the currency in which the Bond is designated to the person in whose name such Bond is registered at the close of business 15 days prior to the Interest Payment Date by mailing a cheque drawn on a bank in Malta to the Bondholder at such Bondholder’s registered address within seven days of the Interest Payment Date. The Company shall not be responsible for any loss or delay in transmission. The payment of the cheque, if purporting to be duly endorsed, shall be a good discharge to the Company.
- (c) All payments are subject in all cases to any pledge (duly constituted) of the Bonds and to any applicable fiscal or other laws and regulations. In particular, but without limitation, all payments by the Company in respect of the Bonds shall be made net of any amount which the Company is compelled by law to deduct or withhold for or on account of any present or future taxes, duties, assessments or other government charges of whatsoever nature imposed or levied by or on behalf of the Government of Malta or authority thereof or therein having power to tax.
- (d) No commissions or expenses shall be charged to the Bondholders in respect of such payments.

6. REDEMPTION AND PURCHASE

- (a) Unless previously purchased and cancelled, the Bonds will be redeemed at their nominal value (together with interest accrued to the date fixed for redemption) on 27 March 2014. The Issuer reserves the right to redeem all or any part of the Bond Issue on either of 27 March 2012 or 27 March 2013. The Issuer shall give at least ninety days notice in writing to all Bondholders of its intention to effect such earlier redemption stating the number of Bonds that it will redeem on that Designated Early Redemption Date and the manner in which it shall select the Bonds for such early redemption.
- (b) The Company may at any time purchase Bonds in the open market or otherwise at any price. Any purchase by tender shall be made available to all Bondholders alike.
- (c) All Bonds so redeemed or purchased will be cancelled forthwith and may not be re-issued or resold.

7. EVENTS OF DEFAULT

The Bonds shall become immediately due and repayable at their principal amount together with accrued interest if any of the following events (“Events of Default”) shall occur:-

- (i) the Company shall fail to pay any interest on any Bond when due and such failure shall continue for thirty (30) days after written notice thereof shall have been given to the Company by any Bondholder; or
- (ii) the Company shall fail duly to perform or shall otherwise be in breach of any other material obligation contained in the terms and conditions of the Bonds and such failure shall continue for sixty (60) days after written notice thereof shall have been given to the Company by any Bondholder; or
- (iii) an order is made or resolution passed or other action taken for the dissolution, termination of existence, liquidation, winding-up or bankruptcy of the Company; or
- (iv) the Company stops or suspends payments (whether of principal or interest) with respect to all or any class of its debts or announces an intention to do so or ceases or threatens to cease to carry on its business or a substantial part of its business; or
- (v) the Company is unable, or admits in writing its inability, to pay its debts as they fall due or otherwise becomes insolvent; or
- (vi) there shall have been entered against the Company a final judgment by a court of competent jurisdiction from which no appeal may be or is taken for the payment of money in excess of five hundred thousand Maltese Liri (Lm500,000) or its equivalent and ninety (90) days shall have passed since the date of entry of such judgment without its having been satisfied or stayed; or
- (vii) any default occurs and continues for ninety (90) days under any contract or document relating to any Financial Indebtedness (as defined above) of the Company in excess of five hundred thousand Maltese Liri (Lm500,000) or its equivalent at any time.

8. REGISTRATION, REPLACEMENT, TRANSFER AND EXCHANGE

- (a) A register of the Bonds will be kept by the Company at the Central Securities Depository (“CSD”) of the Exchange, wherein there will be entered the names and addresses of the Bondholders and particulars of the Bonds held by them respectively and a copy of such register will at all reasonable times during business hours be open to inspection at the registered office of the Company.
- (b) Bonds shall be issued in uncertificated form and shall be maintained in book-entry form at the Central Securities of the Malta Stock Exchange. The Bonds shall accordingly be evidenced by a book-entry in the register of Bondholders held by the CSD. The CSD will issue on a six-monthly basis or at such other intervals as the Malta Stock Exchange Bye-Laws shall from time to time determine a statement of holdings to Bondholders evidencing their entitlement to Bonds held in the register kept by the CSD.
- (c) A Bond may be transferred only in whole in accordance with the rules and procedures applicable from time to time at the Malta Stock Exchange.
- (d) Any person becoming entitled to a Bond in consequence of the death or bankruptcy of a Bondholder may, upon such evidence being produced as may from time to time properly be required by the Company or the Malta Stock Exchange, elect either to be registered himself as holder of the Bond or to have some person nominated by him registered as the transferee thereof. If the person so becoming entitled shall elect to be registered himself, he shall deliver or send to the Company a notice in writing signed by him stating that he so elects. If he shall elect to have another person registered he shall testify his election by executing to that person a transfer of the Bond.
- (e) All transfers and transmissions are subject in all cases to any pledge (duly constituted) of the Bonds and to any applicable laws and regulations.
- (f) The cost and expenses of effecting any exchange or registration of transfer or transmission except for the expenses of delivery by other than regular mail (if any) and except, if the Company shall so require, the payment of a sum sufficient to cover any tax, duty or other governmental charge or insurance charges that may be imposed in relation thereto, will be borne by the Company.
- (g) The Company will not register the transfer or transmission of Bonds for a period of fifteen (15) days preceding the due date for any payment of interest on the Bonds.

9. FURTHER ISSUES

The Company is at liberty, from time to time, without the consent of the Bondholders, to create and issue further bonds, notes or debentures ranking pari passu in all respects with the Bonds (or in all respects save for the first payment of interest thereon). The Company shall not issue any other debt instrument for a period of six months following the date of this Securities Note.

10. MEETINGS OF BONDHOLDERS

- (a) The Terms and Conditions contained herein shall only be amended with the approval of Bondholders at a meeting called for that purpose in accordance with the terms hereunder.
- (b) In the event that the Issuer wishes to amend any of the Terms and Conditions of Issue of the Bond it shall call a meeting of Bondholders by giving such Bondholders not less than fourteen (14) days notice, in writing setting out in the notice the time, place and date set for the meeting and the matters to be discussed thereat.
- (c) A meeting of Bondholders shall only validly and properly proceed to business if there is quorum present at the commencement of the meeting. For this purpose a quorum shall be considered present if there are Bondholders present, in person or by proxy, that account for at least fifty per cent in nominal value of the Bonds then outstanding.
- (d) Once a quorum is declared present by the Chairman of the meeting (who shall be the person who in accordance with the regulations of the Company would chair a general meeting of shareholders) the meeting may then proceed to business and the directors or their representative shall present to the Bondholders the reasons why it is deemed necessary or desirable and appropriate that the Terms and Conditions of Issue of the Bonds ought to be amended as proposed by the Issuer. The meeting shall allow reasonable and adequate time to Bondholders to present their views to the Issuer and the other Bondholders. The meeting shall then put the matter as proposed by the Issuer to a vote of the Bondholders present.
- (e) The voting process shall be managed by the Company Secretary under the supervision and scrutiny of the Auditors of the Company.
- (f) The proposal placed before a meeting of Bondholders shall only be considered approved if at least 75 per cent in nominal value of the Bondholders present at the meeting shall have voted in favour of the proposal.
- (g) Save for the above, the rules generally applicable to the Company during general meetings of shareholders shall apply.

11. BONDS HELD JOINTLY

In respect of a Bond held jointly by several persons, the joint holders shall nominate one of their number as their representative and his/her name will be entered in the register with such designation. Such person shall, for all intents and purposes, be deemed to be the registered holder of the Bond so held. In the absence of such nomination and until such nomination is made, the person first named on the register in respect of such Bond shall, for all intents and purposes, be deemed to be the registered holder of the Bond so held.

12. BONDS HELD SUBJECT TO USUFRUCT

In the respect of a Bond held subject to usufruct, the name of the bare owner and the usufructuary shall be entered in the register. The usufructuary shall, for all intents and purposes, be deemed visa-vis the Company to be the holder of the Bond so held and shall have the right to receive interests on the Bond but shall not, during the continuance of the bond, have the right to dispose of the Bond so held without the consent of the bare owner.

13. GOVERNING LAW AND JURISDICTION

- (a) The Bonds are governed by and shall be construed in accordance with Maltese law.
- (b) Any suit, action or proceeding against the Company with respect to a Bond shall exclusively be brought against it in the Maltese Courts.

14. NOTICES

Notices will be mailed to Bondholders at their registered addresses and shall be deemed to have been served at the expiration of twenty-four (24) hours after the letter containing the notice is posted, and in proving such service it shall be sufficient to prove that a prepaid letter containing such notice was properly addressed to such Bondholder at his registered address and posted.

15. LISTING

The Bonds, upon issue and subscription, shall be admitted to the Official List of the Malta Stock Exchange, accordingly all the terms and conditions herein contained shall be read in conjunction with the Bye-Laws of the Malta Stock Exchange applicable from time to time.



INTERNATIONAL HOTEL INVESTMENTS p.l.c.

SUMMARY NOTE

This document is a Summary Note issued in accordance with the provisions of Chapter 6 of the Listing Rules issued by the Listing Authority and in accordance with the provisions of Commission Regulation (EC) No 809/2004 of April 29, 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in a prospectus.

This document is a Summary Note as required by Rule 6.4.1 of the Listing Rules and contains information about the International Hotel Investments p.l.c. as the issuer of securities for which application has been made for admission to trading on the Malta Stock Exchange. This Summary Note should be read in conjunction with the most updated Registration Document and Securities Note issued by the Company from time to time that will provide the details of the Issuer and securities to which these documents relate.

This document is dated 17 March 2006

Legal Counsel
Camilleri Preziosi

Sponsoring Stockbroker
Charts Investment Management Service Limited

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DEFINITIONS

In this document the following words and expressions shall bear the following meanings except where the context otherwise requires:

| | |
|-----------------------------------|--|
| Act | the Companies Act, Cap. 386 of the Laws of Malta; |
| Bonds or Securities | the €12.5 million Bonds redeemable on any Interest Payment Date falling in each of the years 2012, 2013 and 2014 and which shall bear interest at the rate of 6.5 per cent per annum from the Issue Date and each of the years falling between the years 2007 and 2014 unless previously redeemed; |
| Bondholder | a holder of Bonds; |
| Bond Offer Price | the price of €100 for each Bond; |
| Company, Issuer or IHI | International Hotel Investments p.l.c.; |
| Corinthia Group | CPHCL and the companies in which CPHCL has a controlling interest; |
| CPHCL | Corinthia Palace Hotel Company Limited, a company registered under the laws of Malta, and the parent company of the Corinthia Group; |
| Designated Early Redemption Dates | 27 March 2012 and 27 March 2013; |
| Directors or Board | the directors of the Company whose names are set out under the heading “Identity of Directors, Senior Management, Advisors and Auditors”; |
| € or Euro | the lawful currency from time to time of the European Union; |
| Interest Payment Date | 27 March of each year between and including each of the years 2007 and the year 2014; |
| Intermediaries | the persons with and through whom the Bond Issue shall be placed; |
| Issue Date | 21 March 2006; |
| Malta Stock Exchange or MSE | the Malta Stock Exchange as defined by the Financial Markets Act (Cap.345 of the Laws of Malta); |
| Maltese Liri | the lawful currency from time to time of the Republic of Malta; |
| Prospectus | this document together with the Registration Document dated 17 March 2006 and the Securities Note dated 17 March 2006; |
| Redemption Date | 27 March 2014 or at the Issuer’s option either of the Designated Early Redemption Dates; |
| Redemption Value | €100 per Bond. |

Warning to Potential Investors

This Summary Note forms part of the Prospectus containing information concerning the Issuer and the Securities. This Summary Note is intended to briefly convey the essential characteristics of, and risks associated with, the Issuer and the Securities.

You should carefully take into consideration the following criteria for evaluation of this Summary Note:

- The Summary Note should be read as merely an introduction to the Prospectus;
- Any decision to invest in the Securities should be based on consideration of the Prospectus as a whole;
- Civil liability attached to the Company which has tabled this Summary Note and applied for its notification only if the Summary Note is shown to be misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT, ADVISORS AND AUDITORS

The Directors of the Company, whose names are set out hereunder, are the persons responsible for the information contained in this Summary Note. They have been advised and assisted in the drafting and compilation of the document by the persons mentioned under the heading "Advisors".

| | |
|---------------------|--------------------------------------|
| Alfred Pisani | Chairman and Chief Executive Officer |
| Joseph Fenech | Managing Director |
| Simon Naudi | Executive Director |
| Abdurazagh Zmirli | Non-Executive Director |
| Frank Xerri de Caro | Non-Executive Director |
| Joseph J. Vella | Non-Executive Director |
| Lawrence Zammit | Non-Executive Director |

THE DIRECTORS OF THE COMPANY, WHOSE NAMES APPEAR ABOVE (THE "DIRECTORS"), ARE THE PERSONS RESPONSIBLE FOR THE INFORMATION CONTAINED IN THIS SUMMARY NOTE. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE DIRECTORS OF THE COMPANY (WHO HAVE ALL TAKEN REASONABLE CARE TO ENSURE SUCH IS THE CASE), THE INFORMATION CONTAINED IN THIS SUMMARY NOTE IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. THE DIRECTORS ACCEPT RESPONSIBILITY ACCORDINGLY.

Advisors

Legal Counsel to the Issuer

Name: Camilleri Preziosi
Address: Level 2, Valletta Buildings, South Street
Valletta – VLT 11 – MALTA

Sponsoring Stockbroker

Name: Charts Investment Management Service Limited
Address: 18a 3rd Floor, Europa Centre
Floriana – VLT15 - MALTA

Auditors

Name: KMPG
Address: Portico Building, Marina Street
Pieta' - MSD08 - MALTA

2. OFFER STATISTICS AND EXPECTED TIMETABLE

The Bonds are being placed initially with Intermediaries who have entered into conditional Subscription Agreements with the Issuer for the subscription of the Bonds with effect from the Issue Date. Thereafter, it is expected that the Bonds are admitted to the Official List of the MSE on 27 March 2006 and secondary trading to commence on 28 March 2006.

3. KEY INFORMATION

3.1 *Selected Financial Data, and Information on the Company's Capitalisation & Indebtedness*

The historical information about the Company has been included in Annexes 1 – 3 to the Registration Document forming part of the Prospectus.

The most recent financial statements included in the said Annexes are the unaudited Interim Financial Statements of the Issuer for the six-month period ended 30 June 2005. No significant changes in the financial or trading position of the Issuer have occurred since then.

3.2. *Reasons for the Offer and Use of Proceeds*

The Bond Issue is intended to fund part of the project costs for the extension of the existing Corinthia Nevskij Palace Hotel in St. Petersburg, Russia, and the development of two sites adjoining the Hotel (the "Project"). The remaining financing of this project will be funded through bank finance and a shareholder's loan to be made available by CPHCL.

This extension and development project is estimated to cost approximately €75 million. The Company has already made arrangements for bank funding from three Austrian Banks for part funding of the project. The agreed terms of the bank funding are subject to certain conditions that need to be satisfied before the banks allow drawdown of the funds required for completion of the Project. In relation to the Bond Issue, the most significant of these conditions is that before any further funding necessary for the completion of the Project is made available by the banks, the Company is to inject €19.5 million into the project.

The proceeds from the Bond (€12.5 million less Estimated Expenses) will be used for the purpose of funding part of the said injection which is required under the banking facility arrangements with the banks, and, as stated above, will be used specifically for injection in the project. The balance of €7 million will be injected by CPHCL into IHI as a shareholder's loan under commercial terms and on an arm's length basis.

3.3. *Risk Factors*

You should carefully consider the following matters, as well as the other information contained in the Registration Document and Securities Note, before making any investment decision with respect to the Company. Information contained in this Summary Note contains "forward-looking statements," which are subject to the qualifications discussed below. If any of the risks described were to materialise, they could have a serious effect on the Company's financial results, trading prospects and the ability of the Company to fulfil its obligations under the Securities to be issued.

3.3.1 *Forward Looking Statements*

This Document contains forward-looking statements that include, among others, statements concerning the Company's strategies and plans relating to the attainment of those objectives, its capital requirements and other statements of expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts and which may involve predictions of future circumstances. These forward-looking statements are inherently subject to a number of risks, uncertainties, and assumptions. Important factors that could cause actual results to differ materially from the expectations of the Company's Directors include those risks identified under the heading "*RISK FACTORS*"; and elsewhere in the Prospectus.

The Company cautions the reader that these forward-looking statements are subject to risks and uncertainties that could cause actual events or results to differ from those expressed or implied by the statements, and no assurance is given that the future results or expectations will be achieved.

3.3.2 Emerging Markets

Exposure by the Company to investments in emerging markets entails economic, social and political conditions which may differ considerably from those of more developed markets to which investors may be more accustomed, potentially rendering investment in such markets more risky than investments in more developed markets.

Although emerging country risk remains part of the overall risk of the Company's portfolio, the entry into the European Union of both Malta and Hungary, which are two of the jurisdictions in which the Company owns property, should operate to stabilize the risk emanating from the particular traits inherent in this kind of risk.

3.3.3 Competition in the Field of Business of the Company

Severe competition in certain countries and changes in economic and market conditions could adversely affect the Company's business and operating results.

3.3.4 Financing Future Growth

The Company has a material amount of debt, and will incur significant additional debt in connection with future development/refurbishment projects. Immediately after the Bond Issue, the Company will have a debt to equity ratio of 1.19:1.00. Although the amount of debt funding of the Company is expected to increase due to the costs incurred for completion of the Project, it is expected that the debt to equity ratio of the Company will be maintained at prudent levels, and to this end the Company already has plans to raise further equity capital to be able to continue to fund its future growth and investments. A substantial portion of the Company's cash flows will be required to make principal and interest payments on the Company's debt including the Bonds. Substantial borrowings under bank credit facilities are expected to be at variable interest rates, which could cause the Company to be vulnerable to increases in interest rates.

The agreements regulating the Company's bank debt impose and are likely to impose significant operating restrictions and financial covenants on the Company, which could limit the Company's ability to obtain future financing, make capital expenditure, withstand a future downturn in business or economic conditions generally, or otherwise inhibit the ability to conduct necessary corporate activities.

3.3.5 The St. Petersburg Project

Up until completion of the construction phase of the Project, it is expected that the Company will incur substantial capital expenditure, and the Hotel itself shall be temporarily hindered in its operations. Moreover, there can be no guarantee that the project is finalised on time and within the estimated costs as planned, although all possible measures have been taken to limit these potential drawbacks.

3.3.6 Other Considerations

Naturally, the Company will be relying heavily on the contacts and expertise of the Corinthia Group to lay out and fulfill its strategic and investment objectives. No assurance, however, can be given that the Company or the Corinthia Group will be able to use such contacts and expertise to identify and secure suitable investments. In addition, the retention of the executive directors' contracts cannot be guaranteed, and the departure from the Company of any one of the Executive Directors could, albeit merely in the short term, adversely affect the Company.

4. INFORMATION ABOUT THE COMPANY

4.1 Historical Development

The Company is a public company with limited liability registered in Malta on 29 March 2000 with company registration number C26136, and is regulated in terms of the Companies Act Cap.386 of the Laws of Malta. The Company has its registered office at 22, Europa Centre, Floriana, Malta.

The Company was set up and promoted by the Corinthia Group as the principal vehicle for the expansion of the Group's international activities. Following a successful IPO in April 2000, the Company's shares were listed on the Malta Stock Exchange.

4.2 Investment Objective and Strategy

The principal **objective** of the Company remains the achievement of above average long-term returns for its shareholders, principally through the long-term growth of the Company via investment in a balanced portfolio of hotel properties and hotel operations in selected emerging and fast-growing markets.

The **strategy** of the Company may be explained in the following sequence:

- (a) identify acquisitions of properties which are currently under-performing but which have the potential to become the top five-star properties in their respective locations;
- (b) together with the Corinthia Group, conclude negotiations and commence reorganisation of the properties' management under the Company's associated hotel management company, C.H.I. Limited ('CHI');
- (c) initiate an investment programme to upgrade the property to top five-star hotel standards.

Through this strategy, the attainment of the Company's objectives is expected to provide a focus and benchmark for the creation of shareholder value and shareholder returns as the basis for business development, and to adapt to, and profit from, the ever-changing market conditions.

These are the fundamental objectives of the Company and the strategy underpinning the future prospects of the Company. However, following the first phase of the Company's development and its initial acquisitions the Company's strategy for the coming two years (2006-2008) will focus mainly on the consolidation of its prime assets, namely the existing portfolio of hotel properties, in particular the completion of the Project.

4.3 Business Overview and Developments since the 2000 Initial Public Offering

In line with its stated objective and commitment made in its IPO in April 2000, IHI has, since its inception, made acquisitions of hotel properties in the following locations:

| Hotel | Location | Type/Rooms |
|--------------------------------|-------------------------|---------------|
| Corinthia San Gorg Hotel | St. Julians - Malta | Five Star/250 |
| Corinthia Grand Hotel Royal | Budapest – Hungary | Five Star/442 |
| Corinthia Alfa Hotel | Lisbon – Portugal | Five Star/517 |
| Corinthia Nevskij Palace Hotel | St. Petersburg – Russia | Five Star/288 |

The Company raised capital in the following manner:

| | |
|--------|--|
| 2000 | Lm40 million capital raised: - partly through the issue of 30 million ordinary shares with a nominal value of Lm 1 each issued to CPHCL and other companies within the Corinthia Group; and - partly through issue, following the IPO launched in April 2000, of 10 million ordinary shares with a nominal value of Lm1 each issued to the investing public. |
| 2000 | Lm5 million capital raised: - through Convertible Bonds issued to the public. |
| 2001/2 | Lm8 million capital raised: - through a Rights issue consisting of the issue of 8 million ordinary shares of Lm 1 each issued at par to existing shareholders including CPHCL, which fully subscribed to its allotment of six million shares. |

The capital thereby raised was employed by the Company to:

- acquire 100% ownership of Five Star Hotels Limited, a Maltese company owning the five-star 250 room Corinthia San Gorg Hotel (together with an independent beach facility), for Lm13.64 million;
- take over the ownership of the derelict Grand Hotel Royal in Budapest for Lm10.78million;
- purchase a 20% shareholding in CHI Ltd for Lm0.321 million;
- purchase a 20% shareholding in Quality Project Management Limited ('QPM'), a construction and project management company, for Lm0.048 million;
- acquire the high-rise 430-room Corinthia Alfa Hotel in Lisbon, for a total of Lm18.80 million;
- acquire the five-star Nevskij Palace Hotel and a number of adjoining properties in St. Petersburg for a total value of Lm20.4 million;
- refurbish the Corinthia Alfa Hotel to five-star standard at a cost of Lm15 million. The hotel was re-opened in May 2004;
- refurbish the bedrooms and the corridors of the Corinthia Nevskij Palace Hotel by February 2005 at a cost of Lm1.1 million.

During the course of period 2006-2008 the Company intends to focus its endeavours on the St. Petersburg property. The existing 288 rooms of the five-star Corinthia Nevskij Palace Hotel, situated in the city's main boulevard, have already been refurbished between 2004 and 2005. In addition, on one of the sites adjoining the hotel, 103 executive bedrooms will be provided together with the provision of the largest hotel conference centre in St. Petersburg, capable of hosting 1,000 delegates in its main hall. Moreover, vast retail and office areas will be developed on another site adjacent to the Hotel, which had all been acquired as part of the development project.

5. TREND INFORMATION

There have been no material adverse changes in the prospects of the Issuer since the date of its last published financial statements.

At the time of publication of the Prospectus, the Issuer considers that the Company will be subject to the normal business risks associated with the hotel and hospitality industry and that it does not anticipate any trends, uncertainties, demands, commitments or events outside the ordinary course of business and that would be deemed likely to have a material effect on its upcoming prospects of the Company and its business, at least with respect to the current financial year.

6. MANAGEMENT AND EMPLOYEES

6.1 The Company's Organisational Structure

Since its inception, the management of the Company has been involved principally in new investments and acquisitions, and hotel operations. As far as new investments and acquisitions are concerned, the Company has operated principally through its executive directors and the committed support of the Corinthia Group. With respect to hotel operations and management, the Company has adopted an autonomous organisational structure for each hotel property and operation.

The philosophy of the Company is to own its hotel properties through one or more companies established in one or more jurisdictions. Apart from the efficient tax treatment enjoyed by this kind of corporate structure, the establishment of a legal entity in the jurisdiction where the hotel property is located also ensures that each hotel property has its own management structure that is entrusted with the responsibility for that particular hotel. This is aimed at allowing each hotel a high level of autonomy, to take account of the particular environment and market within which it operates, subject to the overall direction and the strategic parameters and objectives established by the Company's Board of Directors.

6.2 Directors

The Company is managed by a Board of Directors consisting of seven members, entrusted with the overall direction and management of the Company, including the establishment of strategies for future development. The Board consists of three executive directors and four non-executive directors. The executive directors of the Company, who are the CEO, Managing Director and Business Development Director, are entrusted with the Company's day-to-day management. The responsibility of the Directors is a collective one, although within the structure of a unitary board, the main functions of the Directors are, in practice, complementary.

Each hotel property owned by the Company is owned through a subsidiary company in the jurisdiction where that hotel property is located and is required to comply with all the laws and regulations of that jurisdiction. Accordingly, a board of directors is entrusted with the responsibility of the direction and management of each subsidiary company within the strategic parameters established by the Company's Board.

The following are short curriculum vitae of the Directors:

Alfred Pisani: is the founder of the Corinthia Group and has been the Chairman and Chief Executive Officer since the inception of Corinthia in 1962. He was responsible for the construction of the Group's first hotel, the Corinthia Palace in Attard. He has led the Corinthia Group from a one hotel company to a diversified group having significant interests. Such interests vary from equity participations, management or both in several geographical areas and include interests in four other hotels in Malta, five hotels in Turkey, two hotels in Hungary, nine hotels in the Czech Republic, two hotels in Portugal and Tunisia and one each in Belgium, Libya, The Russian Federation, The Gambia and Togo. Mr. Pisani is also the Chairman and CEO of the Company.

Joseph Fenech: is a Fellow of the Chartered Association of Certified Accountants of the United Kingdom and a Fellow of the Malta Institute of Accountants. He is the Managing Director responsible for business development and corporate administration of the Corinthia Group. Mr. Fenech joined the Corinthia Group in 1980 after having spent a few years as senior auditor with a local auditing firm. His first appointment was as Group Accountant responsible for all financial and accounting matters of the Corinthia Group operations. In 1990 he was appointed a member of the executive board. Mr. Fenech is also the Managing Director of the Company.

Simon Naudi: joined the Board of IHI in 2005, having joined the Corinthia Group in a senior executive role in 1998. He has since been responsible for corporate strategy, including business development, particularly hotel and real estate acquisitions and project developments.

Abdurazagh Zmirli: has had a long and distinguished career in the international aviation and leisure industries, and joined the Board of IHI in 2005. He is also a Member of the board of directors of CPHCL, representing LFICO.

Joseph J. Vella: is a lawyer by profession. He was admitted to the bar in 1973 and has since then been in private practice. He is currently senior partner of the law firm GVTH & Associates. Dr. Vella advises a number of leading commercial organisations both in the public and private sector and has been a legal advisor of the Corinthia Group for more than fifteen years. Dr. Vella is also a director on several companies in addition to being a director of the Company and a number of its subsidiaries, and is also a director of Corinthia Finance p.l.c., another subsidiary company of the Corinthia Group.

Lawrence Zammit: is the Chairman of Air Malta Company Ltd. Prior to this appointment he used to serve as Chairman of the Malta International Airport p.l.c. and carried out the functions of the CEO for the same company for the period of 1998 and 2002. He is an Economics graduate of the University of Malta and a Director and co-founder of MISCO, a company that provides research, consultancy, training and executive recruitment services. Mr. Zammit is also Chairman of the Malta Development Corporation, Deputy Chairman of APS Bank Ltd, and a Director of Vilhena Funds Sicav p.l.c. and Big Bon Finance p.l.c. He is a member of the European Society of opinion and Market Research and the Market Research Society of the United Kingdom. Mr Zammit is currently a Member of the Audit Committee of the Company.

Frank Xerri de Caro: joined the Board of IHI in 2004, having previously been Chief Officer of Bank of Valletta p.l.c., besides serving on the Boards of several major financial, banking and insurance institutions. Mr. Xerri de Caro is currently the Chairman of the Audit Committee of the Company.

6.3 Management

The Issuer's parent company, CPHCL, which owns 78% of the Issuer's total issued share capital, has entered into an Administrative Support Services Agreement with the Company in connection with the provision by CPHCL of management services at the strategic level of the Company's business, allowing the Company the support of the experience and expertise of CPHCL in the operation of its business. More importantly, the Company also relies on the experience and expertise of an affiliated company, C.H.I Limited, in the management and operation of its properties, and this dependence on the Corinthia Group has proved particularly beneficial to the Company.

6.4 Employees

In aggregate, the Company, through its subsidiaries employs around 1,180 employees in four different jurisdictions. The following table shows how these employees are deployed by the hotels of the Company as at 31 December 2005:

| Hotel Operation | Executive Management | Middle Management | Non-Managerial |
|--------------------------------|----------------------|-------------------|----------------|
| Corinthia San Gorg Hotel | 7 | 18 | 195 |
| Corinthia Alfa Hotel | 13 | 31 | 183 |
| Corinthia Nevskij Palace Hotel | 12 | 25 | 339 |
| Corinthia Grand Hotel Royal | 13 | 28 | 310 |

6.5 Major Shareholder

The Corinthia Group currently owns 78% of the share capital of the Company. In terms of the Memorandum and Articles of Association of the Company, CPHCL is entitled to appoint a majority of the Directors of the Company and will accordingly retain control over the management and operations of the Company. The Corinthia Group intends accordingly to retain management control of the Company during its development stages with a view to providing its expertise and know-how in the industry.

7. FINANCIAL INFORMATION

7.1 Audited Financial Statements

Annex 1 to the Registration Document, which has been submitted as part of the Prospectus, contains the consolidated audited Financial Statements of the Issuer for the financial years ended 31 December 2004 and 2003.

7.2 Unaudited Interim Financial Statements

Annex 2 of the Registration Document, which has been submitted as part of the Prospectus, contains the unaudited Interim Financial Statements of the Issuer for the six-month periods ended 30 June 2005 and 2004.

7.3 Significant Changes in the Company's Financial Position

No significant change in the financial or trading position of the Issuer has occurred since the end of the financial period to which the unaudited Interim Financial Statements relate.

8. DETAILS OF THE BOND ISSUE

8.1 Plan for Distribution

The Bonds are being placed initially with Intermediaries that have entered into conditional Subscription Agreements with the Issuer for the subscription of the Bonds with effect from the Issue Date. In terms of each Subscription Agreement the Issuer conditionally binds itself to issue, and each Intermediary binds itself to subscribe for a number of Bonds as set out in the respective Subscriptions Agreements.

Upon due admission of the Bonds to the Official List of the Malta Stock Exchange, the Subscription Agreements will become binding on each of the Issuer and the Intermediaries, whereupon the Issuer shall issue, and each Intermediary shall settle the transaction by paying the equivalent in Euros for the Bonds subscribed for. The terms and conditions under which the Bonds shall be issued are contained in Annex 1 to the Securities Note issued as part of the Prospectus.

8.2 Admission to Trading

The Bonds are expected to be admitted to the Official List of the Malta Stock Exchange with effect from 27 March 2006, and trading is expected to commence on 28 March 2006.

9. ADDITIONAL INFORMATION

9.1 Share Capital

The authorised share capital of the Company is €750 million. The issued share capital is €139.05 million fully paid up, divided into 139.05 million ordinary shares of a nominal value of one Euro each share. Share allotments dating up to 8 April 2005 are listed in Section 12.1 of the Registration Document forming part of the Prospectus.

9.2 Memorandum and Articles of Association

The Memorandum and Articles of Association of the Company is registered with the Malta Financial Services Authority. The main object of the Company is to carry on the business of a finance and investment company in connection with the ownership, development, operation and financing of hotels, resorts, leisure facilities, tourism related activities and such other activities as may from time to time be ancillary or complimentary to the foregoing whether in Malta or overseas. Clause 3 of the Memorandum of Association contains the full list of objects of the Company. The Memorandum and Articles of Association of the Company, a copy of which may be inspected during the lifetime of this Summary Note at the registered office of the Company and at the Registrar of Companies of the Malta Financial Services Authority, regulate matters customarily dealt with therein, including matters such as voting rights and restrictions thereof, and the appointment and powers of directors.

10. DOCUMENTS AVAILABLE FOR INSPECTION

For the duration period of this Summary Note the following documents shall be available for inspection at the registered address of the Company :

- (a) Memorandum and Articles of Association;
- (b) Consolidated Audited Financial Statements of the Company for the years ended 31 December 2004 and 2003.

These documents are also available for inspection in electronic form on the Company's website at www.corinthiagroup.com