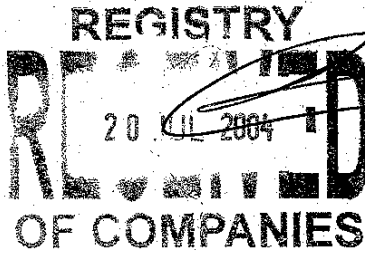


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28 JUL 2004

International Hotel Investments p.l.c.

Directors' Reports
and
Financial Statements
2003

International Hotel Investments p.l.c.

Directors' Reports and Financial Statements

2003

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International Hotel Investments p.l.c.

Directors' Report

For the Year Ended 31 December 2003

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 2003.

Board of Directors

Mr Alfred Pisani (Chairman and Chief Executive Officer)
Mr Louis E Galea (Deputy Chairman)
Mr Joseph Fenech (Managing Director)
Dr Joseph J Vella
Mr Lawrence Zammit

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(c) to the financial statements), through which it furthers the business of the Group.

Review of Business Development and State of Affairs

The results of the operations for the year are as set out in the profit and loss account on page 12.

The Managing Director's Report reviews the business of the Group for the year and the state of affairs at 31 December 2003.

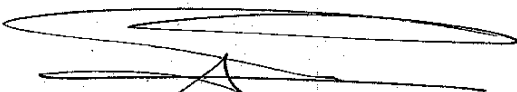
Future Developments

The Chairman's Report details the developments in the business of the Group expected to materialise after the date of this report.

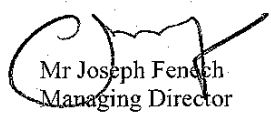
Reserves

The movements on reserves are as set out on pages 15 and 16 of the financial statements.

Approved by the Board of Directors on 4 June 2004 and signed on its behalf by:



Mr Alfred Pisani
Chairman and Chief Executive Officer



Mr Joseph Fenech
Managing Director

22 Europa Centre
Floriana
Malta

International Hotel Investments p.l.c.

Shareholder Information

The following shareholder information is being published in terms of Bye-Law 6.05.06(ii) (in force at 31 December 2003) of the Malta Stock Exchange.

Directors' Interest in the Shareholding of the Company at 31 December 2003

	<u>Number of Shares</u>
Mr Louis E Galea	5,953
Mr Joseph Fenech	64,487
Dr Joseph J Vella	49,605

Shareholders Holding 5% or more of the Share Capital at 30 April 2004

Ordinary Shares of EUR1 each

	<u>Number of Shares</u>	<u>Percentage Holding (%)</u>
Corinthia Palace Hotel Company Limited	89,288,375	<u>74.99</u>

Shareholding Details at 30 April 2004

3,418 shareholders held the Company's issued share capital amounting to EUR119,053,489.

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.

Number of Shareholders at 30 April 2004

<u>Band</u>	<u>Total Shareholders</u>
1 to 500	45
501 to 1000	331
1001 to 5000	2,244
5001 and over	798
	<u>3,418</u>

Company Secretary and Registered Address

Mr Alfred Fabri
22 Europa Centre
Floriana VLT 15
Malta

Telephone (+356) 21 233 141

International Hotel Investments p.l.c.

Corporate Governance - Directors' Statement of Compliance

Since the issuance of the Statement of Compliance covering the year ended 31 December 2002, there has been a change in the regulatory environment surrounding listed companies. As from January 2004 the MFSA 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. For the year 2003 International Hotel Investments plc ("the Company" or "IHI") was subject to the Malta Stock Exchange Bye-Laws and this Statement is being made accordingly. The Code is intended as a set of recommendations and adherence is not mandated on listed companies. However the MSE in its preamble to the Code states that "it is expected that companies adopt these Principles and implement effective measures to ensure compliance therewith". By virtue of Bye-Law 6.05.07(ii), 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 IHI reiterate their support for the Code and note that 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 Company is headed by a Board of Directors consisting of two executive directors and three non-executive directors. The present mix of executive and non-executive directors 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>
Mr Louis E Galea	Deputy Chairman	29 March 2000
Dr Joseph J Vella		29 March 2000
Mr Lawrence Zammit		27 June 2001

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

International Hotel Investments p.l.c.

Corporate Governance - Directors' Statement of Compliance

In accordance with the requirements of the Articles of Association the term of office of the directors lapsed at the Annual General Meeting held on 27th June 2003. They were all re-appointed at that same meeting.

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.

The non-executive directors constitute a majority on the Board and are independent of Corinthia Palace Hotel Company Limited (IHI's parent) and its other subsidiaries. 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/or its other subsidiaries.

The Board met twenty times during the period under review.

Terms of Appointment of the Directors

Pursuant to the Company's Articles of Association, the appointment of directors to the Board is reserved exclusively to the Company's shareholders. During the last Annual General Meeting held on 27th June 2003, a resolution was passed whereby the maximum number of directors on the Board was increased from five to nine. The minimum number was retained at four.

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". During the last Annual General Meeting a resolution was passed to revise downwards the definition of qualifying holding from 20% to 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.

Moreover, during the Extraordinary General Meeting held on 9th December 2003, a resolution was passed to the effect that the Chairman of the Board is now appointed by the members of the Board of Directors. Previously, the right to appoint a Chairman was reserved to the one single shareholder holding the highest number of shares in the Company, being more than 25% of the issued share capital.

Corinthia Palace Hotel Company Limited currently owns 74.99% 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.

International Hotel Investments p.l.c.

Corporate Governance - Directors' Statement of Compliance

All directors may be removed from their post by the shareholder appointing them, or by an 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 contracts signed with the executive directors cover a three-year period.

As recommended by the Code, a Nomination Committee was set up by the Company late in 2002. During the year under review, no need was felt for the Nominations Committee to meet. The members of the Committee consist of the non-executive directors on the Board, namely, Mr Louis E Galea (Chairman), Dr Joseph J Vella and Mr Lawrence Zammit.

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 2003, the Company paid an aggregate of EUR94,765 to its directors. The Board has resolved to disclose directors' fees in an aggregate format 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 27th June 2003 increased the aggregate amount of emoluments to directors to EUR145,230 (Lm60,000). 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. The Remuneration Committee is made up of the non-executive directors on the Board, namely, Mr Louis E Galea (Chairman), Dr Joseph J Vella and Mr Lawrence Zammit, with Mr Alfred Fabri acting as Secretary to the Committee. The function of this Committee is to propose the remuneration packages of the executive directors and senior executive staff of the Group, for deliberation by the Board.

During an Extraordinary General Meeting held on the 9th December 2003, a resolution was passed whereby the share capital of the Company was converted from Maltese Liri to Euro. It was also resolved that the nominal value of the shares will be Euro 1 per share. Shareholders were therefore allotted 2.48 shares for every share of Lm1 held. Fractional entitlements were rounded upwards to the nearest whole share. As at the date of this statement, the interests of the directors in the shares of the Company were as follows:

Number of Shares Held

Mr Alfred Pisani	-
Mr Louis E Galea	5,953
Mr Joseph Fenech	64,487
Dr Joseph J Vella	49,605
Mr Lawrence Zammit	-

The directors are fully aware of their obligations regarding dealings in securities of the Company as required by the MSE Bye-laws 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.

International Hotel Investments p.l.c.

Corporate Governance - 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 three times. The internal and external auditors attended these meetings, upon the direct request of the Audit Committee. The Audit Committee reports directly to the Board of Directors.

The Committee is made up of a majority of non-executive directors who are appointed for a period of three years. Mr Louis E Galea, 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.

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 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.

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 investment. 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, Eng. Ali B Edlew, and Mr Lino Soler as members. Mr Lino Soler acts as Secretary to the Monitoring Committee. The members are appointed for a period of two years.

The Committee reports directly to the directors of the Company.

In 2003, the Committee met every month to review the performance of every hotel. Meetings were also held as necessary with C.H.I. Limited, the operator of the Company's hotels.

International Hotel Investments p.l.c.

Corporate Governance - Directors' Statement of Compliance

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 its financial statements. It is expected that this Committee will take on added relevance with the issuing of the new Listing Rules, and in particular, the rules dealing with transactions with related parties.

The Committee is made up of three members, namely, Mr Louis E Galea, Mr Joseph Fenech, and Dr Joseph J Vella. Mr Louis E Galea acts as Chairman to the Committee, whilst Mr Alfred Fabri acts as Secretary.

Management and Employees

The Company is an investment Company, which does not require an elaborate management structure, particularly at this stage of its development. The Company's CEO and Managing Director are the only two executive officers 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, which was renewed on 26th April 2002 and covers two years from that date. At present this agreement is in the process of being renegotiated.

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. Thus the Company issues a newsletter to shareholders and invests considerable time and effort in maintaining its website and making it user friendly, with a section dedicated specifically to investors. The Company also communicates with the market through regular press releases published in a number of local newspapers. 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.

International Hotel Investments p.l.c.

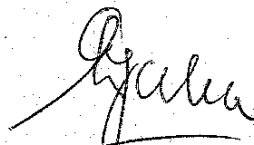
Corporate Governance - Directors' Statement of Compliance

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, Mr Alfred Fabri, 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.

Approved by the Board of Directors on 4 June 2004 and signed on its behalf by:



Mr Louis E Galea
Deputy Chairman



Mr Joseph Fenech
Managing Director



Portico Building
Marina Street
Pietà MSD 08
Malta

Telephone (+356) 2563 1000
Fax (+356) 2566 1000
E-mail kpmg@kpmg.com.mt
Web page <http://www.kpmg.com.mt>

Report of the Auditors

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

Pursuant to the Malta Stock Exchange Bye-Law 6.05.07(iii)
in force at 31 December 2003

The Malta Stock Exchange Bye-Law 6.05.07(ii), in force at 31 December 2003, requires 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 that they have taken to ensure compliance with these Principles.

Our responsibility, as auditors of the Company, is laid down by the Malta Stock Exchange Bye-Law 6.05.07(iii), in force at 31 December 2003, 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 cover 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 Statement of Compliance set out on pages 3 to 8 provides the disclosures required by the Malta Stock Exchange Bye-Law 6.05.07(ii), in force at 31 December 2003.

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

KPMG
Certified Public Accountants

4 June 2004

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 Bancini
Franco Vessallo

International Hotel Investments p.l.c.

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 state of affairs 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 these 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; 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.



Portico Building
Marina Street
Pietà MSD 08.
Malta

Telephone (+356) 2563 1000
Fax (+356) 2566 1000
E-mail kpmg@kpmg.com.mt
Web page <http://www.kpmg.com.mt>

Auditors' Report

To the Members of

International Hotel Investments p.l.c.

We have audited the financial statements set out on pages 12 to 68. As described on page 10, 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 state of affairs of the Company and the Group as at 31 December 2003 and of their results, changes in equity and 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 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.

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

KPMG
Certified Public Accountants

4 June 2004

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 Vassello

International Hotel Investments p.l.c.

Profit and Loss Accounts

For the Year Ended 31 December 2003

	Note	The Group		The Company	
		2003	2002	2003	2002
	29(a)	EUR	EUR	EUR	EUR
Revenue	2	34,719,489	33,166,863	1,252,891	1,126,519
Direct Costs		(23,929,800)	(22,724,150)	(2,822,045)	(2,253,788)
Gross Profit/(Loss)		10,789,689	10,442,713	(1,569,154)	(1,127,269)
Marketing Costs		(2,991,418)	(2,544,435)	-	-
Administrative Expenses		(10,050,737)	(8,472,227)	(1,156,976)	(467,615)
Amortisation of Goodwill	9(a)	(422,166)	(255,406)	-	-
Negative Goodwill		-	551,154	-	-
Other Net Operating Income		209,207	459,318	-	-
Impairment Losses	3(b)	(17,838,218)	-	-	-
Revaluation to Fair Value of Available-for-Sale Investments	12(a)	-	-	10,084,494	-
Operating Net Exchange Differences		(155,244)	491,124	788,566	9,994
Operating (Loss)/Profit	3	(20,458,887)	672,241	8,146,930	(1,584,890)
Staff Indemnities	4	(1,165,000)	-	-	-
Pre-Operating Expenses	4	(2,926,000)	(2,703,534)	-	-
Net Financing Costs	5	(7,544,284)	(3,365,803)	-	-
Realised Exchange Differences		608,444	349,154	-	-
Unrealised Net Exchange Differences on Intra-Group Balances	6(a)	(314,752)	(454,252)	-	-
Other Unrealised Net Exchange Differences	6(b)	1,317,868	3,174,640	-	-
Revaluation to Fair Value of Investment Property	11	24,442,102	-	-	-
Income from Associates	13(b)	360,877	600,879	-	-
(Loss)/Profit before Taxation		(5,679,632)	(1,726,675)	8,146,930	(1,584,890)
Taxation	7	(3,634,648)	100,005	(3,378,538)	147,212
(Loss)/Profit for the Year		(9,314,280)	(1,626,670)	4,768,392	(1,437,678)
(Loss)/Earnings per Share	8	(0.08)	(0.01)	0.04	(0.01)

International Hotel Investments p.l.c.

Balance Sheets

At 31 December 2003

	Note	The Group		The Company	
		2003 EUR	2002 EUR	2003 EUR	2002 EUR
Fixed Assets					
Intangible Assets	9	-	(4,767,670)	-	378,779
Property, Plant and Equipment	10	285,109,941	275,041,369	-	12,614
Investment Property	11	35,000,000	11,468,150	-	-
Investments in Subsidiary Companies	12	-	-	81,458,881	71,374,387
Investments in Associated Companies	13	1,982,455	1,718,961	913,496	913,496
Derivative Financial Investments	14	178,083	-	178,083	-
Loans Receivable	15	1,470,000	1,470,000	93,884,087	90,177,859
		<u>323,740,479</u>	<u>284,930,810</u>	<u>176,434,547</u>	<u>162,857,135</u>
Current Assets					
Stocks		1,622,386	1,869,094	-	-
Trade Debtors		3,663,368	3,824,285	-	-
Other Debtors	16	6,117,574	12,261,439	4,875,287	4,216,836
Taxation Recoverable		98,112	514,575	-	228,070
Cash at Bank and in Hand		5,228,975	14,015,424	26,284	178,577
		<u>16,730,415</u>	<u>32,484,817</u>	<u>4,901,571</u>	<u>4,623,483</u>
Creditors: Amounts falling due within One Year					
Bank Borrowings	17	11,382,674	23,681,661	2,000,000	-
Other Interest-Bearing Liabilities	19	1,099,369	1,308,516	454,670	-
Trade Creditors		4,917,748	4,532,297	389,689	475,969
Other Creditors	20	28,342,013	30,972,109	3,824,759	9,661,235
Current Taxation		-	703,843	-	413,747
		<u>45,741,804</u>	<u>61,198,426</u>	<u>6,669,118</u>	<u>10,550,951</u>
Net Current Liabilities		<u>(29,011,389)</u>	<u>(28,713,609)</u>	<u>(1,767,547)</u>	<u>(5,927,468)</u>
Total Assets less Current Liabilities		<u>294,729,090</u>	<u>256,217,201</u>	<u>174,667,000</u>	<u>156,929,667</u>
Creditors: Amounts falling due after more than One Year					
Bank Borrowings	17	104,808,040	67,032,459	13,000,040	-
Debt Securities in Issue	18	31,887,753	10,593,606	31,887,753	10,593,606
Other Interest-Bearing Liabilities	19	1,888,300	26,670,957	216,825	24,999,482
Other Creditors	20	-	1,500,000	76,558	-
		<u>138,584,093</u>	<u>105,797,022</u>	<u>45,181,176</u>	<u>35,593,088</u>
Provisions for Liabilities and Charges					
Deferred Taxation	21	25,315,578	22,467,835	3,545,370	166,841
Provision for Charges		345,000	561,000	-	-
		<u>25,660,578</u>	<u>23,028,835</u>	<u>3,545,370</u>	<u>166,841</u>
		<u>130,484,419</u>	<u>127,391,344</u>	<u>125,940,454</u>	<u>121,169,738</u>

International Hotel Investments p.l.c.

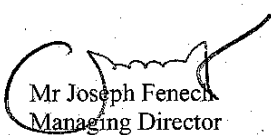
Balance Sheets

At 31 December 2003

	Note	The Group		The Company	
		2003	2002	2003	2002
		EUR	EUR	EUR	EUR
Share Capital and Reserves					
Called Up Issued Share Capital	22	119,053,489	119,051,165	119,053,489	119,051,165
Revaluation Reserve	23(a)	8,624,343	8,624,343	-	-
Translation Reserve	23(b)	(1,135,493)	(637,916)	-	-
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)	627,736	-	7,182,657	-
Profit and Loss Account	23(f)	2,038,792	(921,800)	(1,571,244)	843,021
		<u>130,484,419</u>	<u>127,391,344</u>	<u>125,940,454</u>	<u>121,169,738</u>

The financial statements on pages 12 to 68 were approved by the Board of Directors on 4 June 2004 and were signed on its behalf by:


Mr Alfred Pisani
Chairman and Chief Executive Officer


Mr Joseph Fenech
Managing Director

International Hotel Investments p.l.c.

Statement of Changes in Equity

For the Year Ended 31 December 2003

The Group	Total	Called Up Issued Share Capital	Revaluation Reserve*	Translation Reserve	Reporting Currency Conversion Difference*	Convertible Bonds Reserve*	Other Reserve*	Profit and Loss Account*
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
At 1 January 2002	117,148,107	115,611,037	-	-	-	832,200	-	704,870
Issue of Shares	3,440,128	3,440,128	-	-	-	-	-	-
Revaluation of Tangible Fixed Assets, Net of Deferred Taxation	8,624,343	-	8,624,343	-	-	-	-	-
Foreign Exchange Translation Differences	(637,916)	-	-	(637,916)	-	-	-	-
Reporting Currency Conversion Difference	443,352	-	-	-	443,352	-	-	-
Loss for the Year	(1,626,670)	-	-	-	-	-	-	(1,626,670)
At 31 December 2002	127,391,344	119,051,165	8,624,343	(637,916)	443,352	832,200	-	(921,800)
At 1 January 2003: As Previously Reported	127,391,344	119,051,165	8,624,343	(637,916)	443,352	832,000	-	(921,800)
Impact of Adopting IFRS 3 (Note 9(b))	12,902,608	-	-	-	-	-	-	12,902,608
As Restated	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	(9,314,280)	-	-	-	-	-	-	(9,314,280)
Transfer to Other Reserve	-	-	-	-	-	-	627,736	(627,736)
At 31 December 2003	130,484,419	119,053,489	8,624,343	(1,135,493)	443,352	832,200	627,736	2,038,792

* Not available for distribution by way of dividends.

International Hotel Investments p.l.c.

Statement of Changes in Equity

For the Year Ended 31 December 2003

The Company	Total	Called Up Issued Share Capital	Reporting Currency Conversion Difference*	Convertible Bonds Reserve*	Other Reserve*	Profit and Loss Account
	EUR	EUR	EUR	EUR	EUR	EUR
At 1 January 2002	118,723,936	115,611,037	-	832,200	-	2,280,699
Issue of Shares	3,440,128	3,440,128	-	-	-	-
Reporting Currency Conversion Difference	443,352	-	443,352	-	-	-
Loss for the Year	(1,437,678)	-	-	-	-	(1,437,678)
At 31 December 2002	121,169,738	119,051,165	443,352	832,200	-	843,021
Issue of Shares	2,324	2,324	-	-	-	-
Profit for the Year	4,768,392	-	-	-	-	4,768,392
Transfer to Other Reserve	-	-	-	-	7,182,657	(7,182,657)
At 31 December 2003	125,940,454	119,053,489	443,352	832,200	7,182,657	(1,571,244)

* Not available for distribution by way of dividends.

International Hotel Investments p.l.c.

Cash Flow Statements

For the Year Ended 31 December 2003

	Note	The Group		The Company	
	29(a)	2003	2002	2003	2002
		EUR	EUR	EUR	EUR
Operating Activities					
(Loss)/Profit before Taxation		(5,679,632)	(1,726,675)	8,146,930	(1,584,890)
Adjustments for:					
Depreciation		6,974,981	6,195,905	12,614	12,612
Loss on Disposal of Tangible Fixed Assets		416,000	-	-	-
Provision for Charges		(216,000)	261,000	-	-
Other Intangible Assets Written Off		443,410	221	443,410	221
Amortisation of Goodwill		422,166	255,406	-	-
Negative Goodwill		-	(551,154)	-	-
Impairment Losses		17,838,218	-	-	-
Revaluation to Fair Value of Available-for-Sale Investments		-	-	(10,084,494)	-
Staff Indemnities		1,165,000	-	-	-
Pre-Operating Expenses		2,926,000	2,703,534	-	-
Interest Receivable and Similar Income		(526,787)	(150,742)	-	-
Interest Payable and Similar Charges		8,071,071	3,516,545	-	-
Realised Exchange Differences		(604,629)	(349,154)	(901)	(9,994)
Unrealised Exchange Differences		(1,269,927)	(2,720,388)	(787,665)	-
Revaluation to Fair Value of Investment Property		(24,442,102)	-	-	-
Income from Associates		(360,877)	(600,879)	-	-
		<u>5,156,892</u>	<u>6,833,619</u>	<u>(2,270,106)</u>	<u>(1,582,051)</u>
Working Capital Changes:					
Stocks		230,134	(1,207,902)	-	-
Debtors		1,856,906	(569,979)	(842,952)	(1,145,832)
Advance Deposits		2,585,979	523,176	-	-
Other Creditors		(521,451)	(901,379)	1,351,790	350,865
		<u>4,150,568</u>	<u>(1,155,075)</u>	<u>258,838</u>	<u>(894,967)</u>
Net Cash Generated from/(Absorbed by) Operations		9,308,460	4,677,535	(1,761,268)	(2,377,018)
Staff Indemnities		(1,165,000)	-	-	-
Pre-Operating Expenses		(2,926,000)	(2,703,534)	-	-
Taxation (Paid)/Refunded		(875,493)	(1,034,950)	(185,676)	2,674
Net Cash from/(used in) Operating Activities		<u>4,341,967</u>	<u>939,051</u>	<u>(1,946,944)</u>	<u>(2,374,344)</u>
Investing Activities					
Payments for Costs Incidental to the Acquisition of Investments in Group Companies		(64,631)	(193,695)	(64,631)	(193,695)
Payments to Acquire Property, Plant and Equipment		(30,804,068)	(98,195,919)	(878,019)	-
Proceeds from Disposal of Property, Plant and Equipment		54,698	-	-	-
Payments to Acquire Shares in Group Companies		-	(2,911,000)	-	(2,911,000)
Loans Advanced to Group Companies		-	-	(11,112,232)	(44,938,755)
Repayment of Loans Advanced to Group Companies		-	-	9,930,945	-
Funds Advanced to Associated Companies		-	(73,891)	-	-
Loan Advanced to Related Company		-	(1,470,000)	-	(1,470,000)
Interest Received		297,881	96,717	-	-
		<u>(30,516,120)</u>	<u>(102,747,788)</u>	<u>(2,123,937)</u>	<u>(49,513,450)</u>
Net Cash used in Investing Activities		<u>(30,516,120)</u>	<u>(102,747,788)</u>	<u>(2,123,937)</u>	<u>(49,513,450)</u>
Carried Forward		(26,174,153)	(101,808,737)	(4,070,881)	(51,887,794)

International Hotel Investments p.l.c.

Cash Flow Statements

For the Year Ended 31 December 2003

	Note	The Group		The Company	
		2003	2002	2003	2002
		EUR	EUR	EUR	EUR
Brought Forward		<u>(26,174,153)</u>	<u>(101,808,737)</u>	<u>(4,070,881)</u>	<u>(51,887,794)</u>
Financing Activities					
Proceeds from Issue of Shares		2,324	3,440,128	2,324	3,440,128
Funds Previously Held by Custodian Bank		1,718,000	-	-	-
Bank Finance		45,500,040	88,619,635	15,000,040	-
Repayment of Bank Borrowings		(19,152,750)	(3,067,179)	-	-
Proceeds from Issue of Bonds		21,835,887	-	21,835,887	-
Loans Advanced by Parent Company and its Other Subsidiary Companies		-	25,532,945	-	25,093,783
Repayment of Loans Advanced by Parent Company and its Other Subsidiary Companies		(26,148,254)	-	(26,214,367)	-
Loan Advanced by Group Company		-	-	76,558	-
Repayment of Loans Advanced by Group Companies		-	-	(6,781,854)	-
Repayment of Loan Advanced by Related Companies		-	(265,617)	-	-
Repayment of Other Borrowings		-	(19,464,901)	-	-
Interest Paid		(6,344,543)	(4,564,022)	-	-
Net Cash from Financing Activities		<u>17,410,704</u>	<u>90,230,989</u>	<u>3,918,588</u>	<u>28,533,911</u>
Effect of Exchange Rate Fluctuations on the Translation of Cash Flows of Foreign Operations		50,643	(46,963)	-	-
Net Decrease in Cash and Cash Equivalents		<u>(8,712,806)</u>	<u>(11,624,711)</u>	<u>(152,293)</u>	<u>(23,353,883)</u>
Cash and Cash Equivalents at Beginning of Year		12,096,455	22,748,476	178,577	24,473,184
Effect of Exchange Rate Fluctuations on the Translation of Cash Flows arising from the Change in Reporting Currency		-	972,690	-	(940,724)
Cash and Cash Equivalents at End of Year	24	<u>3,383,649</u>	<u>12,096,455</u>	<u>26,284</u>	<u>178,577</u>

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

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 requirements of International Financial Reporting Standards promulgated by the International Accounting Standards Board, and the provisions of the Companies Act, 1995 enacted in Malta.

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 and on the historical cost basis, except that the following assets are stated at their value: property, investments in subsidiary companies and derivative financial instruments.

The accounting policies have been consistently applied by Group enterprises and, except for the changes in accounting policy relating to intangible assets (refer accounting policy (f)) and investments (refer accounting policy (i)), 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 past three years, 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, through the raising of capital by way of equity and bonds listed on the Malta Stock Exchange and loans advanced by its bankers.

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, during the year under review, one of the Group's hotels, the Corinthia Alfa Hotel and Congress Centre in Lisbon was closed down for refurbishment with substantial costs being incurred by way of write-off of staff indemnity payments, other pre-operating expenses and interest payable, without a corresponding income stream. Similarly, the Corinthia Grand Hotel Royal in Budapest was officially launched on the market mid-way through the financial year under review and, in line with industry norms, witnessed a slow build-up in its performance in its first months of operation.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

1 Significant Accounting Policies (Cont.)

(b) Basis of Preparation (Cont.)

Going Concern Basis (Cont.)

The directors envisage that the removal of the economic embargo against Libya, the re-opening of the Corinthia Alfa Hotel and Congress Centre in Lisbon in May 2004, together with the recent accession of Malta and Hungary to the European Union, will contribute positively and will serve to enhance the Group's ability to generate future income streams. The directors are confident that the Group will survive the difficult period the hospitality industry is experiencing and 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 2003.

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. In order to address the working capital deficiency between the end of 2003 and the time when an equity increase is expected to materialise, the Group has secured long-term funding for EUR12.5 million in connection with the Corinthia Alfa Hotel and Congress Centre refurbishment. This facility is expected to be utilised during 2004 and, in view of an initial moratorium on repayments, will substitute an equal amount of liabilities falling due within one year from balance sheet date. In addition, the Group is at an advanced stage of negotiations with an Austrian bank for the re-financing of a present bank loan amounting to EUR44.3 million into a new loan facility of EUR60 million. As an alternative option the Group is considering retaining the present bank loan and finalising a new bank loan facility amounting to EUR15 million. The Group, in 2004 also concluded two bank bridge loan facilities, as yet not fully utilised, amounting to EUR20 million, which will be repaid from the proceeds of an expected equity issue.

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 should the economic scenario as described above remain unchanged, and/or the directors' expectations do not materialise, and/or the Group does not succeed to secure additional funding arrangements.

(c) Measurement and Presentation Currencies

During the year, the Company changed its measurement currency from the Maltese Lira to Euro (EUR), since the latter currency 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 presenting its financial statements.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

1 Significant Accounting Policies (Cont.)

(d) Basis of Consolidation

(i) *Subsidiaries*

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

(ii) *Associates*

Associates are those companies 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 the carrying amount of the investment in the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of the associate.

(iii) *Eliminations on Consolidation*

Intra-group balances and transactions, and any unrealised profits 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 enterprise, against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised profits, 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 are transferred from the profit and loss (reserve) account to a non-distributable reserve. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value, are translated to Euro at the foreign exchange rate ruling at the dates the values were determined.

(ii) *Financial Statements of Foreign Entities*

The assets and liabilities of foreign entities, 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 entities are translated to Euro at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in equity, through the Translation Reserve.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

1 Significant Accounting Policies (Cont.)

(e) Foreign Currency (Cont.)

(iii) Exchange Differences Arising on Intra-Group Balances

Net exchange differences arising on intra-group balances recognised in the profit and loss account of the individual group companies, continue to be recognised as income or an expense in the consolidated financial statements unless such differences arise on intra-group balances that, in substance, form part of the Company's net investment in a foreign entity, in which case, they are classified as equity.

(f) Intangible Assets

(i) Goodwill

- Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised. On initial recognition, goodwill is measured at its cost. Effective 1 January 2003, applying the requirements of IFRS 3, *Business Combinations*, before its effective date, as permitted by this Standard, after initial recognition, goodwill is measured at cost less any accumulated impairment losses (see below). Previously, goodwill was stated at cost less accumulated amortisation and impairment losses.
- Also effective 1 January 2003, again applying the requirements of IFRS 3, in the event that the Group's interest in the recognised net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, any such excess is recognised immediately in the profit and loss account. Previously, such excess was accounted for as negative goodwill as follows:
 - (a) to the extent that it related to expectations of future losses and expenses identified in the Group's acquisition plan, it was carried forward and recognised as income in the same period in which the future losses and expenses were recognised.
 - (b) to the extent that it did not relate to expectations of future losses and expenses identified in the Group's acquisition plan, it was recognised as income as follows:
 - (i) for the amount of negative goodwill not exceeding the aggregate fair value of acquired identifiable non-monetary assets, on a systematic basis over the remaining weighted average useful life of the identifiable depreciable assets.
 - (ii) for any remaining excess, immediately.

As required by IFRS 3, the carrying amount of negative goodwill at 1 January 2003 has been derecognised at that date, with a corresponding adjustment to the opening balance of accumulated losses.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

1 Significant Accounting Policies (Cont.)

(f) Intangible Assets (Cont.)

(i) *Goodwill* (Cont.)

- In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate net of any accumulated impairment losses (refer accounting policy (o)). Any excess included in the carrying amount of the investment of the Group's interest in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included as income in the determination of the Group's share of the investee's profits or losses in the period in which the investment is acquired.
- If the initial accounting for an acquisition can be determined only provisionally by the end of the period in which the acquisition is effected because either the fair values to be assigned to the Group's identifiable assets, liabilities or contingent liabilities or the cost of the acquisition can be determined only provisionally, the Group accounts for the acquisition using those provisional values. Any adjustments to those provisional values as a result of completing the initial accounting, identified within twelve months of the acquisition date, shall be recognised as from that date. Accordingly, comparative information presented for the periods before the initial accounting for the acquisition, are presented as if the initial accounting had been completed from the acquisition date. Adjustments to the initial accounting for an acquisition after that initial accounting is complete is recognised only to correct an error, otherwise such adjustments are recognised as income or expense.

(ii) *Other Intangible Assets*

Expenditure on hotel acquisitions currently under negotiation is capitalised as part of the cost of investment in the period during which the acquisition is successfully completed. The expenditure includes the cost of overseas travelling, professional fees paid to accountants, legal advisors, valuers and other consultants to effect the acquisition. Should an acquisition be aborted during the course of negotiations, all such expenditure is expensed immediately. General administrative costs, including the costs of maintaining the business development department, and other costs which cannot be directly attributed to the particular acquisition, are recognised as an expense when incurred.

(iii) *Impairment*

Goodwill and other intangible assets are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they may be impaired.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

1 Significant Accounting Policies (Cont.)

(g) Property, Plant and Equipment

(i) *Owned Assets*

Tangible fixed 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 fixed 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 (o)).

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 (t)(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 fixed assets comprises major components having different useful lives, they are accounted for as separate items of tangible fixed 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 fixed 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 (o)). Operating lease payments are accounted for in accordance with accounting policy (t)(i).

(iii) *Subsequent Expenditure*

Expenditure incurred to replace a component of an item of a tangible fixed 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 fixed assets. All other expenditure is recognised in the profit and loss account as an expense when incurred.

(iv) *Depreciation*

Depreciation is calculated to write down the carrying amount of all tangible fixed 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.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

1 Significant Accounting Policies (Cont.)

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

(iv) Depreciation (Cont.)

The rates of depreciation used for the other tangible fixed 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

(h) 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 (s)(iv).

(i) Investments

Effective 1 January 2003, 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*. Previously, such investments were carried at cost less any impairment losses. 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 it arises.

This change in accounting policy has been applied prospectively, since the fair value of these investments at 1 January 2003, and hence the adjustment to the opening balance of retained earnings, cannot be reasonably determined.

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).

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

1 Significant Accounting Policies (Cont.)

(j) 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.

(k) 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 cost.

Such receivables are subject to review for impairment as set out in accounting policy (o).

(l) Stocks

Stocks 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 stocks is based on the weighted average principle and includes expenditure incurred in acquiring and bringing them to their existing location and condition.

(m) Trade and Other Receivables

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

(n) 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.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

1 Significant Accounting Policies (Cont.)

(o) Impairment of Assets

The carrying amounts of assets other than goodwill (refer accounting policy (f)), stocks (refer accounting policy (l)) and deferred tax assets (refer accounting policy (v)), 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 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 receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other 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 cash inflows largely independent of those from other assets, 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 the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

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

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

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

1 Significant Accounting Policies (Cont.)

(p) 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.

(q) Trade and Other Payables

Trade and other payables are stated at cost.

(r) 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.

(s) 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.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

1 Significant Accounting Policies (Cont.)

(s) Revenue (Cont.)

- (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.

(t) 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.

(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.

(u) 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.

(v) 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.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

1 Significant Accounting Policies (Cont.)

(v) Income Tax (Cont.)

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.

(w) 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.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

2 Segment Disclosures (Cont.)

	Malta											
	Hotel Property		Corporate Business		Other European Union Countries		Other European Countries		Consolidation Adjustments		The Group	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Revenue	9,594,843	10,551,623	311,310	53,678	7,741,339	7,280,000	17,383,307	15,335,240	(311,310)	(53,678)	34,719,489	33,166,863
External Inter-Segment	-	-	941,581	1,072,841	-	-	3,525,000	4,570,000	(4,466,581)	(5,642,841)	-	-
	9,594,843	10,551,623	1,252,891	1,126,519	7,741,339	7,280,000	20,908,307	19,905,240	(4,777,891)	(5,696,519)	34,719,489	33,166,863
Segment Result - Operating (Loss)/Profit	(8,327,886)	(234,751)	8,146,930	(1,584,890)	(15,947,153)	(3,698,700)	5,594,645	4,758,768	(9,925,423)	1,431,814	(20,458,887)	672,241
Staff Indemnities	-	-	-	-	(1,165,000)	-	-	-	-	-	(1,165,000)	-
Pre-Operating Expenses	-	-	-	-	(2,926,000)	(2,703,534)	-	-	-	-	(2,926,000)	(2,703,534)
Net Financing Costs	-	-	-	-	-	-	-	-	-	-	(7,544,284)	(3,365,803)
Realised Exchange Differences	-	-	-	-	-	-	608,444	349,154	-	-	1,003,116	2,720,388
Unrealised Exchange Differences	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation to Fair Value of Investment Property	-	-	360,877	600,879	-	-	-	-	-	-	24,442,102	-
Income from Associates	-	-	-	-	-	-	-	-	-	-	360,877	600,879
Taxation	-	-	-	-	-	-	-	-	-	-	(3,634,648)	100,005
Loss for the Year	(8,327,886)	(234,751)	8,146,930	(1,584,890)	(15,947,153)	(3,698,700)	5,594,645	4,758,768	(9,925,423)	1,431,814	(20,458,887)	672,241

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

2 Segment Disclosures (Cont.)

The Company	2003	2002
	EUR	EUR
Interest Receivable on:		
Loans Advanced to Group Companies	685,417	727,069
Loan Advanced to Related Company	51,077	-
Bank Deposits	27,460	53,678
	<u>763,954</u>	<u>780,747</u>
Fair Value Gain on Interest Rate Swap (Note 14(a))	178,083	-
Interest Rate Differential of Interest Rate Swap (Note 14(b))	54,690	-
Management Fees Charged to Group Companies	256,164	345,772
	<u>1,252,891</u>	<u>1,126,519</u>

3 Operating (Loss)/Profit

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

	The Group		The Company	
	2003	2002	2003	2002
	EUR	EUR	EUR	EUR
Depreciation	6,974,981	6,195,905	12,614	12,612
Operating Lease Charges	333,427	288,556	-	-
Directors' Fees	94,765	85,633	90,072	81,433
Auditors' Remuneration	109,971	120,900	23,167	6,100
Realised Exchange Differences	422,055	(491,124)	(901)	(9,994)
Unrealised Exchange Differences	(266,811)	-	(787,665)	-
	<u>7,678,388</u>	<u>6,199,869</u>	<u>1,252,891</u>	<u>1,126,519</u>

(b) The impairment losses incurred by the Group are made up as follows:

	2003	2002
	EUR	EUR
Goodwill (Note 9(c))	7,333,993	-
Property (Note 10(e))	10,504,225	-
	<u>17,838,218</u>	<u>-</u>

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

3 Operating (Loss)/Profit (Cont.)

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

	2003	2002
	EUR	EUR
Wages and Salaries	10,663,486	10,936,162
Social Security Costs	1,802,069	1,879,111
	<u>12,465,555</u>	<u>12,815,273</u>
Staff Indemnities (Note 4)	(1,165,000)	-
Payroll Costs Included Within Pre-Operating Expenses (Note 4)	(1,253,000)	(692,589)
Capitalised Payroll Costs	-	(1,638,906)
	<u>10,047,555</u>	<u>10,483,778</u>

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

	2003	2002
	No.	No.
Management and Administration	120	150
Operating	547	692
	<u>667</u>	<u>842</u>

4 Staff Indemnities and Pre-Operating Expenses

	2003	2002
	EUR	EUR
Staff Indemnities:		
Alfa Investimentos Turisticos Lda	1,165,000	-
Pre-Operating Expenses:		
Alfa Investimentos Turisticos Lda	2,926,000	-
IHI Hungary Rt	-	2,703,534
	<u>4,091,000</u>	<u>2,703,534</u>

In February 2003, the operations of the Corinthia Alfa Hotel and Congress Centre in Lisbon were suspended to enable the Company proceed with the refurbishment works of the hotel. The staff indemnities and pre-operating expenses relate to costs incurred in relation to the period from the date the activities of the hotel were suspended to balance sheet date.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

5 Net Financing Costs

	The Group	
	2003	2002
	EUR	EUR
Interest Payable and Similar Charges		
Interest Payable on:		
Bank Borrowings	5,779,880	1,670,747
Debt Securities in Issue	1,793,054	609,986
Loans Advanced by Parent Company and its Subsidiaries (Note 25(d))	307,993	1,146,597
Net Waiver of Interest Payable	-	(46,034)
	-----	-----
	7,880,927	3,381,296
Imputed Interest on Convertible Bonds and Amortisation of Bond Issue Costs (Note 18)	190,144	135,249
	-----	-----
	8,071,071	3,516,545
	-----	-----
Interest Receivable and Similar Income		
Interest Receivable on:		
Loan Advanced to Related Company (Note 25(d))	(51,077)	(66,992)
Bank Deposits	(242,937)	(83,750)
	-----	-----
	(294,014)	(150,742)
Fair Value Gain on Interest Rate Swap (Note 14(a))	(178,083)	-
Interest Rate Differential of Interest Rate Swap (Note 14(b))	(54,690)	-
	-----	-----
	(526,787)	(150,742)
	-----	-----
	7,544,284	3,365,803
	=====	=====

6 Unrealised Net Exchange Differences

- (a) Unrealised net exchange differences on intra-group balances represent those arising on balances which are due to/by group companies, the settlement of which will occur over the foreseeable future.
- (b) Other unrealised net exchange differences on monetary assets and liabilities arise from the strengthening or weakening of foreign currencies against the respective reporting currencies of group companies.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

7 Taxation

(a)	The Group		The Company	
	2003	2002	2003	2002
	EUR	EUR	EUR	EUR
Current Taxation				
Income Tax on the Taxable Income for the Year	(885,494)	(1,159,195)	-	-
Tax Over/(Under) Provided for in Prior Years	200,855	(89,442)	-	(83,861)
Final Withholding Tax on Interest Received	(9)	(1,054)	(9)	(1,054)
	<u>(684,648)</u>	<u>(1,249,691)</u>	<u>(9)</u>	<u>(84,915)</u>
Deferred Taxation				
Organisation and Reversal of Temporary Differences	397,281	1,220,429	(3,378,529)	232,127
Reduction in Tax Rates in Foreign Jurisdictions	2,569,803	-	-	-
Impairment Losses on Property	2,450,979	-	-	-
Revaluation to Fair Value of Investment Property	(8,554,736)	-	-	-
Benefit of Tax Losses Recognised	186,673	129,267	-	-
	<u>(2,950,000)</u>	<u>1,349,696</u>	<u>(3,378,529)</u>	<u>232,127</u>
Note 21(a)				
Tax (Expense)/Income	<u><u>(3,634,648)</u></u>	<u><u>100,005</u></u>	<u><u>(3,378,538)</u></u>	<u><u>147,212</u></u>

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

7 Taxation (Cont.)

- (b) The tax 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	
	2003	2002	2003	2002
	EUR	EUR	EUR	EUR
(Loss)/Profit before Taxation	<u>(5,679,632)</u>	<u>(1,726,675)</u>	<u>8,146,930</u>	<u>(1,584,890)</u>
Tax at the domestic rate of 35%	1,987,871	604,336	(2,851,426)	554,712
■ Effect of different tax rates in foreign jurisdictions	(2,911,842)	(162,386)	-	-
■ Effect of reduction in tax rates in foreign jurisdictions	2,569,803	-	-	-
■ Tax effect of double taxation treaty relief	621,651	1,427,202	-	-
■ Effect of different tax rates on bank interest received	11	925	11	925
■ Tax effect of exempt Group share of profits of associated company	64,897	130,947	-	-
■ Tax effect of expenses not deductible for tax purposes	(789,090)	(635,201)	(527,123)	(324,564)
■ Tax benefit of unrelieved losses not recognised	(2,902,299)	(1,530,331)	-	-
■ Tax over/(under) provided for in prior years	200,855	(89,442)	-	(83,861)
■ Tax effect of amortisation of goodwill	(166,718)	84,552	-	-
■ Tax effect of impairment loss on goodwill	(2,566,898)	-	-	-
■ Tax effect of consolidation adjustments	275,575	264,713	-	-
■ Tax effect of other non-temporary differences	(18,464)	4,690	-	-
Tax (Expense)/Income for the Year	<u>(3,634,648)</u>	<u>100,005</u>	<u>(3,378,538)</u>	<u>147,212</u>

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

8 (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:

	2003	2002
	EUR	EUR
<i>(Loss)/Profit Attributable to Shareholders</i>		
The Group	<u>(9,314,280)</u>	<u>(1,626,670)</u>
The Company	<u>4,768,392</u>	<u>(1,437,678)</u>

Weighted Average Number of Shares

	2003		2002	
	Issued Shares No.	Weighted Average No.	Issued Shares No.	Weighted Average No.
At Beginning of Year	48,000,000	48,000,000	46,582,793	46,582,793
Effect of Shares Issued in June 2002	-	-	1,417,207	788,200
Effect of Change in the Nominal Value of Shares from EUR2.48 to EUR1 (Note 22(c))	71,051,165	71,051,165	-	71,051,165
Effect of Shares Issued in December 2003 (Note 22(c))	2,324	140	-	-
At End of Year	<u>119,053,489</u>	<u>119,051,305</u>	<u>48,000,000</u>	<u>118,422,158</u>

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

8 (Loss)/Earnings per Share (Cont.)

(b) Diluted Earnings per Share

The calculation of the (loss)/profit 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	
	2003	2002	2003	2002
	EUR	EUR	EUR	EUR
(Loss)/Profit Attributable to Shareholders	(9,314,280)	(1,626,670)	4,768,392	(1,437,678)
After-Tax Effect of Interest on Convertible Bonds	465,228	484,403	465,228	484,403
(Loss)/Profit Attributable to the Shareholders (Diluted)	<u>(8,849,052)</u>	<u>(1,142,267)</u>	<u>5,233,620</u>	<u>(953,275)</u>

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.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

9 Intangible Assets

(a)	Total	Goodwill	Negative Goodwill	Other Intangibles
	EUR	EUR	EUR	EUR
Cost				
At 01.01.03	(4,836,582)	8,449,804	(13,665,165)	378,779
Impact of Adopting IFRS 3 (Note 9(b))	13,665,165	-	13,665,165	-
Payments	64,631	-	-	64,631
Expensed	(443,410)	-	-	(443,410)
At 31.12.03	8,449,804	8,449,804	-	-
Amortisation				
At 01.01.03	68,912	(693,645)	762,557	-
Impact of Adopting IFRS 3 (Note 9(b))	(762,557)	-	(762,557)	-
Amortisation for the Year	(422,166)	(422,166)	-	-
Impairment Losses (Note 9(c))	(7,333,993)	(7,333,993)	-	-
At 31.12.03	(8,449,804)	(8,449,804)	-	-
Carrying Amount				
At 31.12.03	-	-	-	-
At 31.12.02	(4,767,670)	7,756,159	(12,902,608)	378,779

- (b) In the current financial year, the Group adopted IFRS 3, *Business Combinations*, before its effective date, as permitted by this Standard. The effect of the early adoption of the Standard is explained in accounting policy 1(f)(i) and is arrived at as follows:

	EUR
Negative Goodwill	13,665,165
Accumulated Amortisation	(762,557)
	<u>12,902,608</u>

(c) Impairment Losses

In previous years, the Group acquired all the shares in two companies, both of which owned a hotel property. The cost of these acquisitions exceeded the net fair values of the identifiable assets and liabilities, resulting in the recognition of goodwill. At 31 December 2003, these companies estimated the recoverable amount of their hotel properties, in view of indications that their value was impaired (Note 10(e)). In assessing the recoverable amounts for the cash-generating units to which these hotel properties belong, the Group tested the goodwill acquired on their acquisition for impairment, resulting in the recognition of impairment losses.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

10 Property, Plant and Equipment

(a)

	Revalued Amount		Cost				
	EUR	EUR	Land and Buildings	Hotel Plant and Equipment	Furniture, Fixtures and Fittings	Motor Vehicles	Payments on Account and Buildings in the Course of Construction
Total							
At 01.01.03	292,307,484	190,475,716		11,226,633	9,952,281	200,551	80,452,303
Effect of Movement in Foreign Exchange Rates	(1,556,415)	(999,582)		(267,900)	(285,112)	(3,821)	-
Additions	29,212,547	-		200,221	125,351	59,980	28,826,995
Reallocations:							
Corinthia Grand Hotel Royal	(450,000)	79,804,956		11,107,818	-	-	(90,912,774)
Corinthia Alfa Hotel	(4,147,360)	(76,190,000)		3,003,000	572,000	28,000	72,137,000
Disposals		(157,266)		(3,708,636)	(279,667)	(1,791)	-
At 31.12.03	315,366,256	192,933,824		21,561,136	10,084,853	282,919	90,503,524
Depreciation and Impairment Losses							
At 01.01.03	17,266,115	5,751,225		4,648,367	6,750,435	116,088	-
Effect of Movement in Foreign Exchange Rates	(362,344)	(30,063)		(127,200)	(201,556)	(3,525)	-
Depreciation Charge for the Year	6,974,981	3,110,809		2,816,368	1,021,310	26,494	-
Impairment Losses (Note 10(e))	10,504,225	10,504,225		-	-	-	-
Reallocations	(450,000)	(4,093,000)		3,047,000	568,000	28,000	-
Disposals	(3,676,662)	(126,278)		(3,273,384)	(277,000)	-	-
At 31.12.03	30,256,315	15,116,918		7,111,151	7,861,189	167,057	-
Carrying Amount							
At 31.12.03	285,109,941	177,816,906		14,449,985	2,223,664	115,862	90,503,524
At 31.12.02	275,041,369	184,724,491		6,578,266	3,201,846	84,463	80,452,303

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

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 an adjacent building, 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 15 January 2002, the directors accounted for the revalued amount of the Corinthia Nevskij Palace Hotel and an adjacent building, owned by I.H.I. Benelux B.V., on the basis of a desktop valuation amounting to EUR52,200,000. This valuation was carried out by HVS International, specialists in hotel consulting and valuation. The valuers relied upon information provided by C.H.I. 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 EUR175,052,911 (2002: EUR171,721,637).
- (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, and, on the basis that such impairment may have existed for only two of its hotel properties, estimated their recoverable amounts, based on the values in use of these two hotels.

In assessing such indications, the directors considered, *inter alia*, evidence available from internal reporting, indicating that the economic performances of the hotels did not match with expectations.

In arriving at the value in use of the hotels, the future cash inflows and outflows to be derived from the continuing use of the hotels and from their ultimate disposals were estimated in the currency in which they will be generated, and discounted using discount rates appropriate for the respective currencies – 6.51% for one of the properties and 5.35% for the other.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

11 Investment Property

	EUR
At 1 January 2003	11,468,150
Additions	347,998
Reversal of Prior Year Additions	(1,258,250)
Increase in Fair Value	24,442,102
	<u> </u>
At 31 December 2003	<u>35,000,000</u>

Investment property owned by a subsidiary company, IHI Benelux B.V., comprises two plots of land and a building, together with its underlying land, adjacent to and surrounding the Corinthia Nevskij Palace Hotel and its adjacent building 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. This property is held for a currently undetermined future use.

The carrying amount of this property is its fair value 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. The valuation 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.

The increase in fair value is attributed to the Group obtaining free and unencumbered title of this property during 2003.

12 Investments in Subsidiary Companies

(a)	EUR
At 1 January 2003	71,374,387
Increase in Fair Value	10,084,494
	<u> </u>
At 31 December 2003	<u>81,458,881</u>

As from the current financial year, the Company accounts for its investments in subsidiary companies as available-for-sale financial assets, stated at fair value, with gains or losses included in net profit for the period in which they arise. The effect of the change in the measurement basis from cost to fair value is explained in accounting policy 1(i).

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

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 Equity Stake in Alfa Investimentos Turisticos Lda
IHI St Petersburg LLC (Note 12(c))	57 Nevskij Prospect St Petersburg 191025 Russian Federation	Held on Operating Lease the Corinthia Nevskij Palace Hotel St Petersburg till 30 September 2003
IHI Benelux B.V. (Note 12(d))	Frederick Roeskestraat 123 1076 EE Amsterdam PO Box 72888 1070 AC Amsterdam The Netherlands	Owns the Corinthia Nevskij Palace Hotel St Petersburg which it started to operate as from 1 October 2003
IHI Hungary Rt (Note 12(e))	Erzsebet hrt 43-49 H1073, 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

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

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 St Petersburg LLC, 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 EUR17,760,000 (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 Orszvágos Takarékpénztár És Kereskedemi Rt ("OTP Bank") for a facility, originally for EUR45,000,000 and which at balance sheet date amounted to EUR44,334,000 (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 2003	1,718,961	913,496
Group's Share of Results of Associated Companies (Note 13(b))	263,494	-
At 31 December 2003	<u>1,982,455</u>	<u>913,496</u>

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

13. Investments in Associated Companies (Cont.)

(b) The Group's Share of Results of Associated Companies is arrived at as follows:

	2003	2002
	EUR	EUR
Group's Share of Profit for the Year	415,045	655,047
Amortisation of Goodwill	(54,168)	(54,168)
	<u>360,877</u>	<u>600,879</u>
Income from Associates before Taxation	360,877	600,879
Group's Share of Taxation	(97,383)	(107,605)
	<u>263,494</u>	<u>493,274</u>

(c) 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

14. Derivative Financial Instruments

(a)	The Group		The Company	
	2003	2002	2003	2002
	EUR	EUR	EUR	EUR
Interest Rate Swap Held for Trading	<u>178,083</u>	<u>-</u>	<u>178,083</u>	<u>-</u>

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

14 Derivative Financial Instruments (Cont.)

(b) 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)	Total	Group Companies	Related Company
	EUR	EUR	EUR
At 1 January 2003	90,177,859	88,707,859	1,470,000
Advances to Group Companies	13,637,173	13,637,173	-
Repayments by Group Companies	(9,930,945)	(9,930,945)	-
At 31 December 2003	93,884,087	92,414,087	1,470,000

(b)		Terms		
Group Company	EUR	Interest	Repayable By	Security
Alfa Investimentos Turisticos Lda	4,195,589	Nil	No Fixed Date	None
IHI Lisbon Limited	10,334,240	Nil	No Fixed Date	None
IHI Benelux B.V.	14,039,835	6 Month EURIBOR + 3%	31 December 2010	None
IHI Benelux B.V.	15,789,428	Nil	No Fixed Date	None
IHI Hungary Rt.	48,054,995	6 Month EURIBOR + 1%*	31 December 2005	None
	<u>92,414,087</u>			
Related Company				
Corinthia Investments Limited	1,470,000	EURIBOR + 1%	31 December 2015	None

* This interest charge is being waived by the Company.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

16 Other Debtors

(a)	The Group		The Company	
	2003	2002	2003	2002
	EUR	EUR	EUR	EUR
Amounts Owed by:				
Parent Company	58,218	222,090	-	-
Group Companies	-	-	4,710,547	4,054,471
Associated Companies	396,786	337,308	15,192	40,451
Related Companies	201,251	1,558,198	-	-
Other Related Parties	49,072	73,372	-	-
Recoverable VAT on Capital Expenditure	4,050,562	6,645,993	42,942	42,664
Amounts Held by Custodian Bank	-	1,812,000	-	-
Other Debtors	919,585	1,242,850	29,800	-
Prepayments and Accrued Income	442,100	369,628	76,806	79,250
	<u>6,117,574</u>	<u>12,261,439</u>	<u>4,875,287</u>	<u>4,216,836</u>

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

(c) Recoverable VAT includes EUR144,006 (2002: EUR132,585) expected to be refunded after more than one year from balance sheet date.

17 Bank Borrowings

(a)	The Group		The Company	
	2003	2002	2003	2002
	EUR	EUR	EUR	EUR
Bank Loans	114,345,388	88,795,151	15,000,040	-
Bank Overdraft	1,845,326	1,918,969	-	-
	<u>116,190,714</u>	<u>90,714,120</u>	<u>15,000,040</u>	<u>-</u>
Falling due within One Year				
Bank Loans	9,537,348	21,762,692	2,000,000	-
Bank Overdraft	1,845,326	1,918,969	-	-
	<u>11,382,674</u>	<u>23,681,661</u>	<u>2,000,000</u>	<u>-</u>
Falling due after more than One Year				
Bank Loans	104,808,040	67,032,459	13,000,040	-

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

17 Bank Borrowings (Cont.)

(b)

Terms

Repayment

Within 1 Year	Between 2 - 5 Years	After 5 Years
EUR	EUR	EUR

Group Company

Interest

By

8 October 2008

2,000,000

8,000,000

EUR

EUR

EUR

Security

International Hotel Investments p.l.c.:

Bank Loan

10,000,000

6 Month

8 October 2008

2,000,000

8,000,000

EUR

EUR

EUR

Second General Hypothec for EUR10 million over all Company's assets present and future.

EURIBOR + 2.25%

8 October 2008

2,000,000

8,000,000

EUR

EUR

EUR

Guarantee by Five Star Hotels Limited for EUR10 million.

General Hypothecary Guarantee over all present and future assets and Special Hypothecary Guarantee for EUR10 million by Five Star Hotels Limited over the Corinthia San Gorg Hotel.

Bank Loan

5,000,040

6 Month

30 October 2011

-

2,500,200

2,499,840

EUR

EUR

EUR

First General Hypothec for EUR10 million over all assets present and future.

EURIBOR + 2%

30 October 2011

-

2,500,200

2,499,840

EUR

EUR

EUR

Second Ranking Mortgage guarantee by Thermal Hotel Aquincum Rt over the Aquincum Hotel.

15,000,040

EURIBOR + 2%

30 October 2011

-

2,500,200

2,499,840

EUR

EUR

EUR

Second Ranking Mortgage guarantee by Thermal Hotel Aquincum Rt over the Aquincum Hotel.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

17 Bank Borrowings (Cont.)

(b) (Cont.)

Group Company	EUR	Interest	By	Repayment			Security
				Within 1 Year	Between 2 - 5 Years	After 5 Years	
Five Star Hotels Limited: Bank Overdraft	1,845,326	4.75%	On Demand	1,845,326	-	-	General hypothec over assets belonging to Five Star Hotels Limited supported by a special hypothec and privilege over the Corinthia San Gorg Hotel.
Bank Loan	4,751,348	4.75%	31 December 2006	1,497,348	3,254,000	-	
Alfa Investimentos Turisticos Lda: 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.
IHI Benelux B.V.: Bank Loan	17,760,000	6 Month EURIBOR + 3%	31 December 2011	1,790,000	8,400,000	7,570,000	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	2,000,000	3-Month EURIBOR + 2%	10 September 2004	2,000,000	-	-	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 EUR1,851,915 (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.
Bank Loan	44,334,000	3-Month EURIBOR + 2%	31 December 2015	2,250,000	11,704,500	30,379,500	
	<u>101,190,674</u>			<u>9,382,674</u>	<u>26,713,500</u>	<u>65,094,500</u>	
	<u>116,190,714</u>			<u>11,382,674</u>	<u>37,213,700</u>	<u>67,594,340</u>	

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

18 Debt Securities in Issue

(a)	2003	2002
	EUR	EUR
Convertible Bonds (Note 18(b))	10,375,887	10,593,606
Lm Bond (Note 18(c))	13,617,916	-
Euro Bond (Note 18(c))	7,893,950	-
	<u>31,887,753</u>	<u>10,593,606</u>
(b) <u>Convertible Bonds</u>		EUR
Proceeds from Issue		12,283,000
Transaction Costs		(365,681)
		<u>11,917,319</u>
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 2002		336,293
Reporting Currency Conversion Difference		(335,500)
		<u>10,593,606</u>
At 31 December 2002		10,593,606
Imputed Interest and Amortisation of Transaction Costs for 2003		145,981
Provision for Exchange Fluctuations		(363,700)
		<u>10,375,887</u>
At 31 December 2003		<u>10,375,887</u>

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.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

18 Debt Securities in Issue (Cont.)

(b) (Cont.)

Conversion Terms, Dates and Prices (Cont.)

The bonds, upon issue, shall 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.

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.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

18 Debt Securities in Issue (Cont.)

(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	22,229	21,934
Provision for Exchange Fluctuations	(368,184)	-
At 31 December 2003	13,617,916	7,893,950

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.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

19 Other Interest-Bearing Liabilities

(a)	The Group		The Company	
	2003	2002	2003	2002
	EUR	EUR	EUR	EUR
Amounts Owed to:				
Parent Company	656,999	25,453,487	216,825	24,999,482
Associated Companies	454,670	543,518	454,670	-
Other Related Companies	1,876,000	1,982,468	-	-
	<u>2,987,669</u>	<u>27,979,473</u>	<u>671,495</u>	<u>24,999,482</u>
Falling due within One Year				
Amounts Owed to:				
Parent Company	440,174	454,005	-	-
Associated Companies	454,670	543,518	454,670	-
Other Related Companies	204,525	310,993	-	-
	<u>1,099,369</u>	<u>1,308,516</u>	<u>454,670</u>	<u>-</u>
Falling due after more than One Year				
Amounts Owed to:				
Parent Company	216,825	24,999,482	216,825	24,999,482
Other Related Company	1,671,475	1,671,475	-	-
	<u>1,888,300</u>	<u>26,670,957</u>	<u>216,825</u>	<u>24,999,482</u>

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

	Terms			
	EUR	Interest	Repayable By	Security
Parent Company	440,174	6.5%	On Demand	None
Parent Company	216,825	5.0%	No Fixed Date	None
Associated Companies	454,670	5.0%	On Demand	None
Danish Bakery Limited	37,018	7.0%	On Demand	None
Garment Finishing Limited	167,507	8.0%	On Demand	None
Thermal Hotel Aquincum Rt	1,671,475	EURIBOR + 1%	31 December 2015	None
	<u>2,987,669</u>			

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

20 Other Creditors

(a)	The Group		The Company	
	2003	2002	2003	2002
	EUR	EUR	EUR	EUR
Falling Due Within One Year				
Advance Deposits	3,262,476	676,497	-	-
Amounts Owed to:				
Parent Company	833,074	2,236,783	486,348	1,956,170
Group Companies	-	-	-	6,781,854
Associated Companies	2,930,182	2,613,525	-	521,012
Other Related Companies	3,577,675	3,396,690	42,036	25,778
Capital Creditors	12,034,395	17,984,022	1,646,922	-
Other Creditors	1,214,306	1,242,519	-	-
Accruals	4,489,905	2,822,073	1,649,453	376,421
	<u>28,342,013</u>	<u>30,972,109</u>	<u>3,824,759</u>	<u>9,661,235</u>
Falling Due After More than One Year				
Amount Owed to Group Company	-	-	76,558	-
Other Creditors	-	1,500,000	-	-
	<u>-</u>	<u>1,500,000</u>	<u>76,558</u>	<u>-</u>

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

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

21 Deferred Taxation

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

	The Group			The Company		
	2003	2002	Movement	2003	2002	Movement
	EUR	EUR	EUR	EUR	EUR	EUR
Property, Plant and Equipment:						
Excess of Capital Allowances over Depreciation	465,015	701,932	236,917	-	-	-
Revaluation of Land and Buildings	20,417,164	25,982,220	5,565,056	-	-	-
Revaluation of Investment Property	8,554,736	-	(8,554,736)	-	-	-
Available-for-Sale Investments	-	-	-	3,529,573	-	(3,529,573)
Derivative Financial Instruments	62,329	-	(62,329)	62,329	-	(62,329)
Provision for Doubtful Debts	(126,223)	(102,029)	24,194	-	-	-
Accrued Charges	(193,761)	(305,483)	(111,722)	-	-	-
Provision for Exchange Differences	49,659	(119,504)	(169,163)	275,683	-	(275,683)
Equity Component of Convertible Bonds	321,587	358,954	37,367	321,587	358,954	37,367
Unrelieved Tax Losses and Unabsorbed Capital Allowances	(4,234,928)	(4,048,255)	186,673	(643,802)	(192,113)	451,689
	<u>25,315,578</u>	<u>22,467,835</u>	<u>(2,847,743)</u>	<u>3,545,370</u>	<u>166,841</u>	<u>(3,378,529)</u>

Group's Share of Deferred Tax Movement of Associated Companies

(857)

Recognised Directly in Equity

Exchange Translation Reserve:

Deferred Tax Liabilities for Foreign Entities

Translated at Foreign Exchange Rates at Year End

(101,400)

Recognised in the Profit and Loss Account (Note 7(a))

(2,950,000)

(3,378,529)

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

21 Deferred Taxation (Cont.)

- (b) 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)	2003	2002
	EUR	EUR
Authorised Share Capital		
Ordinary Shares of EUR1 each (Note 22(b))	<u>750,000,000</u>	<u>243,305,165</u>
Issued and Fully Paid Up		
48,000,000 Ordinary Shares of EUR2.48 each (Note 22(c))	-	119,051,165
119,053,489 Ordinary Shares of EUR1 each (Note 22(c))	<u>119,053,489</u>	<u>-</u>

- (b) During the year, pursuant to the provisions of Section 186 of the Companies Act, 1995 ("the Act"), the Company changed the currency in which its share capital was expressed from Maltese Liri to Euro, in accordance with the provisions of the Eight Schedule ("the Schedule") to the Act. Following the conversion from Maltese Liri to Euro, the Company increased its authorised share capital from EUR243,305,165 to EUR750,000,000.
- (c) In terms of the provisions of Clause 4(1) of the Schedule, the paid-up share capital was converted at the exchange rates applicable on the respective dates when the shares in question were issued by the Company. The resulting value in Euros is equivalent to EUR119,051,165, representing 48,000,000 shares of EUR2.48 each. Following the conversion from Maltese Liri to Euro, the Company changed the nominal value of the shares to EUR1 each. It subsequently allotted an additional 2,324 shares of EUR1 each to those members who became entitled to fractions of a share, with a view to rounding up to the nearest one whole share of the aggregate holdings of such members.
- (d) 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.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

23 Reserves

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

	EUR
Excess of Revalued Amount over the Net Book Value of Tangible Fixed Assets	13,268,220
Deferred Taxation	(4,643,877)
	<u>8,624,343</u>

- (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 redenomination of the paid up share capital from Maltese Liri to Euro (Note 22(b)).
- (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(a))	1,324,506
Transaction Costs	(44,198)
	<u>1,280,308</u>
Deferred Taxation	(448,108)
	<u>832,200</u>

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

23 Reserves (Cont.)

(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	178,083	(62,329)	115,754
Exchange Gains	787,665	(275,683)	511,982
	<u>965,748</u>	<u>(338,012)</u>	<u>627,736</u>
The Company			
Fair Value Gains:			
Available-for-Sale Investments	10,084,494	(3,529,573)	6,554,921
Interest Rate Swap	178,083	(62,329)	115,754
Exchange Gains	787,665	(275,683)	511,982
	<u>11,050,242</u>	<u>(3,867,585)</u>	<u>7,182,657</u>

- (f) (i) The loss for the year has been transferred to the profit and loss (reserve) account as set out in the statement of changes in equity for the year ended 31 December 2003.
- (ii) Equity issue costs amounting to EUR865,705 incurred prior to 2002 and accounted for as a deduction from equity, have been expensed by restating the balance on the profit and loss (reserve) account as at 1 January 2002, since these costs do not meet the definition of costs of an equity transaction set out in SIC-17, *Equity - Costs of an Equity Transaction*.

24 Cash and Cash Equivalents

	The Group		The Company	
	2003	2002	2003	2002
	EUR	EUR	EUR	EUR
Cash at Bank and in Hand	5,228,975	14,015,424	26,284	178,577
Bank Overdraft (Note 17(a))	(1,845,326)	(1,918,969)	-	-
	<u>3,383,649</u>	<u>12,096,455</u>	<u>26,284</u>	<u>178,577</u>

- (b) Cash at bank includes an amount of EUR1,851,915 (2002: EUR6,101,543) pledged by way of a collateral for amounts borrowed (Note 17(b)).
- (c) During the year amounts totalling EUR2,524,941 due by a subsidiary company were assigned to IHI.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

25 Related Party Disclosures

- (a) The Company has a related party relationship with its Parent Company (Note 30) and other entities forming part of the Corinthia Group of Companies, of which IHI is a subsidiary. 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 arrangements in place with its officers, executives, shareholders and other related parties, whereby special offers are made available for hospitality services rendered to them. 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 2003 by IHI Group to its Parent Company and its other subsidiaries amounted to EUR8,202,345 (2002: EUR32,638,875).
- (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	
	2003	2002	2003	2002
	EUR	EUR	EUR	EUR
Revenue				
Services Rendered to the Parent Company and its Subsidiaries by:				
Five Star Hotels Limited	193,116	206,728	-	-
Services Rendered by Five Star Hotels Limited to:				
Associated Companies	87,628	152,302	-	-
Other Related Parties	43,510	70,291	-	-
	<u>324,254</u>	<u>429,321</u>	<u>-</u>	<u>-</u>
Direct Costs				
Charged by the Parent Company and its Subsidiaries to:				
Five Star Hotels Limited	362,581	317,219	-	-
IHI Hungary Rt	152,944	-	-	-
	<u>515,525</u>	<u>317,219</u>	<u>-</u>	<u>-</u>
Marketing Costs				
Charged by C.H.J. Limited to:				
Five Star Hotels Limited	146,690	160,833	-	-
Alfa Investimentos Turisticos Lda	5,000	73,000	-	-
IHI St Petersburg LLC	141,284	150,000	-	-
IHI Benelux B.V.	33,000	-	-	-
	<u>325,974</u>	<u>383,833</u>	<u>-</u>	<u>-</u>
carried forward	841,499	701,052	-	-

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

25 Related Party Disclosures (Cont.)

(d) (Cont.)	The Group		The Company	
	2003	2002	2003	2002
	EUR	EUR	EUR	EUR
brought forward	<u>841,499</u>	<u>701,052</u>	-	-
Administrative Expenses				
Management Fee Charged by Parent Company to:				
IHI	459,583	388,324	459,583	388,324
Management Fee Charged by C.H.I. Limited to:				
Five Star Hotels Limited	195,585	214,439	-	-
Alfa Investimentos Turisticos Lda	10,000	149,000	-	-
Incentive Fee Charged by C.H.I. Limited to:				
Five Star Hotels Limited	-	207,952	-	-
Consultancy and Sub-Licence Fees charged by C.H.I. Limited to:				
IHI St Petersburg LLC	1,054,890	1,028,000	-	-
IHI Benelux B.V.	218,000	-	-	-
	<u>1,938,058</u>	<u>1,987,715</u>	<u>459,583</u>	<u>388,324</u>
Sundry Expenses				
Charged by the Parent Company and its Subsidiary Companies to:				
IHI	29,650	323,184	29,650	323,184
Five Star Hotels Limited	128,900	108,765	-	-
Charged by C.H.I. Limited to:				
IHI	9,783	8,288	9,783	8,288
Five Star Hotels Limited	50,416	145,283	-	-
Alfa Investimentos Turisticos Lda	-	377,000	-	-
IHI St Petersburg LLC	39,545	-	-	-
IHI Hungary Rt	285,898	-	-	-
Charged by QPM Limited to:				
IHI	9,228	12,946	9,228	12,947
Five Star Hotels Limited	5,426	-	-	-
Recharged to the Parent Company and its Subsidiary Companies by:				
Five Star Hotels Limited	(14,791)	(501,288)	-	-
IHI St Petersburg LLC	(19,455)	-	-	-
IHI Hungary Rt	(103,213)	-	-	-
Recharged to Associated Companies by:				
Five Star Hotels Limited	(80,148)	(2,452)	-	-
	<u>341,239</u>	<u>471,726</u>	<u>48,661</u>	<u>344,419</u>
carried forward	3,120,796	3,160,493	508,244	732,743

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

25 Related Party Disclosures (Cont.)

(d) (Cont.)	The Group		The Company	
	2003	2002	2003	2002
	EUR	EUR	EUR	EUR
brought forward	3,120,796	3,160,493	508,244	732,743
Pre-Operating Expenses				
Charged/(Recharged) by/(to) the Parent Company and its Subsidiary Companies:				
Alfa Investimentos Turisticos Lda:				
Recharged	(14,000)	-	-	-
IHI Hungary Rt:				
Charged	-	245,116	-	-
Recharged	-	(723,822)	-	-
Charged/(Recharged) by/(to)				
CHI Limited and QPM Limited:				
Alfa Investimentos Turisticos Lda:				
Charged	162,000	-	-	-
Recharged	(19,000)	-	-	-
IHI Hungary Rt:				
Charged	-	382,792	-	-
Recharged	-	(3,446)	-	-
	129,000	(99,360)	-	-
Net Financing Costs				
Interest Receivable (Note 5)	(51,077)	(66,992)	-	-
Interest Payable (Note 5)	307,993	1,146,597	256,681	1,086,883
	256,916	1,079,605	256,681	1,086,883
Expensed	3,506,712	4,140,738	764,925	1,819,626
Tangible Fixed Assets				
Construction and Related Services Provided by QPM Limited and Corinthia Construction Overseas Limited to:				
Alfa Investimentos Turisticos Lda	1,065,000	-	-	-
IHI Hungary Rt.	10,120	2,486,815	-	-
Capitalised	1,075,120	2,486,815	-	-

- (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 EUR7,965,978, in favour of Corinthia Palace Hotel Company Limited (Note 10(b)).

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

26 Capital Expenditure Commitments

	The Group	
	2003	2002
	EUR	EUR
Tangible Fixed Assets:		
Contracted for:		
Alfa Investimentos Turisticos Lda (Corinthia Alfa Hotel and Congress Centre)	20,000,000	-
IHI Benelux B.V. (Corinthia Nevskij Palace Hotel)	1,298,000	-
IHI Hungary Rt. (Corinthia Grand Hotel Royal)	-	11,554,000
	21,298,000	11,554,000
Authorised but not yet Contracted for:		
Five Star Hotels Limited (Corinthia San Gorg)	1,683,000	-
Alfa Investimentos Turisticos Lda (Corinthia Alfa Hotel and Congress Centre)	-	34,000,000
IHI Benelux B.V. (Corinthia Nevskij Palace Hotel)	2,517,000	-
IHI Hungary Rt. (Corinthia Grand Hotel Royal)	4,150,000	4,300,000
	8,350,000	38,300,000
	29,648,000	49,854,000

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.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

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 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.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

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 Malta Lira, Hungarian Forint, US Dollar, Russian Ruble, Pound Sterling and Croatia Kuna. In addition, the Company has a number of investments in foreign subsidiaries whose net assets are exposed to currency translation risk. The Group does not hedge against these exposures. As a result, exchange gains or losses may arise on the realisation of amounts receivable and the settlement of amounts payable in foreign currencies, and such amounts may be significant.

During the year ended 31 December 2003, the Group accounted for net exchange gains amounting to EUR1,456,316 (2002: net exchange gains EUR3,560,666), arising from transactions, and 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 EUR497,577 (2002: EUR637,916).

At balance sheet date, the following amounts, denominated in foreign currencies, were stated in Euro at the foreign exchange rate ruling on that date:

	Amount in Foreign Currency						Equivalent in EUR
	Malta Lira	Hungarian Forint	US Dollar	Russian Ruble	Pound Sterling	Croatia Kuna	
Amounts Receivable							
Intra-Group	3,541	-	-	-	64,123	-	99,017
Other	5,474,086	500,017,535	500	-	30,137	-	15,286,507
Cash at Bank	22,973	528,122,417	6,534	21,459,065	17,263	419,870	2,747,390
Amounts Payable							
Intra-Group	4,508,629	-	-	-	-	-	10,445,142
Other	4,684,943	1,049,044,567	3,059,452	-	196,403	260	17,514,570
Net Exposure							
Receivable	-	-	-	21,459,065	-	419,610	
Payable	3,692,972	20,904,616	3,052,418	-	84,880	-	

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

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) In addition to the following amounts, another subsidiary company within the Group is involved in litigation with a former employee, the claim for which cannot be quantified.

EUR

Litigations with:

Former Employees relating to Termination of Employment	35,000
Third Party regarding the Termination of a Rental Agreement	163,000
	<u>198,000</u>

While liability is not admitted, if defence against these actions are unsuccessful, the disclosed amounts, in addition to the unquantified amount, 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) One of the subsidiary companies is involved in a claim made against the former owner of this property by the State Authorities in Portugal, regarding the settlement of overdue tax and social security contributions. This subsidiary company has taken the necessary steps to prove to the Court that the amounts in question have since been properly settled, however, while not admitting the claim, the fines relating to such settlement procedures, if found liable, can vary from Euro135,600 to Euro678,000,000. Given that the Company has voluntarily settled all outstanding amounts concerning these claims, the directors believe that the Court will rule in its favour and, as such, the probability of any claim against it is minimal. In this respect, no provision has been made in these financial statements for such claim.
- (d) 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.

International Hotel Investments p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2003

29. Comparative Amounts

- (a) The Group results and cash flows for the comparative year reflect the results and cash flows of a full year's 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 two-month period ended February 2003. The Corinthia Grand Hotel Royal commenced operations early in 2003. Accordingly, the comparative results and cash flows do not reflect those relating to the operation of this hotel.
- (b) In view of the re-denomination of the share capital of the Company from Maltese Liri to Euro (Note 22(b)) and the consequent change in the reporting currency in which the Company now prepares and publishes its financial statements, the comparative amounts, previously reported in Maltese Liri, have been converted using the Euro as the reporting currency, in accordance with the following rules set out in the Eight Schedule to the Companies Act, 1995:
- Monetary items were converted at the rate prevailing on 1 January 2003 (EUR2.3895 to the Maltese Lira); and
 - Non-monetary items were converted at the actual exchange rates prevailing at the date of acquisition, averaged as follows:

	Exchange Rate
	EUR/Lm
Intangible Fixed Assets	2.4528
Tangible Fixed Assets	2.4739
Investments	2.4779

- (c) Certain comparative amounts have been reclassified to conform with the current year's presentation.

30. 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.