المملكة

KINGDOM

HOTEL INVESTMENTS

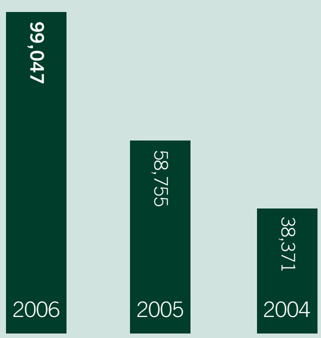
ANNUAL REPORT 2006

Kingdom Hotel Investments (KHI) is the leading international hotel and resort investment company focused on high-growth emerging markets, with a mixed portfolio of resort and city hotels in mid-scale, upscale and luxury market segments. Our expertise is in adding shareholder value through acquiring, financing, developing and actively asset-managing high-quality properties in high-growth emerging markets around the world.

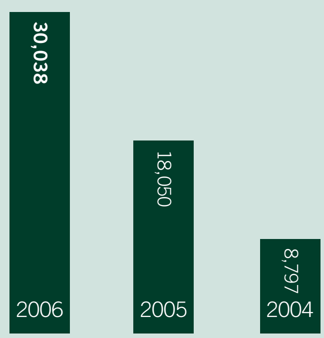
CONTENTS

Our performance

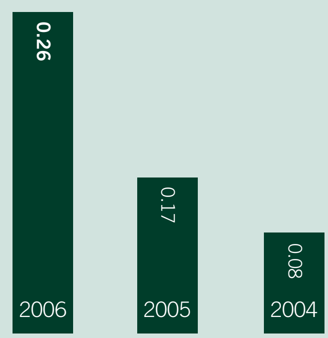
REVENUES US$ '000



EBITDA US$ '000



EPS US$



68% increase

The consolidated revenue increased 68% to $99 million as compared to 2005.

248% increase

KHI net income rose for the third consecutive year. Net income reached $42.8 million, an increase of 248% versus 2005.

Financial highlights

	December 31, 2006 US$	December 31, 2005 US$	December 31, 2004 US$	CAGR* %	Change 2005-06 %
Hotel revenues	**99,047**	58,755	38,371	61	68
Gross profit	**14,263**	11,462	8,118	33	24
Earnings before interest, taxes, depreciation, and amortisation (EBITDA)	**30,038**	18,050	8,797	85	66
KHI profit for the year	**42,809**	12,320	4,427	211	248
Earning per share (basic and diluted) for the parent	**0.26**	0.17	0.08	81	153
Weighted number of shares	**163,660**	71,815	56,757	n/c	229

*Compound Annual Growth Rate.

Operating highlights

KHI is well positioned to continue to leverage its competitive advantage and build its portfolio in high growth emerging markets.

KHI will continue to source projects with ancillary real estate components.

Chairman's letter

2006 was a transformational year for KHI. The Company completed its listing, diversified its portfolio into new markets, significantly grew its earnings and invested in people and capabilities.

During the past year KHI grew its revenue by 68% and net income by 248% and has established itself as the leading emerging markets hotel investment company. Earnings per share grew to US$0.26.

MAJOR ACQUISITIONS

I am proud to announce that we closed 11 transactions last year, simultaneously expanding our inventory and diversifying our Company's investments and earnings distribution. We announced investments in a mix of operating hotels and greenfield projects in Mauritius, Tanzania, Ghana, France, Uganda, Thailand, Zambia, the step-up acquisition of the Mövenpick resort in El Quseir, Egypt as well as the purchase of an apartment building in Dubai that will be operated alongside into our existing Mövenpick Bur Dubai hotel.

In addition to these acquisitions we also continued to implement our strategy of increasing minority shareholdings, as we increased KHI's ownership in the Four Seasons Hotel Cairo, the Four Seasons Resort Sharm El-Sheikh, the Damascus Four Seasons and the Fairmont Palm Hotel and Resort in Dubai.

Our acquisition momentum continued into the first quarter of 2007, as we acquired hotels in Vietnam, Malaysia, Philippines and China. The Company's deal pipeline continues to be strong particularly in Asia.

PEOPLE

I am particularly pleased with the results and hard work of our executive management and their teams that made this happen, all while managing business growth and transforming KHI into a public company. On behalf of our shareholders I wish to extend our thanks to them for their dedication and hard efforts, and to their families for their support and patience. It is a result of their collective motivation, focus and energy that our young enterprise has found its place as the leader in its field.

Building a great business and building sustainable competitive advantage requires recruiting, retaining and motivating great people and supporting them with the capabilities they need to achieve their objectives. 2006 saw a focus on expanding and developing our human resources to address business requirements and capabilities and supporting growth in an affordable way. This will continue to be a recurring theme at KHI.

LOOKING AHEAD

I am optimistic for 2007. Outlook on our focus markets has never looked more attractive as the combined secular growth in tourist arrivals and GDP rates continue to surpass those of OECD and mature markets. Many of our assets are leaders in their markets or at the upper end of their competitive set. KHI will have to achieve a balance in managing its existing assets, new acquisitions, ancillary real estate and construction projects to deliver results.

The management team is best in class and has demonstrated their ability to drive and manage growth in the Emerging Markets. I am very confident that they will continue this pace and build on the resources that were developed in 2006 to drive growth and diversification.

As Chairman of KHI and a significant shareholder, I am proud of our Company's recent achievements and more confident than ever in its future.

HRH PRINCE ALWALEED BIN TALAL
BIN ABDULAZIZ ALSAUD

Strategic partnerships with world-class hotel operators

KHI benefits from strong relationships with global operators spanning the mid to luxury segments. We view this as a competitive advantage and continue to expand and leverage the partnerships. Primary benefits include access to a proprietary deal network and the ability to execute profit generating initiatives or manage risk.

Mövenpick Karon Beach Resort Phuket

STRATEGIC PARTNER: MÖVENPICK

Mövenpick Hotels & Resorts is active in the 4- and 5-star resort hotel and business/airport hotel markets. It encompasses 80 hotels in 23 countries, serving more than 5 million guests every year. More than 12,000 people work at Mövenpick properties in Europe, the Middle East, Africa and Asia.

The Mövenpick Karon Beach Resort in Phuket, with 339 rooms plus 30 apartments, sets new standards of style and luxury in one of Thailand's premier locations.

www.moevenpick-hotels.com

Four Seasons Damascus

STRATEGIC PARTNER: FOUR SEASONS

The Four Seasons chain currently has 74 luxury hotels in major city centres and desirable resort destinations in 31 countries. From its start in 1960, the Toronto-based Four Seasons has become an acknowledged leader in the hospitality industry, renowned for making business and leisure travel alike easier, more rewarding and more glamorous. Four Seasons also has more than 25 additional properties under development.

The 297-room Four Seasons Damascus, managed on behalf of KHI, is at the commercial, diplomatic and cultural hub of Syria's capital.

www.fourseasons.com

The Norfolk Hotel Nairobi

STRATEGIC PARTNER: FAIRMONT

The Fairmont Hotels & Resorts global portfolio includes elegant landmark hotels, expansive resorts and iconic modern city-centre properties. All 51 combine elegance and flair. The Canadian-based company recently entered into a joint venture with Raffles Hotels, one of the world's most distinctive hotel operators – best known for the venerable Raffles Singapore.

The Norfolk Nairobi's oldest and best loved hotel, will soon be one of its newest as well, thanks to a comprehensive yet sensitive renovation programme under way.

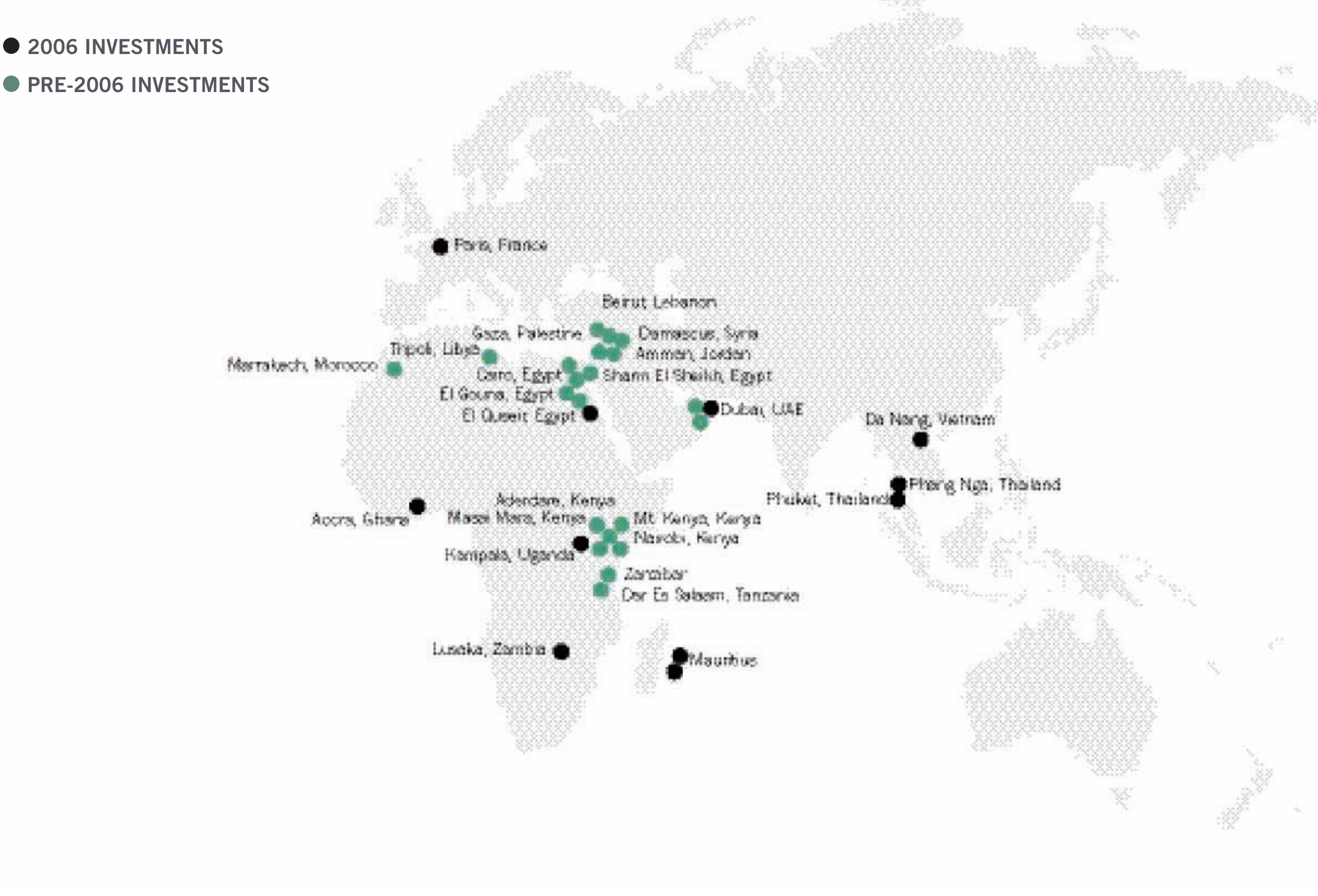
www.fairmont.com

KHI at a glance

KHI, incorporated in 2000, is a leading international hotel and resort investment company. Since March 1, 2006 it has been listed on the London Stock Exchange and the Dubai International Financial Exchange. The Company's founder, His Royal Highness Prince Alwaleed bin Talal bin Abdulaziz Alsaud, remains KHI's majority stakeholder. In seven years, KHI has built a substantial portfolio of high-quality assets managed by leading international hotel operators Mövenpick, Fairmont and Four Seasons. Starting in 2007 Raffles will manage some of KHI's newest assets in Asia.

From the start, KHI has worked to maintain a balance between existing hotels and new projects, ensuring steady cash flows while building growth for the future.

This map shows the locations of the hotels that are currently operational, and those that are under development.



Four Seasons
Hotels and Resorts

www.fourseasons.com

Mövenpick
Hotels and Resorts

www.moevenpick-hotels.com

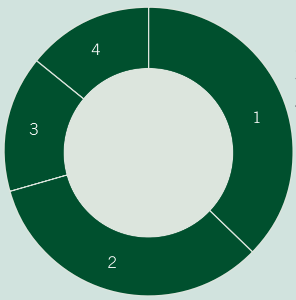
Fairmont
Hotels and Resorts

www.fairmont.com

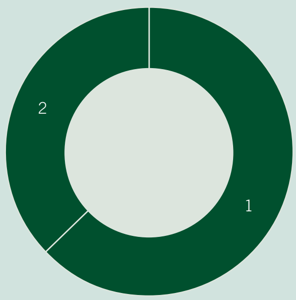
Raffles
Hotels and Resorts

www.raffles.com

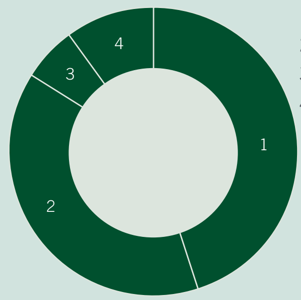
LOCATION
weighted as % of
KHI Capital Commitment



KHI CAPITAL COMMITMENT



MANAGEMENT COMPANIES
weighted as % of
KHI Capital Commitment



PORTFOLIO REVIEW – OPERATING HOTELS

	Hotel	Location	Year opened/ acquired	Rooms	Effective ownership	Cost of investment	Return of capital	Net cost of investment	Property debt
Consolidated									
i)	Mövenpick Karon Beach Resort	Phuket, Thailand	2006	339	100.0%	71.2	–	71.2	32.4
ii)	Mövenpick Hotel & Resort Beirut	Beirut, Lebanon	2002	292	81.2%	72.6	(9.3)	63.3	41.9
iii)	Four Seasons Hotel Damascus	Damascus, Syria	2005	297	49.5%*	43.9	–	43.9	20.0
iv)	Mövenpick Hotel Bur Dubai & Residence	Dubai, UAE	2001/2003	232	100.0%	54.8	(20.0)	34.8	33.8
v)	Intercontinental Lusaka	Zambia	2006	221	100.0%	28.5	–	28.5	0.3
vi)	Mövenpick Resort & Spa Mauritius	Bel Ombre, Mauritius	2006	181	100.0%	25.6	–	25.6	29.1
vii)	Fairmont Kenya 5 Properties	Kenya	2005	440	70.0%	23.4	–	23.4	5.0
viii)	Mövenpick Resort El Quseir	Red Sea, Egypt	1995/2002	250	87.3%	22.8	–	22.8	4.7
ix)	Mövenpick Royal Palm Hotel	Dar Es Salaam, Tanzania	1995/2004	230	96.0%	18.3	–	18.3	7.4
		Subtotal		2,482		361.1	(29.3)	331.8	174.6
Associate									
x)	Four Seasons Hotel George V	Paris, France	2005	245	25.0%	95.5	–	95.5	368.1
xi)	Four Seasons Hotel Cairo at Nile Plaza	Cairo, Egypt	2004	365	43.7%	73.2	–	73.2	53.4
xii)	Four Seasons Resort Sharm El Sheikh	Red Sea, Egypt	2002	200	39.3%	28.4	–	28.4	21.8
xiii)	Mövenpick Resort & Spa El Gouna	Red Sea, Egypt	1996/2002	576	29.3%	8.0	–	8.0	2.8
		Subtotal		1,386		205.1	–	205.1	446.1
		Total		**3,868**		**566.2**	**(29.3)**	**536.9**	**620.7**

*Post-dilution effective ownership interest: 45.7%

Chief Executive's review

In the year since KHI successfully listed on the Dubai International Financial Exchange and London Stock Exchange, we have profitably delivered on our business strategy, despite difficult trading conditions in parts of the Middle East during the second half. In 2006 we grew revenue by 68% to US$99.0 million and Net Income grew 248% to US$42.8 million.

Financial performance and acquisition activities demonstrate KHI's high growth model.

As a major player in the global emerging markets, KHI accelerated its acquisitions and development properties in high growth markets. We had notable successes in implementing that strategy with 11 acquisitions in nine countries. As a result, KHI has expanded its operating portfolio to 17 hotels with a total of 4,100 rooms. An additional 11 projects currently under construction are expected to deliver an additional 2,000 rooms.

We implemented value-enhancing initiatives by repositioning certain hotels and resorts with a view to grow and maximise their income potential. Active asset management continues to be a key driver of KHI's value creation model.

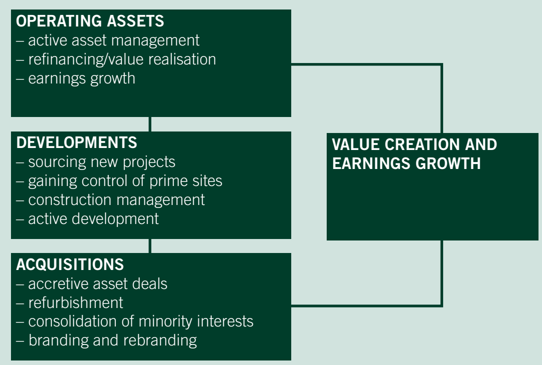
In 2006, we leveraged our relationships with partners and operators as well as capitalised on our competitive advantages in driving

A UNIQUELY SUCCESSFUL BUSINESS MODEL

At KHI we strategically blend mergers, acquisitions and construction activity to maximise growth and profitability throughout our hotel portfolio.

From the outset, we have dedicated ourselves to acquiring assets at the right time, in the right place, for the right price and most importantly with the right turnaround strategy.

Those are the basics. But our success also relies on track record, experience, industry focus, regional expertise and conservative leverage.



growth through primarily off-market transactions. In 2007 we plan on driving additional growth and diversification into emerging Asia and Africa.

ROBUST FINANCIAL PERFORMANCE DESPITE GEOPOLITICAL CHALLENGES

The majority of KHI's operating hotels performed strongly in 2006. This was achieved despite difficult post-war trading conditions in Beirut during the second half of the year. Inevitably, this regional uncertainty had a corresponding impact on trading at the newly opened Four Seasons Hotel in Damascus. Softer than expected market conditions also affected the trading performance of KHI's operating assets in the Red Sea and Mauritius.

In addition to revenue growth of 68% during the year, our consolidated EBITDA was up by 67% to US$30.0 million, primarily driven by acquisitions. KHI net income rose by 248% to US$42.8 million driven by acquisitions, one-time gains and interest income, and EPS grew 53% to US$0.26.

It is worth noting that pricing momentum and occupancy have been strong across the entire KHI system in the first quarter of 2007, with the notable exception of Beirut where we continue to adopt a risk mitigation strategy and a profit protection plan.

Since KHI's IPO, we have also strengthened our executive team with the appointment, during the last quarter of the year, of Ghaith Shocair as Senior Vice President, Finance and Chief Financial Officer. Ghaith will focus on building functional capabilities as well as develop a funding strategy for KHI with a view to leveraging the Company's balance sheet and funding KHI's long-term growth in a sustainable manner. Additionally we have invested in people and capabilities and through other departments notably Acquisitions and Development. This was reflected in the delivery of above-target acquisitions in Asia.

BRISK ACTIVITY IN ACQUISITIONS AND DEVELOPMENT

KHI maintained its momentum in acquiring new properties and developing existing hotels. Leveraging our competitive advantages, we increased our portfolio by more than 50% during 2006 to a total of 32 properties. This was significantly ahead of stated target of six acquisitions per annum.

In the first quarter we made four acquisitions: the rights to a 99-year lease on the Accra Ambassador in Ghana's capital; a 30% equity interest in the Mövenpick Hotel Zanzibar; a 50% stake in a projected Four Seasons Resort in Mauritius; and a 25% interest in the Four Seasons George V in Paris.

In the second quarter we made three acquisitions; a 181-room hotel in Mauritius repositioned as a Mövenpick; a 99-year lease on a plot of land in the centre of Uganda's capital of Kampala to be developed into 120-room Mövenpick Hotel and a shopping centre; a 339-room existing hotel in Phuket, Thailand

Chief Executive's review continued

that was repositioned under the Mövenpick brand just as Phuket is regaining pre-Tsunami tourism demand levels in 2007.

During the third quarter we increased our ownership stake into a controlling interest in the Mövenpick Hotel El Quseir (Egypt).

In the fourth quarter we acquired three properties: an existing 221-room hotel in Lusaka, Zambia with plans for renovation; a prominent beach front site in Phang Nga, Thailand, with plans to develop a 120-room Raffles property including a significant ancillary real estate residential component; an apartment building in Dubai adjacent to the Mövenpick Bur Dubai Hotel that will be redeveloped into branded serviced apartments in 2008. The latter acquisition is consistent with our increased focus on assets with significant ancillary branded real estate opportunity, such as the Four Seasons Private Residences Marrakech, Four Seasons Mauritius, Mövenpick Kampala, Raffles Phang Nga Residences as well as the subsequent 2007 acquisitions that include significant ancillary real estate components.

We continue to manage a strong deal pipeline in 2007. So far this year KHI closed four acquisitions; Raffles Da Nang Resort & Residences in Vietnam; Four Seasons Langkawi in Malaysia; Raffles Suites and Residence in Manila, Philippines and the Traders Hotel in Kunshan, China.

ENHANCING VALUE THROUGH ASSET MANAGEMENT

KHI's business model relies on driving growth and value through acquisitions and active asset management. During 2006 we strengthened capabilities and focused on integrating and accelerating the earnings ramp-up at our newly opened properties.

The majority of our hotels showed significantly improved trading results in 2006. System Portfolio RevPAR increased by 16% over the previous year while System Portfolio Hotel EBITDA increased by 25%.

Our properties earned strong accolades during the year. We received a citation from *Conde Nast Traveler* for the best hotel in Africa, the Four Seasons Cairo Nile Plaza. *Travel & Leisure Magazine* chose the Four Seasons Amman as one of the top 25 hotels in Africa and the Middle East, and also selected Fairmont's Mount Kenya Safari Club in that category. *Gallivanter's Guide* cited the George V in Paris as the world's best city hotel. MENA Travel Awards chose our Mövenpick Hotel Bur Dubai for a gold citation in its Best Price for Value category.

2006 was a great year for KHI in many respects. We managed the transition to a public company, built a very capable high performance team, and are now the leaders in our field. Over the coming few years our focus will remain on delivering shareholder value through managing our existing assets, managing the construction pipeline and the selective acquisition and development of hotels and resorts where we see significant growth potential and the opportunity to enhance value and deliver incremental returns to our shareholders. Our disciplined approach to investing and conservative balance sheet and liquidity will provide us with the fuel to fund growth. This, together with aggressive value enhancement

Raffles Resort and Residences, Phang Na, Thailand

initiatives and continued investment in capabilities and people will help us deliver and protect shareholder value whilst managing growth.

I would like to thank the KHI team and their families for their tremendous efforts in overcoming the difficult organizational and marketplace challenges in 2006, all while building the platform for continuing growth and profitability.

SARMAD ZOK

Business review

KHI's activity is to acquire and develop hotels in global emerging markets. The Company's invested capital spans the Mid-scale to Luxury segments, notably in the emerging markets of the Middle East, Africa and Asia.

Our current ownership portfolio extends to interests in 32 properties in 18 countries, representing more than 7,800 rooms, with more than half of these operational.

KHI does not operate any hotels directly. We rely on the proven management expertise of primarily three established operators: Four Seasons, Mövenpick and Fairmont. Starting in 2007, our links with Fairmont have also expanded to include the Raffles brand into our portfolio.

Outsourcing the day-to-day hotel operations of our properties allows us to focus on our core competence: Active asset management with a view to maximising shareholder value. This involves coordination of a wide range of group activities including acquisition and business development, asset management, finance, design and construction and human resources.

Mövenpick Karon Beach Phuket, Thailand

A GROWING MARKET

The tourism and travel industry has benefited from above-average rates of growth for years and last year was no exception. World Tourism Organisation and World Travel and Tourism Council forecast Tourism and Business travel growth rates in the emerging markets to significantly exceed world averages.

KHI invests in emerging markets that are experiencing strong, sustainable growth drivers of hospitality returns: above average growth rates in GDP and tourism arrivals, typified by favourable regulatory environments, deregulation of travel industry, increased tourist supply distribution channels and attractive margins. KHI is diversified geographically and has a mix of greenfield and operating assets as well as city and resort hotels that span several product segments.

A PROVEN STRATEGY

KHI's strategy remains focused on acquiring properties in markets that show demonstrable potential for growth. This strategy consists of three complementary elements, focusing on:

- Selectively acquiring and developing hotels and resorts with growth potential
- Actively managing assets by repositioning them and so enhancing their value
- Achieving capital returns once we have stabilised operations and cash flows to the point at which our assets are generating significant returns

KHI's objectives are to enhance value based on property location, management, physical condition, demand cycles and other market dynamics. These factors determine our acquisition selections.

We invest in new developments in strategic locations with a view to achieving high growth while maintaining long-term value, and do this by capitalising on the future growth potential of target markets and identifying target properties with high growth or development potential. Having identified target properties we form strategic partnerships with operators best suited for the specific hotels and the markets in which they operate, or strategic minority investors that add unique value to our investments.

Once we acquire or develop target properties, we ensure that they are funded and managed in a way to maximize profitability and cash generation and the contribution they make to KHI earnings. Assets can be enhanced in a variety of ways such as re-branding to improve marketing positioning, targeting capital improvements or by re-establishing purchasing policies on competitive bidding

Business review continued

and implementing other cost-control measures. In some cases, we manage revenue yields to increase RevPAR and profitability and in others we restructure and finance to release equity and/or reduce our financing costs. Ancillary real estate sales or leases would typically be a catalyst to enhancing returns and equity cash flow returns during this stage.

Having done this and typically within 4-5 years of acquiring an asset, we aim to optimise hotel operations and cash flow generation to a stabilised performance level typified by significant but slower growing income and cash flow. The objective at this stage is to realise capital appreciation. Since KHI assets have not yet achieved slowdown in revenue or EBITDA, we usually do this by refinancing the assets to return equity. Going forward, other options may be explored such as partial or total disposal.

Wherever KHI operates, however, our objective is as straightforward as the strategy we use to achieve it. We aim to create shareholder value by acquiring or building and then developing and actively managing the assets of high-quality hotels and resorts in key destinations and achieving long-term return on capital targets of between 10-15%.

ANCILLARY REAL ESTATE

During 2006 we expanded our ancillary real estate activities. This involves the development of branded, non-hotel real estate for sale or lease that is a symbiotic extension of our hospitality business. The key benefits of this business segment are:

- Profitable, premium segment with accelerated return on investment
- Leverages adjacent branded hotel investment to capture price premium
- A catalyst to shareholder value creation through accelerated cash flow and alternative funding source
- Additional room inventory and marginal contribution to hotel operation

Recent experience has demonstrated that there is a strong market demand for villas and apartments that enjoy luxury hotel services. In certain resorts, investors in such properties may place their villas in a rental pool, which further leverages the performance of our resort hotels.

Mövenpick Resort, El Quseir, Egypt

2006 Acquisitions

We continued to extend and diversify KHI's investments by focusing on premium properties in high growth and emerging markets. We also stepped up acquisitions to existing minority holdings, in line with the Company's stated strategy. During 2006 KHI signed agreements to acquire, develop or invest in a total of 11 properties with a combined enterprise value/project cost of approximately US$1.4 billion and additions to room inventory of about 2,000 rooms. Of this total, five were new developments; four were newly-added operating hotels; one was a step-up acquisition into a majority ownership position; and one was an apartment building that is planned to be operated alongside an existing KHI hotel.

Specifically, KHI's acquisitions and/or developments since 2006 were, in order of acquisition:

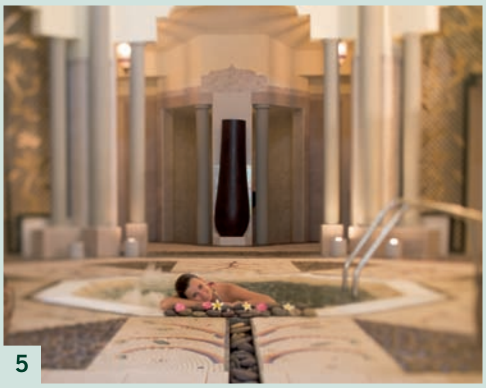
1 FOUR SEASONS RESORT, MAURITIUS,
ACQUIRED: JANUARY 2006
KHI acquired a 50% equity interest in this luxury resort development that encompasses 90 suites and ancillary real estate of 46 villas for sale. The total project cost is expected to be US$169 million, with KHI equity commitment before proceeds from ancillary real estate sales of about US$52 million. Expected completion is in 2008.

2 MÖVENPICK BEACH & SPA RESORT, ZANZIBAR, TANZANIA
ACQUIRED: JANUARY 2006
KHI acquired a 30% equity interest in this beachfront resort development of 190 rooms. The total project cost is expected to be US$32 million, with KHI equity commitment of about US$5 million. Expected completion is in 2007.

3 MÖVENPICK AMBASSADOR, ACCRA, GHANA
ACQUIRED: JANUARY 2006
KHI acquired a 100% equity stake in this phased mixed-use development project. The initial phase is expected to conclude in 2009 and includes 250 hotel rooms at an expected cost of US$60 million, with KHI equity commitment before proceeds from ancillary real estate sales of about US$30 million.

4 FOUR SEASONS GEORGE V, PARIS, FRANCE
ACQUIRED: JANUARY 2006
KHI acquired a 25% equity interest in this 245-room, award-winning, landmark hotel for US$95.5 million in KHI stock.

5 MÖVENPICK RESORT & SPA, MAURITIUS
ACQUIRED: APRIL 2006
KHI acquired a 100% equity interest in this two-year-old operating beachfront resort with 181 rooms. Total acquisition cost was US$45.9 million, of which KHI's equity was US$25.6 million.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6 MÖVENPICK KAMPALA, UGANDA
ACQUIRED: APRIL 2006
KHI signed a memorandum of understanding for a long-term lease with the Government of Uganda for the development of a new mixed-use complex that is expected to include a 120-room hotel, 50 serviced apartments as well as offices and a shopping centre. The total project cost is expected to be US$58 million with KHI equity of US$30 million. This agreement was signed and closed in January 2007.

7 MÖVENPICK KARON BEACH, PHUKET, THAILAND
ACQUIRED: MAY 2006
KHI acquired a 100% equity interest in this operating beachfront resort that encompasses 339 rooms and ancillary real estate of 30 apartments for sale. Total acquisition cost was US$101.2 million, of which KHI's equity was US$71.2 million, before proceeds from ancillary real estate sales.

8 MÖVENPICK RESORT, EL QUSEIR, EGYPT
ACQUIRED: JULY 2006
KHI increased ownership in the 250-room operating beachfront resort from 30.5% to 87.3% for a total cost of US$19.6 million. Total KHI investment in this hotel was US$22.8 million at December 31, 2006.

9 RAFFLES RESORT AND RESIDENCES, PHANG NGA, THAILAND
ACQUIRED SEPTEMBER 2006
KHI acquired an 80% equity interest in this luxury resort development that encompasses 120 rooms and ancillary real estate of 25 villas for sale. The total project cost is expected to be US$115 million, with KHI equity commitment before proceeds from ancillary real estate sales of about US$57 million. Expected completion is in 2009.

10 INTERCONTINENTAL LUSAKA, ZAMBIA
ACQUIRED: OCTOBER 2006
KHI acquired a 100% equity interest in this operating city hotel of 221 rooms and a total capacity of 402 rooms. Total acquisition cost was US$28.5 million, all of which was funded from KHI's equity.

11 MÖVENPICK BUR DUBAI RESIDENCES, DUBAI, UAE
ACQUIRED: NOVEMBER 2006
KHI acquired 100% of this operating apartment building that has 57 apartments with spa and gym, with the intention of operating the Residences alongside the existing Mövenpick Hotel Bur Dubai in 2007. The total acquisition cost was US$25.5 million and KHI is in the process of renovating and converting the building at a total expected cost of US$5.0 million. The acquisition and development cost will be financed mostly through a committed US$27.0 million secured non-recourse bank loan that has not yet been disbursed.

2006 Acquisitions continued

KHI's investment strategy has been broadened by the advent of residential real estate projects forming the cornerstone of ancillary real estate in our hotel assets.

12 FOUR SEASONS HOTEL CAIRO AT NILE PLAZA, EGYPT
In January 2006 KHI acquired Salam Investment Company's 23.9% share in Kingdom 5KR-30 Ltd for the sum of US$14.8 million, increasing effective Company ownership in the hotel from 29.25% to 38.42% (partial payment was made in shares at KHI's initial offering in March). In July 2006, KHI completed the acquisition of an additional ownership interest of 5.27% in the hotel to increase its effective ownership to 43.70% from 38.57% for a total consideration of US$13.4 million.

13 FAIRMONT PALM HOTEL & RESORT, DUBAI, UAE
In January 2006, KHI increased effective ownership in this hotel development from 14.29% to 20.10%. As of December 31, 2006 the total amount of equity paid was US$14.9 million.

14 DAMASCUS FOUR SEASONS HOTEL, SYRIA
In March 2006, KHI acquired Majid Al Futtaim Trust's 25% in Kingdom 5-KR-71 Ltd for the sum of US$15.0 million, thus increasing KHI's effective ownership in the hotel from 35.75% to 49.50% (post-dilution effective ownership interest: 45.7%).

15 FOUR SEASONS RESORT SHARM EL-SHEIKH, EGYPT
In July 2006 KHI completed the acquisition of an additional ownership interest of 7.40% in this hotel to increase effective ownership to 39.30% from 31.96% for a total consideration of US$10.5 million. Agreements were signed and share registration is in progress.

KHI also withdrew from acquiring the Radisson SAS Resort in El-Quseir due to the emergence of new pricing considerations.


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Board of directors

KHI's Board is composed of shareholders, executives and non-executive directors. Their collective experience in the fields of finance, banking, asset management, IT, corporate governance, property and the hospitality industry provides KHI with a singular competitive edge.

HRH PRINCE ALWALEED BIN TALAL BIN ABDULAZIZ ALSAUD
HRH Prince Alwaleed is the Chairman of our Board, a member of our Executive Committee and the president and a director of Kingdom 5-KR-124 and the president and sole director of Kingdom 5-KR-51, our principal shareholders.

HRH Prince Alwaleed is the founder and Chairman of the Kingdom Establishment for Commerce and Trade, which was restructured in 1996 into the Kingdom Holding Company. This is a diversified investment group with major interests in several sectors including international banking, real estate, entertainment, information technology, media, broadcasting, travel telecommunications and hotels. Prince Alwaleed's investment portfolio includes interests in Citigroup, Four Seasons, Fairmont, Mövenpick and Apple inc. HRH Prince Alwaleed is a member of the board of directors of several companies in which he holds investments.

HRH Prince Alwaleed holds a Bachelor of Science in Business Administration from Menlo College in California and a Masters of Social Science from Syracuse University in New York. HRH Prince Alwaleed has also received numerous honorary degrees, including an honorary Doctorate in Business Management from Kyungwon University in Seoul, Korea, honorary Doctorates in Law from the University of Syracuse, Exeter University in the United Kingdom and the American University in Cairo, an honorary Doctorate in Humanities from the Al Aqsa University in Palestine and honorary Doctorates in letters from the University of New Haven in Connecticut, the University for Development Studies in Ghana and the University of Uganda.

A citizen of the Kingdom of Saudi Arabia, Prince Alwaleed was born in 1955 and is fluent in English and Arabic.

JASSIM M. AL-BAHAR
Mr. Al-Bahar joined KHI's Board in 2005 and also serves on the Executive Committee.

He is Chairman and Managing Director of International Financial Advisors, a KHI shareholder and serves on the boards of several corporations, including Kuwait Real Estate Company, Al-Qabas Newspaper, Kingdom Beirut and United Investment Portugal.

Mr. Al-Bahar holds a Bachelor of Arts in Political Science and International Relations and a Masters of Public Administration from the University of Southern California.

Born in 1942, Mr. Al-Bahar is a Kuwaiti citizen and is fluent in English and Arabic.

TAREK ABDEL-MEGUID
Mr. Abdel-Meguid joined the Board on February 7, 2006. He serves on the Board's Remuneration Committee and chairs the Audit Committee.

He has 25 years of investment banking experience at Morgan Stanley where, from 2000 to 2005, he headed Worldwide Investment Banking and served on the Management Committee. Mr. Abdel-Meguid also founded and managed Prince Gate Investors, a private equity investment vehicle. He serves on the board of Layalina Productions.

Mr. Abdel-Meguid holds a Bachelor of Science in Physiology from McGill University in Montreal and a Masters of Business Administration from New York's Columbia University.

Born in 1956, he is a United States citizen, fluent in English and Arabic and with a working knowledge of French.

P.J. SHOUCAIR
Mr. Shoucair chairs the Board's Remuneration Committee.

Since 1996 he has been employed by Kingdom Holding Company as the international investment advisor to HRH Prince Alwaleed, responsible for direct investments, capital market activities and major investment projects in the Middle East and North Africa region. Before joining Kingdom Holding Company, Mr. Shoucair was a senior management consultant in Saudi Arabia for Arthur D. Little.

He holds a Masters in Business Administration from the University of Southern California.

Born in 1966, Mr. Shoucair is a citizen of the United States and is fluent in English and Arabic.

SALEH AL GHOUL
Mr. Al Ghoul is a member of the Board's Audit Committee.

Having joined Kingdom Holding Company in 1995, he has since served as Executive Director, Finance and Administration and Chief Financial Officer, responsible for the design, establishment and implementation of accounting, budgetary, treasury and insurance policy procedures.

Before joining Kingdom Holding Company, Mr. Al Ghoul was United Saudi Bank's Group Head, Corporate Banking.

He holds a Bachelor of Science in Business Administration from the University of Jordan.

Mr. Al Ghoul was born in 1956 and is a Jordanian citizen fluent in English and Arabic.

Board of directors continued

WALID ARAB HASHEM
Dr. Hashem has been a Member of Majlis Ash Shura in the Kingdom of Saudi Arabia since April 2005 and is also an Associate Professor in the Economic Department of King Abdul Aziz University. In addition, he serves as Vice President of the Board of Directors of Okaz Press Corporation and is Managing Director of Rotana Video & Audio Visual Company.

He holds a Bachelor of Arts in Economics from the American University in Cairo and a Ph.D. in Economics from Georgetown University in Washington, DC.

Dr. Hashem was born in 1957. He is a citizen of the Kingdom of Saudi Arabia and is fluent in English and Arabic.

SHEIKH NASSER AL MUTAWA ALOTAIBI
Sheikh Al Mutawa Alotaibi ended his period as a Director on February 23, 2007.

AMMAR A. ALKHUDAIRY
Mr. Alkhudairy joined the Board on March 1, 2007.

He is Managing Director, Chief Executive Officer and the founding shareholder of Amwal Al Khaleej.

Prior to founding Amwal, Mr. Alkhudairy held senior management positions with Saudi banking institutions, including Head of Strategic Business Development and Central Region Head at Banque Saudi Fransi and Country Head at Gulf International Bank. His professional experience spans a range of banking disciplines including M&A, project finance, corporate finance, corporate banking and merchant banking.

Mr. Alkhudairy sits on several boards including SAVOLA (Jeddah), Damas (Dubai), Al Tayyar Travel (Riyadh), United Sugar Company (Jeddah), Amwal Invest (Amman) and the Lebanese Canadian Bank (Beirut).

He has a BSc in Civil Engineering and a Masters Degree in Engineering Administration from George Washington University in Washington DC.

Born in 1963, he is a citizen of the Kingdom of Saudi Arabia. He is fluent in English and Arabic.

SARMAD N. ZOK
Mr. Zok has been KHI's Chief Executive Officer since 2001. He is a member of KHI's Executive Committee and also serves on Fairmont and Mövenpick's Boards of Directors.

From 1999 to 2001 Mr. Zok worked with Kingdom Hotel Partners LLC, a private equity fund operating in New York and London. Before that, he worked with Kingdom Holding Company as an Executive Vice President of Acquisitions and Development, responsible for the Company's hotel investment and asset management activities in the Middle East, Africa and Asia.

Before joining KHI, Mr. Zok headed Forte plc's development efforts in the Middle East, Africa and India. Prior to that, he worked at HVS International, a leading hotel consulting and valuation firm in London focusing on European markets. Prior to working for HVS Mr. Zok began his career with Hilton International.

Mr. Zok holds a Bachelor of Science in Hotel Management from the University of Surrey and a Master of Arts in Property Valuation and Law from City University Business School in London.

Born in 1968, Mr. Zok is fluent in English, French and Arabic.

GHAITH A. SHOCAIR
Mr. Shocair joined the Board on December 17, 2006 and serves as the Company's Senior Vice President, Finance and Chief Financial Officer.

He has held a number of senior financial, investment and strategy roles in leading international companies.

He is an 11 year PepsiCo veteran, and most recently served as Chief Financial Officer for PepsiCo International IT in New York, in which position he led several ground-breaking strategic initiatives. Previously, he was Director of Planning for PepsiCo International and has also served in PepsiCo's Middle East/Africa region in senior finance leadership and business development/M&A roles. His experience and skills in investment banking and emerging markets finance span both public and private equity markets across a number of industries.

Mr. Shocair holds a Post-Graduate Diploma in Business from the University of Lancaster in the UK and an MBA in Finance from the University of Texas.

Born in 1964, he is a Jordanian citizen and is fluent in both English and Arabic.

RA'ED W. SAQFELHAIT
Mr. Saqfelhait served as a Board member and as KHI's Chief Financial Officer. He left both positions on December 11, 2006.

Senior management team

KHI's senior management team consists of leading industry professionals with hands-on experience of every aspect of successful asset management on both a regional and global basis. Working together, their leadership is helping to accelerate growth while building a platform for lasting success.

2 5 6 1 3 4

1 SARMAD N. ZOK
Our Chief Executive Officer also serves on KHI's Board (see Board of Directors).

2 GHAITH SHOCAIR
Our Senior Vice President Finance, Chief Financial Officer also serves on KHI's Board (see Board of Directors).

3 ANTOINE LTAIF
Mr. Ltaif is KHI's Senior Vice President Design and Construction as well as a board member of several of KHI subsidiaries.

He began working with HRH Prince Alwaleed when he joined Kingdom Holding Company in 1991. He joined KHI a decade later. Before his association with KHI, he worked on the design and construction of private projects such as palaces, mosques and sports complexes as well as investment projects including Kingdom City, Kingdom Hospital, Kingdom School and Kingdom Centre – all undertaken by HRH Prince Alwaleed. Mr. Ltaif has also played a key role in the design and construction of several of the Four Seasons and Mövenpick hotels in which both KHI and Kingdom have invested.

From 1972 to 1991 Mr. Ltaif worked for Triad Condas International, a consulting company specializing in architecture and interior design in Beirut, Paris and Riyadh.

He holds an architectural degree from the Lebanese Academy of Fine Arts in Beirut.

Born in 1945, Mr. Ltaif has dual Lebanese and French nationality and is fluent in English, French and Arabic.

4 TIMOTHY J. HANSING
Mr. Hansing is KHI's Senior Vice President Acquisitions and Development.

He joined KHI in February 2002 as Senior Vice President Acquisitions and Development. Previously, Mr. Hansing headed the Mövenpick Hotels and Resorts Development division, based in Zurich. He was recruited by Mövenpick directly from Arthur Andersen's Hospitality and Leisure Consulting Division, where he headed operations in the Middle East and Africa from a base in Bahrain.

Prior to joining Arthur Andersen, Mr. Hansing was a senior consultant with PKF hotel consultants based in London, where he spent four years advising clients on hotel investment opportunities across Europe, the Middle East and Africa. Before embarking on a consultancy career, Mr. Hansing worked directly in the hotel industry, with companies such as Canadian Pacific Hotels (now Fairmont), Forte, Thistle and the Whitbread Hotel Group.

He holds a degree (HCIMA) in Hotel Management from the University of East Anglia and a Diploma in Hotel and Restaurant Administration from the University of Niagara Falls in Canada.

A UK national, Mr. Hansing was born in 1967 and is fluent in English with a working knowledge of French.

5 ROGER N. BLACKALL
Mr. Blackall has been KHI's Senior Vice President Asset Management since 2003.

Before joining KHI he worked at Shimizu Asset Management, Inc., the Los Angeles subsidiary of Tokyo-based Shimizu Corporation. There, his primary responsibility was the asset management of the 380-room Four Seasons Resort on the Hawaiian island of Maui. He also asset managed and subsequently represented Shimizu in the disposition of the Ritz-Carlton Hotel in Palm Beach, Florida, a 270-room beachfront resort and the Hyatt Hill Country Resort, a 500-room property with golf facilities in San Antonio, Texas.

Previously, Mr. Blackall had operated his own company in Palm Beach, where he specialized in hotel appraisals, feasibility studies, acquisition due diligence, impact studies and general management advisory and consulting assignments for the hospitality and recreation sectors. He also held a variety of hospitality industry consulting and operational management positions throughout the United States with Arthur Andersen, Marriott International Corporate Hotel Development, PKF Consulting, Four Seasons Hotels and Resorts and the Walt Disney World Resort Division.

Mr. Blackall holds a Bachelor of Science degree from Cornell University School of Hotel Administration and also attended graduate-level classes at the American University in Washington, DC.

Born in 1968, he is US citizen fluent in English and with a working knowledge of French.

6 DAVID MANDEFIELD
Mr. Mandefield is KHI's Senior Vice President Legal Affairs and Corporate Secretary.

Before joining KHI in 2006, he was General Counsel for Le Méridien Hotels & Resorts. In that role, he was instrumental in several acquisitions and asset disposals, including the sale of the Group to Forte International, Granada, Compass, Nomura and Starwood.

Before joining Le Méridien, he worked as a legal advisor for Air France.

Mr. Mandefield holds a Bachelor of Arts in English Literature, a post-graduate Diploma in Air and Space Law from Montreal's McGill University and a Doctorate in Law from Bordeaux University.

He was born 1946 and is a citizen of France, fluent in French, English and Italian.

Corporate governance

The Company is registered in the Cayman Islands. Main offices are in the Dubai International Financial Centre. Operations comply with all applicable corporate governance rules in both jurisdictions.

The Board of Directors

The Company's business is managed by a board of nine Directors. The Board is ultimately responsible and accountable for all operations of the Company. The Board approves the Company's strategic plans and makes all decisions to implement such plans, such as choice of acquisitions, disposals, capital expenditure, budgets and borrowing.

At all times, two independent Directors ensure that the interests of minority shareholders are fairly and objectively represented.

The normal term of office for Directors is three years. However, in order to avoid disrupting the Board every three years, the terms of office of the Directors have been staggered in such a way that renewals or replacements will occur on an individual basis over the first three years following the 2006 IPO.

The Board meets at regular intervals. Typically, the Company holds at least four actual meetings per year. This is in addition to any number of telephonic meetings (as provided by our Articles) that may be required for the approval of decisions that exceed the powers of the Executive Committee (see below).

The primary responsibility of the Board is to foster the long-term success of the Company. This includes, but is not limited to:

- Reviewing and guiding corporate strategy, risk management policies, financial planning, annual budgets and business plans as recommended by our management
- Selecting, compensating, monitoring and, when necessary, replacing officers and other key executives and overseeing succession planning
- Setting performance objectives
- Monitoring the implementation of hotel management and other related agreements and corporate performance
- Overseeing major capital expenditures
- Approving acquisitions and divestitures that exceed US$10 million
- Reviewing Remuneration Committee resolutions relating to senior management and Board remuneration
- Monitoring and managing potential conflicts of interest of senior management, Board members and shareholders
- Ensuring the adequacy of our internal accounting and financial reporting systems, including supporting our independent audit functions and ensuring that appropriate systems of control are in place, particularly systems for monitoring risk, financial controls and compliance with relevant laws
- Monitoring the effectiveness of corporate governance practices
- Overseeing the process of corporate public disclosure and communications

Any related-party transaction must be approved by a majority of disinterested Directors. Directors declaring an interest abstain from participating.

The Executive Committee

KHI's management adopts a collective approach to key decision-making and to formulation of Company procedures and strategies. Members of the management team meet on a regular basis to share information on Company activities and participate together in key decisions relating to the implementation of our strategy. The Chief Executive Officer makes day-to-day decisions. More important decisions, which may have a long-term impact on the development or financial performance of the Company, require the approval of the Executive Committee.

The Executive Committee is composed of HRH Prince Alwaleed, the Chairman of the Company; Chief Executive Officer Sarmad Zok; and Mr. Jassim Al-Bahar, a Director. The Executive Committee has a delegation of all powers of the Board that may be validly delegated to such a committee in accordance with our Articles of Association and applicable law (including, without limitation, powers in respect of the acquisition and disposition of investments up to US$10 million), provided that the Executive Committee's exercise of such delegated powers is required to conform to any regulations that may be imposed on it by the Board.

The Directors

The Chairman of the Board is HRH Prince Alwaleed bin Talal bin Abdulaziz Alsaud, who indirectly holds approximately 54% of the share capital of the Company. Prince Alwaleed is the owner of Kingdom Holding Company, which has interests (among others) in three major hotel operating companies (Mövenpick, Four Seasons and Fairmont). These companies manage hotels on behalf of the Company. However, at all times management of the Company ensures that all agreements signed with hotel operators partially owned by the Chairman or his group are negotiated and executed on arm's length terms.

Mr. P.J. Shoucair is the International Investment Advisor at Kingdom Holding Company.

Mr. Sarmad Zok is a Director and also Chief Executive Officer of the Company.

Mr. Ghaith Shocair is Chief Financial Officer of the Company.

Mr. Saleh Al Ghoul is Executive Director, Finance and Administration and Chief Financial Officer of Kingdom Holding Company.

Mr. Walid Arab Hashem is the Managing Director of Rotana Video & Audio Visual Company, a subsidiary of Kingdom Holding Company.

Mr. Jassim Al-Bahar is the Managing Director of International Finance Advisors, a shareholder of the Company.

Mr. Ammar Alkhudairy founded Amwal Al Kaleej and, prior to that, held a range of senior positions in banking.

Mr. Tarek Abdel-Meguid has held various prominent positions at Morgan Stanley over a period of 25 years. He has been appointed as Independent Director on the Board of the Company.

Our Directors are not under service contracts with the Company with respect to their roles as Directors; nor does the Company have contractual obligations to provide benefits to them upon termination of their directorships.

Corporate governance
continued

The Audit and Remuneration Committees
The Audit Committee comprises three Directors: Mr. Saleh Al Ghoul, Mr. Ammar Alkhudairy and Mr. Tarek Abdel-Meguid (Chairman). The latter two are independent.

The Remuneration Committee is comprised of three Directors: Mr. P.J. Shoucair (Chairman), Mr. Ammar Alkhudairy and Mr. Tarek Abdel-Meguid. The latter two are independent Directors.

Our Audit and Remuneration Committees operate in accordance with charters approved by the Board. The members of the two committees are designated by the Company's Board. At least one member of the Audit Committee must have particular experience in financial and accounting matters. Each of our Audit and Remuneration Committees may delegate to its members the exercise of particular competences. Each Committee holds at least four ordinary meetings each year and may also hold extraordinary meetings when deemed necessary.

The Company's Board annually reviews the Audit Committee's charter, following a recommendation by the Committee. The Audit Committee's responsibilities include:

- Examining and evaluating the efficiency of the Company's controls and procedures
- Examining the Company's semi-annual and annual financial statements and evaluating their completeness and consistency before their publication
- Advising our Board regarding the selection of external auditors
- Examining with the external auditors the framework and methodology of the annual audit, its results and any issues that may have been raised by the external auditors during the execution of their work
- Examining and evaluating the independence of the external auditors and suggesting to the Board measures to be taken in order to maintain that independence

Following a recommendation from the Remuneration Committee, the Company's Board annually reviews the Remuneration Committee's charter as well. The Remuneration Committee's responsibilities include:

- Monitoring and recommending the level and structure of all direct and indirect remuneration of KHI's Directors and senior management
- Monitoring and recommending awards under any deferred compensation plans and any incentive share plans implemented by the Company
- Monitoring and recommending separation agreements for Directors and senior management and determining forfeiture conditions of awards granted to them
- Developing a formal and transparent policy for determining the remuneration packages of Directors.

Relations with shareholders
KHI follows a policy of open communication with institutional and private shareholders.

Senior management regularly holds meetings with analysts and institutional shareholders. As part of this effort, the senior management team visits London several times a year to participate in road shows that attract prominent members of the international financial community.

The Company, being ruled by Cayman Islands law, is under no obligation to hold an Annual General Meeting. However, as a commitment towards good corporate governance, the Company undertakes to hold Annual General Meetings open to all shareholders or holders of GDS.

The Company is committed to providing private investors with an Annual Report, which is also available on request to any shareholder or member of the financial community.

In the interests of good communications, we also regularly update KHI's website (www.kingdomhotels.com) and release any price-sensitive information to the Dubai and London stock exchanges for posting on their appropriate sites.

Guidelines regarding insider trading
The Company keeps all members of staff informed about their duties with respect to handling of inside information, as well as dealings in KHI shares. The Directors and staff are well aware of the restrictions, 'lock-up' and 'close' periods applicable to trading in securities. Memos and guidelines regarding dealings (either selling or buying) in shares have been circulated within the Company. Policies are in place to ensure that no 'insider dealing' occurs and such policies will be regularly brought to the attention of all present and future members of KHI's Board and staff.

Our responsibilities
At Kingdom Hotels International, we recognise that our core business activities will have an impact – either directly or indirectly – on many of our stakeholders. Not only do we understand our responsibility for managing this, but we also believe it makes good business sense.

The key areas in which we exercise our responsibilities include:

- The environment by:
  – Employing sustainable design for our developments and investments
  – Using environmentally-sound materials and practices during the construction of our properties
- People by:
  – Looking after and developing our own people
  – Ensuring the health and safety of our own people and sub-contractors
  – Creating jobs in developing countries, drawing on local expertise and offering training during the operational phase of projects
- Customers by:
  – Ensuring that KHI developments and investments meet our customers' and occupiers' requirements
- Communities by:
  – Investing in emerging markets, which, in turn raises those countries' credibility as locations for inward investment
  – Selling real estate to investors whose confidence derives from the KHI brand
  – Establishing relationships and supporting local communities in the areas in which we operate.

We take many of these responsibilities into consideration during our projects, even though we do not yet have formal policies and reporting mechanisms in place. We are currently evaluating how best to incorporate our responsibilities more formally into KHI's investment and development criteria.

Consolidated balance sheet

as at December 31, 2006

	Notes	2006 US$'000	2005 US$'000 (Restated)
Assets			
Non-current assets			
Property, plant and equipment	12	**633,504**	377,618
Goodwill	13	**6,231**	–
Investment properties	14	**28,953**	–
Investments in associates	15	**234,888**	80,563
Available-for-sale financial assets	16	**87,112**	76,838
Other financial assets	17	**12,144**	10,686
Deferred tax asset	10	**1,557**	589
		1,004,389	564,294
Current assets			
Real estate held for sale		**–**	3,429
Inventories		**3,386**	1,879
Trade and other receivables		**20,576**	8,365
Due from related parties	27	**6,903**	109
Prepayments		**11,394**	5,644
Cash and short-term deposits	18	**430,788**	229,597
Income taxes recoverable		**366**	28
		473,413	249,051
Total assets		**1,477,802**	795,345
Equity and liabilities			
Equity attributable to shareholders of the parent			
Share capital	19	**873,694**	541,673
Share premium	20	**180,993**	–
Foreign currency translation reserve	20	**(20,375)**	(19,952)
Cumulative changes in fair value	20	**28,250**	12,878
Retained earnings	20	**44,289**	1,480
Cash flow hedge reserve	20	**1,168**	–
		1,108,019	536,079
Minority interests		**109,210**	113,783
Total equity		**1,217,229**	649,862
Non-current liabilities			
Interest-bearing loans and borrowings	21	**170,405**	77,835
Provisions	22	**1,835**	332
Retentions payable	23	**8,507**	7,453
Deferred tax liabilities	10	**6,447**	4,803
Deferred credit	8	**–**	12,832
Other financial liabilities	24	**–**	11,104
		187,194	114,359
Current liabilities			
Trade and other payables	25	**52,082**	25,165
Interest-bearing loans and borrowings	21	**21,108**	5,946
Due to related parties	27	**189**	13
		73,379	31,124
Total liabilities		**260,573**	145,483
Total equity and liabilities		**1,477,802**	795,345

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated income statement

for the year ended December 31, 2006

	Notes	2006 US$'000	2005 US$'000 (Restated)
Revenue	6	**99,047**	58,756
Direct cost of revenue	6	**(73,793)**	(40,820)
Depreciation	12	**(10,991)**	(6,474)
Gross profit		**14,263**	11,462
General and administration expenses	7	**(14,961)**	(7,698)
Pre-operating expenses	9	**–**	(3,205)
Share of results of associates	15	**14,392**	11,017
Project costs written off		**(1,983)**	–
Gain on sale of investments	16	**7,328**	–
Amortisation of deferred credit	8	**12,832**	1,870
Other income		**1,118**	450
Profit before tax and interest income/expense		**32,989**	13,896
Interest income		**22,545**	1,858
Interest expense		**(11,184)**	(5,293)
Profit before tax		**44,350**	10,461
Income tax expense	10	**(426)**	(554)
Profit for the year		**43,924**	9,907
Attributable to:			
Shareholders of the parent		**42,809**	12,320
Minority interests		**1,115**	(2,413)
		43,924	9,907
Earnings per share (US$)	12		
From continuing operations:			
– Basic		**0.26**	0.17
– Diluted		**0.26**	0.17

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended December 31, 2006

	Attributable to equity holders of the parent								
	Share capital US$'000	Share premium US$'000	Foreign currency translation reserve US$'000	Cumulative changes in fair value US$'000	Retained earnings US$'000	Cash flow hedge reserve US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
Balance at January 1, 2006	**541,673**	**–**	**(19,952)**	**12,878**	**1,480**	**–**	**536,079**	**113,783**	**649,862**
Foreign currency translation	**–**	**–**	**(423)**	**–**	**–**	**–**	**(423)**	**420**	**(3)**
Gain on cash flow hedges	**–**	**–**	**–**	**–**	**–**	**1,168**	**1,168**	**–**	**1,168**
Changes in the fair value of available-for-sale financial assets	**–**	**–**	**–**	**18,475**	**–**	**–**	**18,475**	**–**	**18,475**
Realised through income statement	**–**	**–**	**–**	**(3,103)**	**–**	**–**	**(3,103)**	**–**	**(3,103)**
Total income and expenses for the year recognised in equity	**–**	**–**	**(423)**	**15,372**	**–**	**1,168**	**16,117**	**420**	**16,537**
Profit for the year	**–**	**–**	**–**	**–**	**42,809**	**–**	**42,809**	**1,115**	**43,924**
Total income and expenses for the year	**–**	**–**	**(423)**	**15,372**	**42,809**	**1,168**	**58,926**	**1,535**	**60,461**
Issue of share capital	**332,021**	**208,488**	**–**	**–**	**–**	**–**	**540,509**	**–**	**540,509**
Transaction costs	**–**	**(27,495)**	**–**	**–**	**–**	**–**	**(27,495)**	**–**	**(27,495)**
Minority interest in existing subsidiaries acquired	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8,768)**	**(8,768)**
Increase in minority interest from business combinations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,580**	**1,580**
Participation in a capital increase	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,080**	**1,080**
Balance at December 31, 2006	**873,694**	**180,993**	**(20,375)**	**28,250**	**44,289**	**1,168**	**1,108,019**	**109,210**	**1,217,229**

	Attributable to equity holders of the parent								
	Share capital US$'000	Share premium US$'000	Foreign currency translation reserve US$'000	Cumulative changes in fair value (Restated) US$'000	Retained earnings US$'000	Cash flow hedge reserve US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
Balance at January 1, 2005	298,208	–	(22,905)	6,565	(10,840)	–	271,028	111,387	382,415
Foreign currency translation	–	–	2,953	–	–	–	2,953	396	3,349
Gain on cash flow hedges	–	–	–	–	–	–	–	–	–
Changes in the fair value of available-for-sale financial assets	–	–	–	6,313	–	–	6,313	–	6,313
Total income and expenses for the year recognised directly in equity	–	–	2,953	6,313	–	–	9,266	396	9,662
Profit for the year	–	–	–	–	12,320	–	12,320	(2,413)	9,907
Total income and expenses for the year	–	–	2,953	6,313	12,320	–	21,586	(2,017)	19,569
Issue of share capital	243,465	–	–	–	–	–	243,465	–	243,465
Minority interest in existing subsidiaries acquired	–	–	–	–	–	–	–	(20,322)	(20,322)
Increase in minority interest from business combinations	–	–	–	–	–	–	–	13,092	13,092
Participation in a capital increase	–	–	–	–	–	–	–	11,643	11,643
Balance at December 31, 2005	541,673	–	(19,952)	12,878	1,480	–	536,079	113,783	649,862

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended December 31, 2006

	Note	2006 US$'000	2005 US$'000 (Restated)
Operating activities			
Profit before tax		**44,350**	10,461
Adjustments for:			
Depreciation	12	**10,991**	6,474
Income from associates	15	**(14,392)**	(11,017)
Interest income		**(22,545)**	(1,858)
Interest expense		**11,184**	5,293
Gain on disposal of investments	16	**(7,328)**	–
Amortisation of deferred credit	8	**(12,832)**	(1,870)
Operating profit before working capital changes		**9,428**	7,483
Trade and other receivables		**(11,345)**	(4,470)
Due from related parties, net		**(6,596)**	–
Inventories		**(431)**	1,535
Trade and other payables		**18,716**	4,047
Cash generated from operations		**9,772**	8,595
Interest paid		**(11,184)**	(5,293)
Income taxes paid		**(507)**	(425)
Net cash (outflows) inflows from operating activities		**(1,919)**	2,877
Investing activities			
Purchase of property, plant and equipment		**(45,499)**	(33,179)
Acquisition of subsidiaries and joint venture net of cash acquired	3	**(152,253)**	(43,156)
Acquisition of associates	30	**(34,069)**	(11,112)
Purchase of investment properties	14	**(25,524)**	–
Proceeds from disposal of available-for-sale financial assets		**12,425**	–
Dividends received from associates		**–**	305
Interest received		**22,545**	1,858
Net cash outflows from investing activities		**(222,375)**	(85,284)
Financing activities			
Repayment of borrowings		**(32,907)**	(11,157)
Proceeds from borrowings		**68,785**	23,158
Proceeds from issue of share capital	19	**378,010**	243,465
Deferred credit	8	**–**	2,835
Notes payable		**–**	(4,386)
Minority interest		**1,080**	21,498
Proceeds from release of restricted cash		**1,600**	–
Net cash flows from financing activities		**416,568**	275,413
Net increase in cash and cash equivalents		**192,274**	193,006
Net foreign exchange difference		**423**	(2,953)
Cash and cash equivalents at January 1		**227,599**	37,546
Cash and cash equivalents at December 31	18	**420,296**	227,599

The attached notes 1 to 31 form part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended December 31, 2006

1. Corporate information

The consolidated financial statements of Kingdom Hotel Investments (the "Company") for the year ended December 31, 2006 were authorised for issue in accordance with a resolution of the directors on March 19, 2007.

Kingdom Hotel Investments is a limited liability company incorporated in the Cayman Islands under Commercial Registration No. CR-100669 issued on May 22, 2000. The Company's registered office is c/o Maples & Calder, South Church Street, George Town, PO Box 309, Grand Cayman, Cayman Islands. The Company has a branch in Dubai, United Arab Emirates, which was registered on September 7, 2005. The Company and its subsidiaries (the "Group") are engaged in hospitality investments and its objectives are to acquire, develop, finance and actively asset manage high quality hotels in key destinations in the Middle East, Africa and selectively in Asia and Europe.

The Company is quoted on the Dubai International Financial Exchange and has Global Depository Shares traded on the London Stock Exchange.

A full listing of all group companies, including joint venture companies, is contained in note 30 to these consolidated financial statements.

2. Summary of significant accounting policies

Basis of preparation

The presentation currency of the consolidated financial statements is United States dollars (US$), as a significant proportion of the Group's assets, liabilities, income and expenses are US$ denominated, however, certain subsidiaries have functional currencies other than US$, in which case the respective local currency is the functional currency and the US$ is the presentation currency. The consolidated financial statements are presented in US$ and all values are rounded to the nearest thousand (US$'000) except where otherwise stated. In 2005, values were not rounded.

Statement of compliance

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of subsidiaries are prepared using consistent accounting policies. Where necessary, adjustments are made to bring the accounting policies into line with those of the Group.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the group. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group balances and transactions, including unrealised profits, have been eliminated on consolidation.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholder's equity. Losses attributable to the minority in excess of the minority's interest in the net assets of the subsidiary are adjusted against the interest of the Group unless there is a binding obligation on the part of the minority to contribute additional investment in the subsidiary.

Where the Company acquires minority interest in subsidiaries, the Company uses the parent entity extension method under which the transaction is treated as an equity transaction. Under this method, the assets and liabilities of the subsidiary are not remeasured to reflect their fair values at the date of the transaction but goodwill is adjusted for the change in the minority interests share in the net assets of the subsidiary.

New and revised Accounting Standards and Interpretations

Changes in accounting policies

The accounting policies are consistent with those in the prior year, except with respect to:

- The adoption of a new accounting policy for interests in a joint venture following the acquisition of an interest in a joint venture during the year.
- The reclassification of certain items in the income statement, balance sheet, statement of cash flows and statement of changes in equity. See note 31 for details.

2. Summary of significant accounting policies (continued)

Standards and Interpretations which were in issue and not yet effective
IAS 1 Amendments – Capital disclosures
IFRS 7 Financial instruments: Disclosures
IFRS 8 Operating Segments
IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8 Scope of IFRS 2
IFRIC 9 Reassessment of Embedded Derivative
IFRIC 10 Interim Financial Reporting and Impairment
IFRIC 11 IFRS 2 – Group and Treasury Share Transaction
IFRIC 12 Service Concession Arrangements

The Group anticipates that the adoption of the above Standards and Interpretations will not have any material impact on the financial statements of future periods as most of them do not apply to the Group's business, except for additional disclosures of the Group's capital management policies and financial instruments as a result of adoption of IAS 1 Amendments and IFRS 7 from periods beginning January 1, 2007.

Significant accounting estimates
Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- *Impairment of goodwill:* the Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from each cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. (Refer to note 13.)

Use of estimates
The preparation of the consolidated financial statements, in conformity with International Financial Reporting Standards, requires that the management make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. The most significant estimation processes are related to the determination of goodwill impairment, provision for doubtful debts, inventory valuation, and determining useful lives and residual values of property, plant and equipment. Although variability is inherent in theses estimates, management believes that the amounts provided are adequate and not excessive.

Transactions in foreign currencies
In the accounts of individual Group companies, transactions in foreign currencies are recorded initially at the prevailing rate at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. All foreign exchange gains and losses are taken to the income statement with the exception of exchange differences arising on monetary assets and liabilities that form part of the Group's net investment in foreign subsidiaries. These are taken directly to equity until the disposal of the net investment at which time they are recognised in the income statement.

Foreign group companies
The balance sheets of overseas subsidiaries, joint venture and associates are translated using the closing rate method, whereby assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. The income statements of overseas subsidiaries and joint ventures are translated at average exchange rates for the year. Exchange differences arising on the retranslation of net assets are taken directly to equity. Goodwill and fair value adjustments arising on business combinations are treated as assets of the foreign operation.

On the disposal of a foreign entity, accumulated exchange differences are recognised in the income statement as a component of the gain or loss on disposal.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

2. Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day to day servicing less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Depreciation is provided on a straight-line basis over their estimated useful economic life to reduce the assets to their estimated residual values as follows:

Equipment	7 to 10 years
Buildings and leasehold improvements	40 to 50 years, or shorter of the lease term
Furniture and fixtures	10 years
Vehicles	4 to 8 years

No depreciation is charged on land or assets under construction.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is recognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the income statement in the period in which they are incurred.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that such carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired is allocated to the related property. Each property to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS14 'Segment Reporting'.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Available-for-sale financial assets

Investments classified as available-for-sale are initially stated at cost, being the fair value of consideration given, including acquisition charges associated with the investment.

After initial recognition, available-for-sale financial assets are measured at their fair value using quoted market rates or using recent arms length transactions between knowledgeable willing parties, reference to the current fair value of another instrument that is substantially the same or, discounted cash flow analysis. Gains and losses are recognised as a separate component of equity until the investment is sold or impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Impairment of assets (excluding goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment to assess whether there is an indication that those assets may be impaired. If any such indication exists, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset 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.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

2. Summary of significant accounting policies (continued)

Impairment of assets (excluding goodwill) – continued

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

Interest in a joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The Group combines its share of each of the assets, liabilities, income and expenses of the joint venture with the similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting year as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognised based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party.

The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Investments in associates

The Group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortise. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The income statement reflects the share of the results of operations of the associate.

When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the interest in the associate.

The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or loss on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For transfer from investment property to owner-occupation property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under Property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

2. Summary of significant accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories include food, beverage and other operating supplies which are stated at cost, which is arrived at using the average cost method. Inventories also include operating equipment (including chinaware and silverware) which are stated at cost, net of depreciation.

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business. Cost comprises purchase price. Operating equipment in circulation is expensed once it leaves the stores.

Trade and other receivables

Trade receivables are recognised and carried at original invoice amounts less an allowance for any amounts estimated to be uncollectable. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents consist of cash at hand and bank and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs directly attributable to the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised in the income statement as a finance cost.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either a) has transferred substantially all the risks and rewards of the asset, or b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

If an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

Pensions and employees' end-of-service benefits

The Group has various defined contribution pension schemes in accordance with the local conditions and practices in the countries in which it operates. The amount charged to the income statement in respect of pension costs is the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the balance sheet.

Employees' end-of-service benefits are provided in accordance with the labour laws of the countries in which the Group operates, further details of which are given in note 22.

2. Summary of significant accounting policies (continued)

Leases
The Group has entered into various operating leases the payments under which are treated as rentals and charged to the income statement on a straight-line basis over the lease terms.

Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the Income Statement over the lease period. The plant and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset.

Revenue recognition
Revenue is recognised to the extent that it is probable economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value, of the consideration, receivable excluding discounts rebates, and other sales taxes or value added taxes. The following specific recognition criteria also apply:

Hotels
Revenue in respect of hotel accommodation, food and beverage sales and related services is recognised at the point at which the services are rendered.

Other revenue consisting of fees from consulting, business development, asset management services and real estate sales is recognised when the services are provided.

Interest income
Interest income is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Rental income
Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term.

Income taxes
Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, income tax is recognised in the income statement.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

2. Summary of significant accounting policies (continued)

Derivative financial instruments

The Group uses derivative financial instruments such as swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of hedging relationship, as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in profit or loss.

For fair value hedges related to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest rate method is amortised through the income statement.

If the hedge item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designated as hedged item, the subsequent cumulative change in fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Start-up cost and pre-operating expense

Start-up cost and non-construction related expenses are expensed as incurred. Pre-operating expenses are expensed as incurred.

Real estate held for sale

Properties that are being developed for future sale are recorded at cost, which is the carrying amount at the date of reclassification. These properties are subsequently carried at the lower of cost and the net realisable value, which represents the estimated selling price in the ordinary course of business, less cost to complete, redevelopment and selling expenses.

3. Business combination and acquisitions of minority interests

a) Increase of effective share in investment in Syrian Saudi Tourism Investments Company

On March 1, 2006, the Group acquired, through a subsidiary, an additional 25% interest in Kingdom 5-KR-71 Ltd which is the 55% shareholder in Syrian Saudi Tourism Investments Company (SSTIC), an entity registered in Syria. This acquisition increased the Group's interest in Kingdom 5-KR-71 Ltd from 65% to 90%. SSTIC is engaged in the hotel and tourism industry and operates the Four Seasons Hotel in Damascus.

The increase in goodwill on acquisition is as follows:

	December 31, 2006 US$'000
Cost of the Group's additional interest in the subsidiary	**15,000**
Minority interest's share of the assets and liabilities reflected in the consolidated balance sheet	**(8,769)**
Goodwill (note 13)	**6,231**

The purchase was funded by issuing 1,622,000 shares in the Company at a fair value of US$9.25 per share.

b) Acquisition of Saltlake Resorts Ltd

On April 1, 2006, Kingdom 5-KR 188 Ltd acquired 100% of the voting shares of Saltlake Resorts Ltd, a Mauritius company which owns and operates the Movenpick Resort & Spa-Mauritius.

The fair value of the identifiable assets and liabilities as at the date of acquisition were:

	Recognised on acquisition US$'000	Carrying value US$'000
Property, plant and equipment	51,301	36,765
Cash and cash equivalents	249	249
Trade and other receivables	976	976
Inventories	214	214
	52,740	38,204
Trade and other payables	(1,477)	(1,477)
Bank debt	(25,395)	(25,395)
Net assets	25,868	11,332
Cost	25,868	
Cash outflow on acquisition:		
Net cash acquired with the subsidiary	249	
Cash paid	(25,868)	
Net cash out flow	(25,619)	

From the date of acquisition, Saltlake Resort Ltd has contributed a loss of US$2,736 thousand to the overall net results of the Group.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

3. Business combination and acquisitions of minority interests (continued)

c) Acquisition of Siam Resorts Company Ltd and Siam Resort Fund

On May 24, 2006, Kingdom 5-KR-194, Ltd and Kingdom 5-KR-195, Ltd wholly-owned subsidiaries of KHI acquired complete controlling interests in Siam Resort Fund and Siam Resorts Company Ltd. Siam Resort Fund leases land to Siam Resorts Company Limited which operates the Movenpick Karon Beach Hotel, Thailand.

The fair value of the identifiable assets and liabilities as at the date of acquisition and the goodwill arising form the acquisition were:

	Recognised on acquisition US$'000	Carrying value US$'000
Property, plant and equipment	101,818	64,922
Cash and cash equivalents	2,284	2,284
Trade receivables	2,976	2,976
Inventories	384	384
	107,462	70,566
Bank debt	(31,634)	(31,634)
Trade and other payables	(4,299)	(4,289)
Net assets	71,529	34,643
Cost	71,529	
Cash outflow on acquisition:		
Net cash acquired with the subsidiary	2,284	
Cash paid	(71,529)	
Net cash outflow	(69,245)	

The initial accounting for the above acquisition is only provisional at the period end as the fair value to be assigned to the acquiree's identifiable assets and liabilities could be determined only provisionally as valuations for land, buildings and intangible assets had not been finalised at the date of these financial statements. The Group will recognise any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date, and with effect from the acquisition date.

From the date of acquisition, Sean Resort Fund Company Ltd has contributed a loss of US$2,899 thousand to the overall net results of the Group.

3. Business combination and acquisitions of minority interests (continued)

d) Acquisition of Serena Beach Company

Until June 30, 2006, Kingdom 5-KR-153 Ltd had a 30.5 % stake in Serena Beach Company and consequently equity accounted for the investment. On July 1, 2006, Kingdom 5-KR-153 Ltd increased its holding in the voting capital to 87.3%. As a result, from July 1, 2006, Serena Beach Company became a subsidiary of the Group and has been consolidated from that date.

The fair value of assets and liabilities of Serena Beach Company as of the date of acquisition and the corresponding carrying amounts at the date of acquisition were as follows:

	Recognised on acquisition US$'000	Carrying value US$'000
Property, plant and equipment	27,960	14,879
Cash and cash equivalents	1,459	1,459
Trade and other receivables	1,694	1,694
Trade and other payables	(923)	(923)
Bank debt	(5,028)	(5,028)
Net assets	25,162	12,081
Minority interest	(1,580)	
Total consideration	23,582	
Cost:		
Initial investment included earlier under investment	4,199	
Acquisition of additional 56.8% from minority shareholder	19,383	
Total	23,582	
Cash outflow on acquisition:		
Net cash acquired with the subsidiary	1,459	
Cash paid	(19,385)	
Net cash out flow	(17,926)	

The initial accounting for the above acquisition is only provisional at the period end as the fair value to be assigned to the acquiree's identifiable assets and liabilities could be determined only provisionally as valuations for land, buildings and intangible assets had not been finalised at the date of these financial statements. The Group will recognise any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date, and with effect from the acquisition date.

From the date of acquisition, Serena Beach Company has contributed US$1,064 thousand to the net profit of the Group.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

3. Business combination and acquisitions of minority interests (continued)

e) Acquisition of Marasa Holding Limited

On October 5, 2006 KHI-7 Ltd through its subsidiaries acquired 100% of the voting shares of Marasa Holdings Limited, a Zambian Company which operates the Intercontinental Hotel, Lusaka, Zambia.

	Recognised on acquisition US$'000	Carrying value US$'000
Property, plant and equipment	30,241	15,188
Cash and cash equivalents	530	530
Trade and other receivables	897	897
Deferred tax asset	428	428
Trade and other payables	(2,772)	(2,772)
Deferred tax liability	(847)	(847)
Inventories	478	478
Net assets	28,955	13,902
Cost	28,955	
Cash outflow on acquisition		
Net cash acquired with the subsidiary	530	
Cash paid	(28,955)	
Net cash outflow	(28,425)	

The initial accounting for the above acquisition is only provisional at the period end as the fair value to be assigned to the acquiree's identifiable assets and liabilities could be determined only provisionally as valuations for land, buildings and intangible assets had not been finalised at the date of these financial statements. The Group will recognise any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date, and with effect from the acquisition date.

From the date of acquisition the Company has contributed US$344 thousand to the net profit of the Group.

3. Business combination and acquisitions of minority interests (continued)

f) Anahita Hotel Limited
During April 2006, Kingdom 5-KR-182, Ltd acquired a 50% interest in Anahita Hotel Limited which owns land in Mauritius.

In connection with this acquisition, the consideration paid amounted to US$11 million which is not materially different from the value of the net assets acquired. The assets and liabilities arising from the acquisition are as follows:

	Recognised on acquisition US$'000	Carrying value US$'000
Property, plant and equipment	10,143	9,273
Cash and cash equivalents	1,292	1,292
Receivables	935	935
Payables	(40)	(40)
Net assets acquired	12,330	11,460
Cost	12,330	

	US$'000
Cash outflow on acquisition	
Purchase consideration settled in cash	(12,330)
Cash and cash equivalents in subsidiary acquired	1,292
Cash outflow on acquisition	11,038

Since the Company has not yet commenced operations there would be no impact on the Group's revenue or profit for the year.

g) Kingdom Kenya 01 (formerly) Lonrho Hotels Kenya Ltd
In May 2005, Kingdom 5-KR-181, Ltd. acquired 100% of the issued share capital of Lonrho Hotels Kenya BV, a Dutch Company, which owns Lonrho Hotels Kenya Ltd., a Kenyan Company, which in turn owns directly and indirectly five Kenyan hotels. Kingdom 5-KR-166 Ltd., a wholly owned subsidiary of KHI acquired a 55% share in Kingdom 5-KR-181 Ltd.

The fair value of assets and liabilities as of the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Recognised on acquisition US$'000	Carrying value US$'000
Cash and cash equivalents	1,026	1,026
Property, plant and equipment	39,689	19,559
Inventories	346	346
Trade and other receivables	1,885	1,885
Trade and other payables	(9,755)	(9,755)
Net assets	33,191	13,061
Cash outflow on acquisition:		
Cash and cash equivalents in subsidiary acquired	(1,026)	
Cash paid	23,337	
Cash paid by minority shareholders	9,854	
Cash outflow on acquisition	32,165	

From the date of acquisition, the Company has contributed US$1,284 thousand to the net profit of the Group.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

3. Business combination and acquisitions of minority interests (continued)

h) Société EHC Maroc S.A.R.L

On August 26, 2005, Kingdom 5-KR-172 Ltd through its wholly owned subsidiaries Kingdom 5-KR-178 Ltd and Kingdom 5-KR-177 Ltd purchased a 78% interest in Société EHC Maroc S.A.R.L, which in turn owns the Four Seasons Hotel Marrakech, for an initial consideration of US$6.9 million. KHI entered into an agreement where they will own the land and property related to the Four Seasons Hotel Marrakech by way of freehold interest. The project is under construction.

	Recognised on acquisition US$'000	Carrying value US$'000
Cash and cash equivalents	2,729	2,729
Property, plant and equipment	6,463	5,721
Trade and other receivables	1,013	1,013
Trade and other payables	(1,542)	(1,542)
Net assets acquired	8,663	7,921
Minority interest	(1,743)	
	6,920	
Cash out flow on acquisition:		
Cash paid	6,920	
Cash and cash equivalents in subsidiary acquired	(2,729)	
Cash out flow on acquisition	4,191	

The Company has earned no revenue since acquisition.

i) Damascus Holdings Ltd.

On November 16, 2005, KHI acquired 400 ordinary shares in Damascus Holding Ltd. for an aggregate consideration of US$6.8 million. As a result of the acquisition Damascus Holding Ltd. is wholly owned by KHI. Damascus Holding Ltd. owned 52.5% of the shares of Kingdom 5-KR-71, Ltd, which has an investment in Syrian Saudi Tourism Investments Company which in turn owns the Four Seasons Damascus.

The increase in goodwill on acquisition is as follows:

	2006 US$'000
Cost of the Group's additional interest in the subsidiary	**6,800**
Minority interest's share of the assets and liabilities reflected in the consolidated balance sheet	**(6,800)**
Goodwill (note 13)	–

j) Effect on revenue and profit had business combinations taken place on January 1

If all the business combinations had taken place at the beginning of the year, the profit of the Group would have been US$2.7 million lower (2005: US$0.56 million higher) and revenue would have been US$14.2 million higher (2005: US$10.7 million higher).

4. Investment in joint ventures

The Group's joint ventures are shown in note 30 to the consolidated financial statements. The Group's aggregate share in the amount of assets and liabilities of joint ventures are as follows:

	2006 US$'000	2005 US$'000
Current assets	10,196	–
Non-current assets	10,722	–
	20,918	–
Current liabilities	9,377	–
Net investment in joint ventures	11,541	–

The Group's aggregate share in the amount of income and expenses of joint venture are as follows:

	2006 US$'000	2005 US$'000
Other income	49	–
Expenses	(49)	–
	–	–

5. Segment information

The Group's primary continuing operations are organised on a worldwide basis into four geographical segments based on the location of physical assets and where the guests stay:

- Middle East
- Africa
- Asia
- Europe

The accounting policies of the segments are the same as those described in note 2. The Group evaluates the performance of its segments and allocates resources to them based on this evaluation.

The Group has not presented a secondary business segment as the Group is organised in one business segment, hospitality investment.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

5. Segment information (continued)

Year ended December 31, 2006	Middle East[1] US$'000	Africa US$'000	Asia US$'000	Europe US$'000	Total operations US$'000
Hotel revenue	58,955	32,716	5,041	–	96,712
Other revenue	2,335	–	–	–	2,335
Total revenue	61,290	32,716	5,041	–	99,047
Segment results	**48,623**	**(2,801)**	**(2,898)**	**1,000**	**43,924**
Share of results of associates	13,392	–	–	1,000	14,392
Assets and liabilities					
Segment assets	910,588	226,249	106,077	–	1,242,914
Investments in associates	123,537	–	–	111,351	234,888
Total assets	1,034,125	226,249	106,077	111,351	1,477,802
Total liabilities	141,638	82,135	36,800	–	260,573
Other segmental information					
Capital expenditure					
Property, plant and equipment	49,182	116,953	102,880	–	269,015
Goodwill	6,231	–	–	–	6,231

Included within 'Share of results of associates' is US$7 million profit arising from real estate sales.

[1]Middle East: includes Egypt

Year ended December 31, 2005	Middle East[1] US$'000	Africa US$'000	Total US$'000
Hotel revenue	37,412	17,942	55,354
External sales	3,260	142	3,402
Total revenue	40,672	18,084	58,756
Segment results	9,455	452	9,907
Share of results of associates	11,017	–	11,017
Assets and liabilities			
Segment assets	639,245	75,537	714,782
Investments in associates	80,563	–	80,563
Total assets	719,808	75,537	795,345
Total liabilities	116,550	28,933	145,483
Other segmental information			
Capital expenditure			
Property, plant and equipment	36,331	25,424	61,755

[1]Middle East: includes Egypt

6. Hotels revenue and direct cost of revenue

Hotels revenues and related operating costs comprised the following:

	2006 US$'000	2005 US$'000
Revenue:		
Rooms	**52,577**	30,575
Food and beverage	**31,970**	17,463
Other hotel operating revenues	**12,165**	7,316
Total hotel revenue	**96,712**	55,354
Other revenue	**2,335**	3,402
Total revenue	**99,047**	58,756

	2006 US$'000	2005 US$'000
Direct cost of revenue:		
Rooms	**8,447**	5,500
Food and beverage	**17,976**	10,648
Other operating costs	**3,461**	2,802
Direct hotel general and administrative expenses	**18,256**	6,135
Sales and marketing	**4,244**	2,634
Fuel, water and electricity	**6,354**	3,995
Repairs and maintenance	**4,255**	3,327
Others	**10,800**	5,779
	73,793	40,820

Included in food and beverage costs are US$9.6 million (2005: US$5.1 million) of inventory recognised as an expense.

Salaries and wages costs included in direct cost of revenue was US$23,484 thousand (2005: US$14,372 thousand).

7. General and administrative expenses

General and administrative expenses relate to the head office comprised the following

	2006 US$'000	2005 US$'000
Salaries and employees benefits	**8,740**	4,119
Professional fees	**2,134**	683
Travel	**594**	890
Insurance	**427**	313
Municipality tax	**265**	673
Rent	**339**	172
Exhibitions and conferences	**104**	77
Others	**2,358**	771
	14,961	7,698

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

8. Deferred credit

Following is summary of deferred credit movements during the year:

	2006 US$'000	2005 US$'000
Beginning balance	**12,832**	11,867
Add: additions	–	2,835
Less: amortisation	**(12,832)**	(1,870)
Ending balance	–	12,832

The deferred credit balance resulted from the sale of B-shares of Merryland Pour les Projets Touristiques (MPPT) that are owned by Kingdom 5-KR-57, Ltd. The B-shares represent the indefinite right to use cabanas and shops, which are located in MPPT and were recorded as real estate held for sale.

The excess of the sales price of the B-shares over the costs of the cabanas and shops was initially recorded as a deferred credit, and was being amortised to match the maintenance costs and other expenses which could have been incurred in future years in connection with these cabanas and shops. Following a review of the anticipated maintenance costs and other expenses required to service the cabanas it was decided that the annual maintenance fee that will be charged to the cabana owners in the future will be sufficient to cover these costs and therefore the deferred credit has been recognised in full during the year.

9. Pre-operating expenses

Pre-operating expenses in 2005 relate to pre-opening costs incurred in relation to the Four Seasons Hotel Damascus (owned by the Syrian Saudi Touristic Investment Company) (a subsidiary) which commenced operations in December 2005.

	2006 US$'000	2005 US$'000
Salaries and benefits	–	1,534
Advertising and publicity	–	1,098
Marketing	–	120
Other	–	453
	–	3,205

10. Income tax

The major components of income tax expenses are as follows:

	2006 US$'000	2005 US$'000
Consolidated income statement		
Current income tax		
Current income tax charge	**169**	573
Deferred income tax		
Relating to original and reversal of temporary differences	**257**	(19)
Income tax expenses reported in the consolidated income statement	**426**	554

The Company is exempt from income tax in the Cayman Islands. Subsidiaries operate in numerous locations where they are subject to income tax, however with the exception of the entities presented below, are either making losses or have tax holidays, during which the companies are exempt from taxes for periods of up to seven years from the incorporation.

10. Income tax (continued)

A reconciliation of profit before tax to income tax expenses follows:

Acquired		Profit before tax US$'000	Tax rate %	Tax at domestic rates US$'000	Adjustments and items not allowable for income tax US$'000	Income tax expense US$'000
2006						
Kingdom Kenya 01 Ltd	**Kenya**	**1,094**	**30**	**328**	**98**	**426**
Marasa Holdings Limited	**Zambia**	**344**	**45**	**155**	**(155)**	**–**
Locations not subject to tax		**42,912**		**–**	**–**	**–**
Total		**44,350**		**483**	**(57)**	**426**
2005						
Kingdom Kenya 01 Ltd	Kenya	1,004		301	253	554
Locations not subject to tax		9,457		–	–	–
Total		10,461		301	253	554

Deferred income tax

Deferred income tax at December 31 relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2006 US$'000	2005 US$'000	**2006 US$'000**	2005 US$'000
Deferred tax liability				
Accelerated depreciation for tax purposes	**6,447**	4,803	**797**	(4)
Deferred tax assets				
Provisions accruals and others	**392**	282	**(430)**	(3)
Losses available for offset against future taxable income	**1,165**	307	**(110)**	(12)
	1,557	589	**(540)**	(15)
Deferred income tax expense (income)			**257**	(19)

Deferred tax assets are only recognised on losses available for offset against future taxable income to the extent that it is probable that taxable profits will be available against which losses can be utilised. Budgets for the entities in which tax losses have been treated as deferred tax assets support that the tax will be utilised.

On the acquisition of Marasa Holding Limited (note 3e) the Group acquired deferred tax liabilities of US$847 thousand and US$428 thousand of deferred tax assets.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

11. Basic and diluted earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2006 US$'000	2005 US$'000
Net profit attributable to ordinary equity holders of the parent	**42,809**	12,320

	2006 Thousands	2005 Thousands
Weighted average number of ordinary shares for basic earnings per share	**163,660**	71,815

The figure for basic and diluted earnings per share is the same as the Company has not issued any instrument which would have an impact on earnings per share when exercised.

There have been no other transactions involving shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

The comparative number of shares and earnings per share have been restated to reflect the share split that occurred during the year.

12. Property, plant and equipment

	Freehold land US$'000	Leasehold improvements US$'000	Buildings US$'000	Furniture and Fixtures US$'000	Equipment US$'000	Motor Vehicles US$'000	Construction in progress US$'000	Total US$'000
Cost								
At January 1, 2006	144,711	–	182,018	29,913	15,033	652	31,493	403,820
Additions	7,513	1,444	302	3,961	1,837	1,033	31,462	47,552
Disposals	–	(30)	(14)	(58)	(902)	(191)	–	(1,195)
Transfers	–	–	790	–	–	–	(790)	–
Acquisition of subsidiaries (note 3)	112,474	20,393	58,438	5,389	9,663	134	14,972	221,463
Exchange adjustments	59	1,452	(2,529)	(113)	(774)	67	483	(1,355)
At December 31, 2006	**264,757**	**23,259**	**239,005**	**39,092**	**24,857**	**1,695**	**77,620**	**670,285**
Depreciation								
At January 1, 2006	–	–	8,013	11,115	6,740	334	–	26,202
Depreciation charge for the year	–	1,453	3,405	4,172	1,766	195	–	10,991
Disposals	–	–	(14)	(6)	–	(179)	–	(199)
Exchange adjustments	–	169	115	(173)	(356)	32	–	(213)
At December 31, 2006	**–**	**1,622**	**11,519**	**15,108**	**8,150**	**382**	**–**	**36,781**
Net carrying amount:								
At December 31, 2006	**264,757**	**21,637**	**227,486**	**23,984**	**16,707**	**1,313**	**77,620**	**633,504**
At December 31, 2005	144,711	–	174,005	18,798	8,293	318	31,493	377,618

The carrying value of construction in progress includes interest of US$0.9 million (2005: US$0.4 million) capitalised during the year.

12. Property, plant and equipment (continued)

Property, plant and equipment above include assets held under finance lease as follows:

	2006 US$'000	2005 US$'000
Cost	**2,981**	–
Accumulated depreciation	**(739)**	–
At December 31	**2,242**	–

	Freehold land US$'000	Buildings US$'000	Furniture and fixtures US$'000	Equipment US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
Cost							
At January 1, 2005	118,766	110,982	22,254	10,860	374	62,372	325,608
Additions	5,411	7,252	7,030	4,527	201	10,337	34,758
Disposals	–	(409)	(155)	(21)	–	–	(585)
Transfers	–	47,679	–	–	–	(47,679)	–
Acquisition of subsidiaries (note 3)	20,534	17,644	1,081	411	19	6,463	46,152
Exchange adjustments	–	(1,130)	(297)	(744)	58	–	(2,113)
At December 31, 2005	144,711	182,018	29,913	15,033	652	31,493	403,820
Depreciation							
At January 1, 2005	–	5,431	8,814	6,152	177	–	20,574
Depreciation charge for the year	–	2,655	2,624	1,087	108	–	6,474
Disposals	–	(25)	(12)	(3)	–	–	(40)
Exchange adjustments	–	(48)	(311)	(496)	49	–	(806)
At December 31, 2005	–	8,013	11,115	6,740	334	–	26,202
Net carrying amount:							
At December 31, 2005	144,711	174,005	18,798	8,293	318	31,493	377,618
At December 31, 2004	118,766	105,551	13,440	4,708	197	62,372	305,034

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

13. Goodwill

A summary of the movements in goodwill is presented below:

	2006 US$'000	2005 US$'000
At January 1	–	–
Acquisitions during the year (note 3a)	**6,231**	–
At December 31	**6,231**	–

Goodwill arose on the acquisition of an additional 25% interest in Kingdom 5-KR-71 Ltd on March 1, 2006 (note 3a).

Goodwill is allocated to the individual hotel operation of the Four Seasons Hotel in Damascus, Syria (the cash-generating unit), and has been tested for impairment using a value in use model. The hotel is the lowest level within the group at which goodwill is monitored for internal management purposes.

The recoverable amount has been determined based on value in use calculations, using discounted cash flow projections. Management has adopted a 5 year period to assess its value in use. The cash flow projections are based on financial budgets issued by the hotel operator and approved by senior management covering the same period.

Key assumptions used in value in use calculations
The calculation of value in use is sensitive to the following assumptions:

- Market share
- Growth rate
- Net profit margins, and
- Discount rate

Market share: The key assumption relates to management's assessment that the property will maintain its status as the premier hotel in Damascus.

Growth rate: estimates are based on management's assessment of market share having regard to forecasted economic growth in Syria and the demand for luxury hotel accommodation. A conservative terminal growth rate of 2% per annum has been applied for the five year period.

Net profit margins: estimates are based upon management's assumption of achieving a stabilised level of performance following its first full year of operations.

Discount rate: management has used a discount rate of 9% per annum throughout the assessment period, reflecting the current estimated weighted average cost of capital of the group. The discount rate has been calculated using an estimated risk free rate of return adjusted for the group's estimated equity market risk premium and the group's cost of debt.

Sensitivity to changes in assumptions
With regard to the assessment of value in use of the hotel, management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the hotel to exceed its recoverable amount, after giving due consideration to the economic outlook for the hospitality industry and the commercial assumptions underpinning the cash flow forecast of the hotel.

14. Investment properties

	2006 US$'000	2005 US$'000
At January 1		
Transfer from real estate held for sale	**3,429**	–
Additions	**25,524**	–
Disposals	**–**	–
At December 31	**28,953**	–

Mövenpick Bur Dubai Residences
In September 2006, KHI completed the acquisition of an apartment building adjacent to the existing Mövenpick Hotel in Bur Dubai for a total consideration including acquisition costs of US$25.5 million.

The property is carried at cost, which approximates the fair value as the property was purchased during the year.

Transfer from real estate held for sale
In 2006, properties were transferred from real estate held for sale to investment properties as they are occupied by tenants. The fair value approximated cost at the date of transfer and at balance sheet date.

15. Investments in associates

The following table illustrates summarised information of the Group's investments in associates:

	2006 US$'000	2005 US$'000
Share of associates' balance sheets:		
Current assets	**61,980**	52,497
Non-current assets	**213,665**	96,730
Current liabilities	**(31,149)**	(33,980)
Non-current liabilities	**(138,814)**	(41,671)
Net assets	**105,682**	73,576
Share of associates' revenues and results:		
Revenues	**56,187**	28,276
Results	**14,392**	11,017

16. Available-for-sale financial assets

	2006 US$'000	2005 US$'000
Quoted shares	**33,524**	43,072
Unquoted shares	**53,588**	33,766
	87,112	76,838

In October 2006 KHI sold unquoted shares with a cost of US$5.1 million for a price of US$12.4 million resulting in a gain of US$7.3 million. These shares were previously quoted in the year ended December 31, 2005.

As at December 31, 2006 investments with a value of US$6.5 million which were included within quoted shares in the year ended December 31, 2005 are now shown as unquoted shares as a result of a de-listing of the shares during the year.

The fair market value of unquoted shares cannot be reliably determined due to the unpredictable nature of future cash flows and US$47.1 million (2005: US$33.8 million) are carried at cost and US$6.5 million are carried at the latest traded price prior to delisting on May 11, 2006.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

17. Other financial assets

	2006 US$'000	2005 US$'000
Advance to a contractor	**4,639**	6,215
Acquisitions in progress	**7,505**	4,471
	12,144	10,686

Acquisition in progress comprise of costs incurred on business combinations which are yet to be completed.

18. Cash and short-term deposits

	2006 US$'000	2005 US$'000
Cash at bank and in hand	**26,038**	28,892
Short-term deposits	**404,750**	200,705
Total cash and bank balances	**430,788**	229,597

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at rates between 5.1% and 5.3% per annum. The fair value of cash and bank balances is US$430.8 million (2005: US$229.6 million).

Included in short-term deposits restricted cash of US$4 million (2005: US$2.0 million) which is part of the security for loans in Merryland Pour Les Projects Touristiques of US$3.5 million and in Siam Resorts Company Limited of US$0.5 million (note 21).

For the purposes of the cash flow statement, cash and cash equivalents exclude restricted cash and comprise the following:

	2006 US$'000	2005 US$'000
Cash at bank and in hand	**26,038**	28,892
Short-term deposits	**404,353**	198,707
Bank overdrafts (note 21)	**(10,095)**	–
	420,296	227,599

19. Share capital

The share capital of the Company as at December 31 was as follows:

	2006 US$'000	2005 US$'000
Authorised		
174,739 thousand ordinary shares of US$5 each (2005: 5,417 thousand ordinary shares of US$100 each)	**873,694**	541,673
Issued and fully paid		
174,739 thousand ordinary shares of US$5 each (2005: 5,417 thousand ordinary shares of US$100 each)	**873,694**	541,673

The movement in the number of issued and fully paid ordinary shares is as follows:

	US$'000	Number in thousands
Ordinary shares:		
At January 1, 2005 shares of US$100 each	**298,208**	2,982
Issue of ordinary shares of US$100 each	**243,465**	2,435
At January 1, 2006 shares of US$100 each	**541,673**	5,417
February 2006 1 for 20 share split (note a)	**541,673**	108,335
Initial public offering (note b)	**214,725**	42,945
Issue to management (note c)	**7,000**	1,400
Acquisition of interest in Kingdom 5-KR-30 Ltd (note d)	**95,500**	19,100
Acquisition of interest in Kingdom Nile Plaza (note e)	**6,000**	1,200
Acquisition of interest in Kingdom 5-KR-71 Ltd (note f)	**8,111**	1,622
"Greenshoe option" issue (note g)	**685**	137
At December 31, 2006 shares of US$5 each	**873,694**	174,739

a. In February 2006, the nominal value of KHI shares was reduced from US$100 to US$5 per share when the Company affected a 1 to 20 share split. As a result, as of the date thereof, the share capital was US$541,673,000 consisting of 108,335 thousand shares, each with a nominal value of US$5.

b. On March 1, 2006, KHI made an initial public offering of 42,945 thousand shares at a price of US$9.25 per share, in the form of shares listed on The Dubai International Financial Exchange and Global Depository Shares listed on the London Stock Exchange.

c. In February 2006, 70 thousand shares were issued to management at US$100 nominal value per share. These shares were issued prior to the 1 to 20 share split described above.

d. On March 1, 2006, KHI acquired a 25% equity interest in Kingdom 5-KR-35 Ltd (a related party) that owns Four Seasons Hotel (George V) in Paris. In accordance with the acquisition agreement, 19,100 thousand KHI ordinary shares of par value of US$5 were issued for a determined total consideration of US$108.9 million, which approximates KHI's share of the fair value of the hotel's assets. Total resulting share premium on the acquisition amounted to US$13.4 million.

e. On November 22, 2005, Kingdom 5-KR-30, Ltd, a subsidiary, acquired 10,575 thousand Class A Shares in Kingdom Nile Plaza for an aggregate consideration of US$14,805 thousand. The subsidiary paid US$3.7 million in cash on completion of the share purchase. Under the terms of the purchase agreement, the liability arising on acquisition of US$11.1 million as of December 31, 2005 was settled during the period through the issuance of 1,200 thousand shares

f. Following an agreement with Majid Al-Futtaim Trust (MAFT) dated March 1, 2006, KHI agreed to exchange its shares for MAFT's 25% ownership interest in Kingdom 5-KR-71 Ltd. KHI exchanged a total of 1,622 thousand shares at a price of US$9.25 in accordance with the agreement.

g. Following the initial public offering of shares on March 1, 2006 an over-allotment option or "Greenshoe option" was exercised by the underwriters and a further 137 thousand shares were issued at a price of US$9.25 per share, for a total consideration of US$1.3 million.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

20. Reserves

Share premium

Share premium represents the excess of proceeds raised from shares issued over their par value, less costs associated with the issue. Share premium is not available for distribution.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries, joint venture and associate.

Cumulative change in fair value

This reserve records unrealised fair value changes on available for sale investments.

Cash flow hedge reserve

This reserve records the change in value of effective cash flow hedges that have not yet been recycled.

21. Interest-bearing loans and borrowings

The Group had the following interest-bearing loans and borrowings outstanding:

				Repayment schedule				
Entity	Bank overdraft US$'000	Current loans US$'000	Non-current loans US$'000	1-2 years US$'000	2-3 years US$'000	3-4 years US$'000	4-5 years US$'000	More US$'000
Kingdom 5-KR-71 Ltd. Subsidiary of Damascus Holding (a)								
Loan 1	–	1,000	13,000	3,000	3,000	3,000	4,000	–
Loan 2	–	1,000	4,866	1,000	1,600	1,600	666	
Kingdom Beirut Subsidiary of Kingdom 5-KR-59, Ltd. (b)								
Loan 1		–	7,324	–	–	2,500	2,500	2,324
Merryland Pour les Projects Touristiques (MPPT) – Subsidiary of Kingdom 5-KR-57, Ltd. (c)								
Loan 1		–	31,878	1,500	2,000	2,000	2,000	24,378
Loan 2		–	10,000	–	1,000	1,000	1,000	7,000
Kingdom Kenya 01 Limited Indirect Subsidiary of Kingdom 5-KR-166, Ltd. (d)								
Loan 1	–	–	5,000	–	–	–	–	5,000
Serena Beach Company Subsidiary of Kingdom 5-KR-153, Ltd. (e)								
Loan 1	–	1,598	3,129	1,800	1,329	–	–	–
Kingdom 01 FZ-LLC – Indirect Subsidiary of Kingdom 5-KR-168, Ltd (f)								
Loan 1	–	1,600	17,600	1,600	1,600	1,600	1,600	11,200
Loan 2	–	2,338	2,253	2,336	2,336	2,336	5,245	
Tanruss Investment Limited Subsidiary of Kingdom 5-KR-90, Ltd. (g)								
Loan 1		921	5,064	905	905	905	905	1,444
Loan 2		–	1,400	–	–	–	–	1,400
Anahita Hotel Limited Subsidiary of Kingdom 5-KR-182, Ltd. (h)								
Overdraft	7,513	–	–	–	–	–	–	–

21. Interest-bearing loans and borrowings (continued)

Entity	Bank overdraft US$'000	Current loans US$'000	Non-current loans US$'000	Repayment schedule 1-2 years US$'000	2-3 years US$'000	3-4 years US$'000	4-5 years US$'000	More US$'000
EHC Maroc								
Subsidiary of Kingdom 5-KR-172, Ltd. (i)								
Overdraft	2,181	–	–	–	–	–	–	–
Salt Lake Resort								
Subsidiary of Kingdom 5-KR-188, Ltd. (j)								
Loan 1	–	777	25,987	3,000	3,000	3,000	3,000	13,987
Loan 2	–	–	1,966	281	281	281	281	842
Overdraft	401	–	–	–	–	–	–	–
SRF and SRC								
Indirect Subsidiary of Kingdom 5-KR-194&195, Ltd. (k)	–	–	30,749	–	–	–	–	–
Loan 1	–	651	–	2,083	2,083	2,604	5,598	–
Loan 2	–	1,034	–	3,310	3,310	4,137	7,625	–
Marasa Holdings Limited								
Indirect Subsidiary of KHI-7, Ltd. (l)	–	94	189	94	95	–	–	–
December 31, 2006	**10,095**	**11,013**	**170,405**	**20,909**	**22,539**	**24,963**	**34,419**	**67,575**
December 31, 2005	–	5,946	77,835	6,741	36,241	7,841	7,841	19,171

a) **Kingdom 5-KR-71, Ltd.** arranged with a regional bank, as an Agent for the lenders during 2003, for a long-term syndicated loan amounting to US$20 million.

70% of this loan is subject to an interest of US$ LIBOR plus 350 bps per annum while 30% is subject to a fixed rate of 8.50%. Effective interest rate for the year ended December 31, 2006 was 8.42%.

The loan is payable in five annual unequal instalments, the first of which is due in June 2007. The loan is secured by several security agreements. The main security agreements are summarised as follow:

- Deed of Support: KHI has signed a Deed of Support in favour of the Agent.
- Share Charge Agreement: Each shareholder of Kingdom 5-KR-71, Ltd agreed to pledge his shares in favour of the Agent.
- Security Sharing Agreement: Kingdom 5-KR-71, Ltd entered into an agreement to pledge 55% of the outstanding and issued shares.
- Revenue Assignment Agreement: Kingdom 5-KR-71, Ltd has entered into a revenue assignment agreement, pursuant to which Kingdom 5-KR-71, Ltd will grant to the Agent a first priority security interest in the bank accounts into which all revenues and receipts of the entity will be deposited.
- Pledge of Bank Accounts Agreement: Kingdom 5-KR-71, Ltd pledged certain bank accounts in favour of the Agent.

b) **Kingdom Beirut** On December 13, 2004, the Company (the Borrower) signed three loan agreements with a regional bank as follow:

- Loan 1: the bank agreed to grant the Borrower a loan up to the maximum limit of US$50 million, to be appropriated for financing part of the remaining works related to the construction of the hotel. This loan is to be utilised based on withdrawals to be completed during a maximum period of 36 months provided that it does not go beyond December 31, 2007. This loan is subject to interest at the rate of six months LIBOR plus 325 bps per annum and is subject to commitment fees. This loan will be repaid in four yearly instalments of US$2.5 million starting in 2010 and a bullet payment of US$40 million in 2014.
- Loan 2: The Bank agreed to grant the Borrower a loan up to the limit of US$10 million based on an interest rate of 5.65% per annum provided that three months LIBOR does not exceed 2.4% per annum. If this ceiling is exceeded, the interest rate will be equivalent to the three months LIBOR plus 325 bps per annum and is subject to commitment fees, effective interest rate for the year ended December 31, 2006 was 8.57%. This loan has not been drawn as of December 31, 2006.

  The Borrower commits to use the loan amount, after using a total amount of US$65.0 million representing its capital and shareholders' loans, and that gradually depending on the needs to finance the project during a maximum period of 36 months from the date of signature of this agreement provided that it does not go beyond December 31, 2007.

  The principal amount of the loan is to be settled in one instalment due after seven years from the date of the first withdrawal.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

21. Interest-bearing loans and borrowings (continued)

- Loan 3: the Bank agreed to grant the Borrower overdraft facility up to the limit of US$10 million to be appropriated for financing the operating capital and the pre-opening expenses of the hotel. This facility is subjected to interest at the rate of six months LIBOR plus 325 bps per annum and is subject to commitment fees annually. This overdraft facility has not been drawn as of December 31, 2006.

  The above loans are secured by a second degree mortgage up to US$75 million on the property and its current and future establishments, as a guarantee to all the dues of the Borrower to the Bank in principal, interest and commissions from these loans and as guarantee to all the Borrower's other commitments to the bank. Also, personal guarantees of the shareholders individually, each according to his ownership percentage in the Borrower's capital, as a guarantee to complete the project and cover the costs of any increase in the project's costs and to settle any shortage up to a maximum amount of US$2 million that might result in accrued interest and that until the first settlement of accrued interest after the full completion of the hotel and its installations and the real commencement of work and official opening announcement.

c) **Merryland Pour les Projets Touristiques SAL. (MPPT)** On November 9, 2005, the Company signed three loan agreements in order to refinance its current syndicated loans granted by a consortium of banks. These agreements are detailed as follows:

- Subsidised loan agreement (Loan 1): The Bank agreed to grant the Borrower a loan up to the limit of US$10 million to repay the old subsidised loan and transfer it to their account based on an interest rate of three months LIBOR plus 300bps per annum and is subsidised by the central bank of Lebanon in the form of a cash refund of US$567 thousand per annum. The loan is payable in twelve unequal semi-annual instalments starting January 2009, effective interest rate for the year ended December 31, 2006 was 2.65%.
- Non-subsidised loan (Loan 2): the Bank agreed to grant the Company a loan up to the maximum limit of US$33 million in order to repay the current loans signed with a consortium of banks and settle part of the shareholders' subordinated loans. This loan is subject to interest at the rate of three months LIBOR plus 300bps per annum and is subject to commitment fees. This loan will be settled during a period of seven years, paid semi-annually in unequal payments, effective interest rate for the year ended December 31, 2006 was 8.32%.
- Credit Facility Agreement (Loan 3): The Bank agreed to grant the Company bank facilities up to the limit of US$3 million to be appropriated for financing the operation as needed. This facility is subject to interest at the rate of one month LIBOR plus 300bps per annum, payable monthly. Also under this agreement, the Company obtained the approval to issue up to US$2 million of letters of guarantees, without the need of any collateral, for an annual commission, the Company has not utilised any of the balance as of December 31, 2006.

All the above loans are secured by the following guarantees:

- First degree mortgage on the property of MPPT and its current and future establishments for US$46 million.
- Pledge of revenues, giving the Bank a first priority right over the proceeds and revenues generated.
- Pledge of 63.2% of the shares of Merryland Pour Les Projets Touristiques SAL.
- Assignment of the bank as first loss payee for any insurance proceeds.
- A blocked reserve account that secures the interest due for the 4 subsequent months.

d) **Kingdom Kenya 01 Limited** the Company has the following loans:

- Loan 1: In June 2006, the Company signed the financing agreements with an international financial institution, to be used for the renovation of the hotel for the amount of US$20 million at an interest rate of 6 month LIBOR plus 275 bps per annum and is subject to commitment fees. The loan is to be repaid in 16 equal semi-annual instalments starting in January 2008, with a grace period on the principle until then. No prepayment penalty following the second year of the first disbursement. The company has not utilised any of the balance as of December 31, 2006. The loan is secured by a mortgage on the property to the value of US$20 million.
- The company obtained a zero interest rate long-term loan in 2005 amounting to US$5 million from Fairmont Dubai Holdings (Bermuda) Ltd. to finance the refurbishment of the hotels, which is expected to take place in 2007. The loan is due for settlement in full on May 10, 2020 (unless it is settled earlier or rescheduled).

e) **Serena Beach Company** the Company has assumed the following loans:

- Loan 1: Long-term loan from a regional bank for the amount of US$6.1 million at an interest rate of six months LIBOR plus 150 bps per annum and is subject to commitment fees, Loan balance as at December 31, 2006 was US$3.9 million out of which US$1.5 was due and subsequently paid, it was agreed with the bank to pay the remaining balance of US$2.4 million in 24 unequal monthly instalments.
- Loan 2: Long-term loan from a regional bank for the amount of US$0.8 million at an interest rate of six months LIBOR plus 200 bps per annum and is subject to commitment fees. Loan balance as at December 31, 2006 was US$0.8 million out of which US$0.6 million was due and subsequently paid, it was agreed with the bank to pay the remaining balance of US$0.2 million in 6 monthly unequal instalments.
- Effective interest rate for both loans is 7.27%. These loans are unsecured.

21. Interest-bearing loans and borrowings (continued)

f) Kingdom 01 FZ-LLC obtained the following bank loan from a commercial bank in Dubai, UAE:

- Loan 1: Bank loan in United Arab Emirates Dirhams (AED) loan the US$ equivalent of the loan was US$14.6 million as at December 31, 2006 the loan carries an interest rate of 3 months Emirates Interbank Offered Rate (EIBOR) plus 200bps per annum and is repayable in fifteen unequal semi-annual instalments with effect from July 2004, effective interest rate for the year December 31, 2006 was 7.44%
- Loan 2: Bank loan for a total of US$20 million from a commercial bank in Dubai. The loan is subject to an interest of US$ LIBOR (three months) plus 175 bps per annum and is repayable in 36 unequal quarterly instalments commencing in September 2006, effective interest rate for the year December 31, 2006 was 7.19%.
- Undrawn loan facility for a total of US$27 million payable on 34 unequal variable payments; the first of which is due after 18 month of the first drawdown. The loan is subject to interest of six months US$ LIBOR plus 175bps per annum.

All three loans are mortgaged against the property for a value of US$64 million and the assignment of the revenues from hotel operations and the insurance of the property are in favour of the lending bank.

g) Tanruss Investment Limited Company obtained two loans in 2003 from a regional bank to restructure previously obtained loans. The loans are as follows:

- Loan 1 in Tanzanian Shilling (TZS) of equivalent amount US$6.0 million is subject to a fixed interest rate of 13%, and the principle is repayable in 16 unequal semi-annual installments that commenced on July 31, 2005.
- Loan 2 of US$1.4 million is subject to an interest of six months US$ LIBOR plus 500bps per annum. The principle is repayable in four semi-annual installments of US$350 thousand each, payable on March 15 and September 15, commencing on September 15, 2013, effective interest rate for the year December 31, 2006 was 10.32%.

Both loans are secured by a first degree mortgage and lien covering the following assets:

- Real property including buildings, apparatus and development thereon.
- All entities' undertakings and assets movable and immovable, present and future.
- Debt servicing Escrow Account into which the debt service reserve cash flow will be deposited.

h) Anahita Hotel Limited in September 2006, the Company signed a bridge financing with a regional bank and a local bank. The loans will finance the development of a 90-room hotel and 46 villas.

- Bridge Financing: The company maintains a bridge facility with the banks with a ceiling of €30 million, interest rate is set at six month LIBOR plus 155bps per annum for the US$ portion, six month Euribor plus 155bps per annum for the €portion, and Mauritian Prime Lending Rate plus 100bps per annum for the Mauritian Rupee portion, (effective interest rate for the MUR loan as it was the only loan that was drawn for the year ended December 31, 2006 was 13%). The first €15 million is mortgaged against the land and assets of the property. Amount drawn by December 31, 2006 was the equivalent of US$7.5 million. The overdraft is expected to be fully settled by a long-term loan from the same banks for which a final agreement will be signed.

i) EHC Maroc in September 2006, the Company entered into a Loan agreement with a Moroccan bank for the Moroccan Dirham ("MAD") equivalent of US$70.2 million. The loan is subject to interest of three months Moroccan Lending rates plus 150 bps per annum, effective interest rate for the year December 31, 2006 was 6.07%.

- Bank Bridge facility: The company maintains a bridge facility for MAD equivalent of US$70.2 million, interest rate is set at three months Moroccan Lending rates plus 150 bps per annum. The bridge facility will be replaced with the long-term loan once the property is operational. The land and property are mortgaged against the bridge facility for a MAD amount of the equivalent of US$70.2 million. As at December 31, 2006, the amount of US$2.2 million was outstanding for this facility.
- The MAD equivalent of US$10 million is to be repaid in 11 equal semi-annual repayments starting 24 months following the disbursement of the term loan (after settlement of the bridge facility from the proceeds of this loan). The MAD equivalent of US$39.2 million is to be repaid in 17 equal semi-annual repayments starting 24 months following the repayment of the term loan and the MAD equivalent of US$21 million, representing a 30% bullet payment is due in 2018.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

21. Interest-bearing loans and borrowings (continued)

j) Saltlake Resorts Limited

Loan 1: In October 2006, the Company refinanced the debt with a local bank. The legacy loan of Mauritian Rupee (MUR) 300 million (equivalent to US$9.2 million) and Euro 7.5 million have been replaced by an 8 year loan of US$26 million. The following is a summary of the loan:

- US$26 million at 6 month LIBOR plus 145bps per annum, effective interest rate for the year December 31, 2006 was 6.77%.
- The loan is to be repaid in thirteen half-year instalments of US$1.5 million, starting in May 2008, with a 30 per cent bullet payment of US$6.5 million in November 2014
- No prepayment penalty following the second year of the first disbursement .
- Mortgaged against the property with a net carrying value of US$41.5 million.

Loan 2: A short-term unsecured non-interest bearing loan from Mövenpick Hotels and Resort AG of US$500 thousand. payable in 2007.

The company maintains an overdraft facility with a local bank for an amount of US$0.4 million at an interest rate of MLR plus 500bps.

Other Credit Facility in the form of a finance lease for an amount of US$2.2 million. This facility is to be repaid in unequal repayments ending in February 2014.

Obligations under finance leases

	2006 US$'000	2005 US$'000
Finance lease liabilities – minimum lease payments:		
Within one year	510	–
Later than one year and not later than five years	1,760	–
– Later than five years	893	–
	3,163	
Future finance charges	(920)	–
Present value of finance lease liabilities	2,243	–
The present value of the finance lease liabilities may be analysed as follows:		
Within one year	277	–
Later than one year and not later than five years	1,227	–
– Later than five years	739	–
	2,243	–

k) Siam Resort Fund (SRF) and Siam Resorts Company Limited (SRC) On February 26, 2004 the Company entered into two loan agreements to finance the acquisition, renovation, construction of the hotel and working capital of the Company details of which are as shown below:

- Loan 1: A Loan agreement with a local bank of Baht 743.65 million. The loan has up to 7 years maturity with an option to prepay in year 5 and interest rates at 5.75% per annum from the first drawdown date until the date falling two years from such drawdown and at Minimum Lending Rate (MLR) minus 0.50% per annum for the period thereafter. The principal repayment is twelve unequal quarterly instalments, with the first repayment due within thirty eight months after the first drawdown date (February 28, 2007).
- Loan 2: On February 26, 2004, the Company entered into Credit Facility Agreement with a local bank with credit limit of Baht 488.26 million that consists of long-term loan facility of baht 476.26 million and bank overdraft of Baht 12 million. The loan has 7 year maturity, interest rates at 5.75% per annum from the first drawdown date until the date falling two years from such drawdown and at MLR minus 0.50% per annum for the period thereafter. The principal repayment is twelve unequal quarterly instalments, with the first repayment due within thirty eight months after the first drawdown date (February 28, 2007).
- Effective interest rate for the year December 31, 2006 was 7.5% for both loans.
- The above loans are secured with a first degree mortgage on any part of the existing resort and the villas for a total mortgaged amount of Baht 1,300 million.

l) Marasa Holdings Limited on October 5, 2006 an existing current account balance due to Marasa Holdings Turks & Caicos Limited was converted to an unsecured non-interest bearing loan. The loan is repayable in three equal annual instalments starting from 2007.

22. Provisions

	End-of-service benefits	
	2006 US$'000	2005 US$'000
At January 1, 2005	**323**	222
Arising during the year	**1,512**	110
At December 31, 2006	**1,835**	332

End-of-service benefits
Labour laws in certain countries in which the Group operates require employers to provide for end-of-service benefits. These benefits are payable to employees at the end of their period of employment. The provision for end-of-service benefits is calculated based on the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with the local labour laws of the jurisdictions in which the Group operates. An actuarial valuation has not been performed as the net impact of discount rates and future increases in benefits is not likely to be material.

23. Retentions payable

Retentions payable include US$4,100 thousand payable to the construction contractor of Four Seasons Hotel, Damascus. Under the terms of the contract, SSTI (holding company of the Four Seasons Hotel, Damascus) undertook to issue SSTI equity shares in settlement of the liability, conditional upon the contractor providing an unconditional and irrevocable bank guarantee representing 2.5% of the total contract value.

The issue of shares would result in dilution of KHI's effective ownership in SSTI to 45.7% and the Group's ownership interest to 51%.

24. Other financial liabilities

	2006 US$'000	2005 US$'000
Deferred consideration on acquisitions	–	11,104

On November 22, 2005 Kingdom 5-KR-30, Ltd, a subsidiary, acquired 10,575 thousand Class A Shares in Kingdom Nile Plaza for an aggregate consideration of US$14.8 million. The subsidiary paid US$3.7 million in cash on completion of the share purchase. Under the terms of the purchase agreement, the remaining consideration of US$11.1 million was settled through the issuance of 1.2 million shares to the seller at the Initial Public Offering price of US$9.25 per share.

25. Trade and other payables

	2006 US$'000	2005 US$'000
Trade payables	**40,045**	18,896
Accrual's and other payable	**12,037**	6,269
	52,082	25,165

Trade payables are non-interest bearing and are normally settled on between 30-day and 60-day terms.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

26. Commitments and contingencies

Capital commitments
At December 31, 2006, the Group had capital commitments in respect of construction work of US$281 million (2005: US$40 million).

Contingent liabilities
Legal and Tax claims

Merryland Pour les Projects Touristiques (MPPT):
The Company was subject to a review by the Income Tax authorities for the fiscal year 2002 and as a result was charged, additional taxes and fines in the amount of US$1.059 million. The Company has only provided for an amount of US$275 thousand as of December 31, 2006 which the Company believes will be ultimately payable following an appeal against the assessment and did not provide for the remaining balance of US$784 thousand which management believe will not be payable.

The Company was subject to a review by the Department of Value Added Tax for the period to December 31, 2002 and as a result was charged, additional taxes and fines in the amount of US$19.7 million. The Company has only provided for an amount of US$325 thousand as of December 31, 2006 which management believe will be payable following appeal against the assessment.

27. Related party transactions

The consolidated financial statements include the financial statements of Kingdom Hotel Investments and the subsidiaries listed in note 30. Kingdom Hotel Investments is the ultimate parent entity of the Group.

Transactions
The following table provides the total amount of transactions which have been entered into with related parties:

		Business development income US$'000	Management and incentive fees expense US$'000	Asset Management fee income US$'000	Loans advanced to/(from) related parties US$'000
Other related parties	**2006**	**731**	**(5,552)**	**845**	**(500)**
	2005	250	(3,640)	412	–

Other related parties are hotel operators which are associated with major shareholder.

All related party income and expenses and the pricing policies and terms of these transactions are at normal market process and are approved by the Group's management.

Compensation of key management personnel
The following are the remuneration of key management personnel of the Group comprising of executive directors of the Company and other senior personnel.

	2006 US$'000	2005 US$'000
Short-term employee benefits	**3,796**	1,541
Bonus paid in respect of IPO	**5,400**	–
End-of-service benefits	**86**	77
Retention bonus	**277**	–
	9,559	1,618

27. Related party transactions (continued)

	2006 US$'000	2005 US$'000
Balances due from/(to) related parties		
Due to Four Seasons Hotels Inc.	**(113)**	–
Due to Fairmont Hotels and Resorts Inc.	**(76)**	(13)
	(189)	(13)
Due to Mövenpick Hotels and Resort AG	**286**	–
Due from Kingdom Holding Company (ultimate parent company)	**416**	–
Due from Anahita Golf Limited	**875**	–
Due from Anahita IRS40 Limited	**5,326**	–
Due from Four Seasons Hotels Inc.	**–**	109
	6,903	109
Short-term loans from Mövenpick Hotels and Resort AG (note 21j)	**500**	–

Balances with related parties principally relate to management services from hotels' operators, asset management services provided, business development income received and loans.

28. Financial instruments

Risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans, cash and short-term deposits. The main purpose of these financial instruments is to finance the Group's operations and to earn a return until funds are required to fund expansion of the hotel operations and acquisitions. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The Group also uses derivative transactions, principally interest swaps, to manage the interest rate arising from the Group's operations and its sources of finance. It is Group's policy that no trading in financial instruments be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

Credit risk

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not considered significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise principally cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, revolving credit facilities, and term loans and short-term deposits.

Fair values

The Group considers the carrying amount of Trade and other receivables, Trade and other payables, other current and non-current financial assets and liabilities approximates their fair values.

The fair values of interest rate swaps have been calculated by discounting the expected future cash flows at prevailing interest rates.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

28. Financial instruments (continued)

Currency risk

The functional currency of the Group is US dollars.The Group is exposed to foreign currency risk on investments and property, plant and equipment located in countries where the currency is not one that is pegged to the US dollar. The Group manages this risk by funding a significant portion of these assets by loans denominated in the same currencies in which the assets are denominated. These loans are as follows:

Entity	December 31, 2006 US$'000	December 31, 2005 US$'000
Kingdom 01 FZ LLC		
AED loan, in AED	**62,130**	53,550
USD equivalent	**16,929**	14,592
Tanruss Investment Limited		
TZS loan, in TZS	**8,711,718**	7,550,156
USD equivalent	**7,474**	5,984
Anahita Hotel Limited		
MUR loan, in MUR	–	251,084
USD equivalent	–	7,513
EHC Maroc		
MAD loan, in MAD	–	18,555
USD equivalent	–	2,181
SRF and SRC		
TBH loan, in THB	–	1,165,807
USD equivalent	–	32,434

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term variable rate debt obligations and its cash and bank balances. Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Company is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities.

The Group's interest sensitivity position based on contractual repricing arrangements is as follows:

	Less than 3 months US$'000	From 3 months to 1 year US$'000	Over 1 year US$'000	Non-interest bearing US$'000	Total US$'000
December 31, 2006					
Assets					
Cash and short-term deposits	**430,788**	**–**	**–**	**–**	**430,788**
Liabilities	**127,077**	**46,951**	**11,985**	**5,500**	**191,513**
December 31, 2005					
Assets					
Cash and short-term deposits	229,597	–	–	–	229,597
Liabilities	58,957	1,400	12,478	5,000	77,835

29. Events after the balance sheet date

Subsequent to year end, the following events took place:

- On January 18, 2007, KHI Danang Limited ("KHID"), a wholly owned subsidiary of KHI, entered into a joint venture with European Hotel Corporation Limited to acquire Magnum Investment Group Limited ("MIGL"). KHID has acquired an 80% equity interest in MIGL for a consideration of US$4.5 million. MIGL owns 100% of Vegas Hotels and Villas which in turn has development rights to build a 150 room hotel and 15 private residential villas in Da Nang City, Vietnam which is expected to be complete in 2011. Total development costs are estimated at US$65 million. The residential component will be self-financed and the hotel costs will be financed on a 50/50 debt equity ratio taking into account proceeds from real estate sales. KHI equity deployment is expected to be US$32 million.
- Kingdom Phang Nga Limited ("KPN"), a wholly owned subsidiary of KHI, has signed a joint venture agreement with European Hotel Corporation Limited ("EHC") to acquire developmental land and build a 150 room hotel and 25 residential villas in Phang Nga, Thailand which is expected to be complete in 2009. KPN has an 80% interest and EHC a 20% interest in the project.
- On January 15, 2007, Kingdom Kampala Limited, a wholly owned subsidiary of KHI, acquired developmental land in Kampala, Uganda for a consideration of US$2 million. The company will develop a 120 room hotel, 50 serviced apartments as well as offices and a shopping centre and is expected to be complete in the first quarter of 2010.
- KHI has signed an agreement with one of the Philippines's largest real estate developer; Ayala to develop a 300-room Fairmont and 30-suite Raffles hotel in Makati, Manila. KHI will own 80% and Ayala will have 20%. The joint venture will also develop 189 luxury residences for sale, which will be branded as a Raffles Residences. The total development cost of the project is US$151.8 million. KHI's equity is US$60.7 million, and the hotel will be operational in 2011.
- KHI-11 Ltd, a wholly owned subsidiary of KHI, in partnership with European Hotels Corporation Ltd ("EHC") acquired the existing Four Seasons Resort located on the Langkawi Island of Malaysia on February 27, 2007. KHI-11 Ltd will own 90% of the project and EHC will have 10%. The resort with 91 rooms and suites has been operational since May 2005. Through an expansion plan, KHI will increase the room inventory from 91 keys to 108 keys. KHI will also develop 14 luxury beach villas for sale which will be branded as Four Seasons Residences. The total cost of the project is US$149.1 million. KHI's equity commitment is US$67.1 million.
- KHI has signed 'Heads of Agreement' to acquire development land or hotels in Kunshan China, Lahore Pakistan, Phnom Penh and Siem Riep Cambodia, Jakarta Indonesia and the Seychelles.

30. Subsidiaries, joint venture and associates

At December 31, 2006, the Group had investments in the following subsidiaries and incorporated joint ventures:

Subsidiaries without changes in ownership during the year:			**Percentage of nominal value of issued shares controlled by the Group**	
	Operating entity	**Name and location**	**2006 %**	2005 %
Kingdom 5-KR-168 Ltd (100%), through its subsidiary Kingdom 5-KR-161 Ltd (100%)	Kingdom 01FZ-LLC	Mövenpick – Bur Dubai, United Arab Emirates	**100**	100
Kingdom 5-KR-57 Ltd (100%)	Merryland Pour les Projets Touristiques (MPPT)	Mövenpick – Beirut, Lebanon	**93**	93
Kingdom 5-KR-59 Ltd (66%)	Kingdom Beirut S.A.L	Four Seasons – Beirut, Lebanon	**57**	57
Kingdom 5-KR-90 Ltd (100%)	Tanruss Investment Ltd	Mövenpick – Tanzania	**96**	96
Kingdom 5-KR-166 Ltd (100%), through its subsidiary Kingdom 5-KR-181 Ltd (70%)	Kingdom Kenya 01 Ltd	Fairmont – Aberdare, Ark Lodge, Mount Kenya,	**100**	100
Kenya		Safari and Norfolk	**100**	100
Kingdom 5-KR-172 Ltd (100%), through its subsidiary Kingdom 5-KR-178 Ltd (100%), through its subsidiary Kingdom 5-KR-177 Ltd (100%)	Société EHC Maroc S.A.R.L.	Four Seasons – Marrakech, Morocco	**78**	78
Kingdom Hotels Asset Management Services Limited	N/A	Cayman Islands	**100**	100

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

30. Subsidiaries, joint venture and associates (continued)

Subsidiaries where ownership percentage has changed during the year:

	Operating entity	Name and location	2006 %	2005 %
Damascus Holding (100%) and Kingdom 5-KR-184 Ltd (100%) through its subsidiary Kingdom 5-KR-71 Ltd (90%) (2005: 65%)	Syrian Saudi Tourism Investments Co. (SSTIC)	Four Seasons – Damascus, Syria	**55**	55

Subsidiaries which were formerly associates:

	Operating entity	Name and location	2006 %	2005 %
Kingdom 5-KR-153 Ltd (100%)	Serena Beach Company	Mövenpick – El Quesir, Egypt	**87**	31

Subsidiaries acquired:

	Operating entity	Name and location	2006 %	2005 %
Kingdom 5-KR-144 Ltd (100%)	Ghana 01 Ltd	Mövenpick Hotel Ambassador – Accra, Ghana	**100**	–
Kingdom 5-KR-195 Ltd (100%), through its subsidiary SRH (100%)	Siam Resort Fund & Company Ltd Siam Resort Fund &	Mövenpick Karon Beach – Phuket, Thailand	**100**	–
Kingdom 5-KR-188 Ltd (100%)	Saltlake Resort Ltd	Mövenpick Resort & Spa – Mauritius	**100**	–

Subsidiaries acquired:

	Operating entity	Name and location	Percentage of nominal value of issued shares controlled by the Group 2006 %	2005 %
KHI- Ltd through its subsidiaries Kingdom Lusaka Ltd (100%) Kingdom Lusaka Hotel Company, (Antilles) NV (100%) Kingdom Lusaka Hotel (Netherlands) BV (100%) Société de l'Hotel Kingdom Lusaka SA (100%)	Marasa Holdings Limited	Intercontinental Hotel Lusaka, Zambia	**100**	–

30. Subsidiaries, joint venture and associates (continued)

Interests acquired in joint ventures:

	Operating entity	Name and location	2006 %	2005 %
Kingdom 5-KR-182 Ltd (100%)	Anahita Hotel Ltd	Four Seasons – Mauritius	**50**	–
Associates without changes in ownership during the year:				
Kingdom 5-KR-147 Ltd (100%)	El Gouna for Hotels Co.	Mövenpick – El Gouna, Egypt	**29**	29
Associates where ownership percentage has changed during the year:				
Kingdom 5-KR-30 Ltd (100%), through its subsidiary Kingdom Nile Plaza Ltd (100%)	Nova Park Cairo Co.	Four Seasons – Cairo, Egypt	**43**	39
Kingdom Sharm El-Sheikh Ltd (100%)	Alexandria Saudi Co. For Touristic Projects	Four Seasons – Sharm El-Sheikh, Egypt	**39**	32
Interests in associates acquired:				
Kingdom 5-KR-35 Ltd (100%), through its subsidiary Shercock NV (100%)	HGV BV (formerly Calogne Amsterdam)	Four Seasons – Paris, France	**25**	–

Kingdom Nile Plaza

In July 2006 Kingdom Nile Plaza acquired an additional 5.13% equity interest in Nova Park Cairo Co. for US$13.4 million to increase its effective ownership to 43.7 % from 38.57%.

Kingdom Sharm El Sheikh

In July 2006 Kingdom Sharm El Sheikh completed the acquisition of an additional equity interest of 7.4% in Alexandria Saudi Co. for Touristic Projects, which owns the Four Seasons Sharm El Sheikh, for US$10.5 million to increase its effective ownership interest to 39.3% from 31.96%.

Palm Hotel and Resort FZ LLC

Kingdom 5-KR-157 Ltd., a wholly owned subsidiary of KHI, signed an agreement to acquire 20.1% of Palm Hotel and Resort FZ LLC for a total consideration of US$8.2 million. The hotel is under construction.

Four Seasons Hotel (George V)

On March 1, 2006 KHI acquired a 25% equity interest in Kingdom 5-KR-35 Ltd (a related party) that owns Four Seasons Hotel (George V) in Paris. In accordance with the acquisition agreement, 19.1 million KHI ordinary shares (see note 19) of par value of US$5 were issued for a determined total consideration of US$108.9 million, which approximates KHI's share of the fair value of the hotel's assets. Total resulting share premium on the acquisition amounted to US$13.4 million.

Zanzibar

In May 2006 Kingdom 5-KR-187 Ltd paid a total of US$1.6 million out of a total equity investment of US$4.5 million for a 30% shareholding in IFA-2 Ltd which is building the Mövenpick Beach & Spa Resort, Zanzibar.

Kingdom Nile Plaza

On November 22, 2005, Kingdom 5-KR-30, Ltd, a subsidiary, acquired 15,220 thousand Class A Shares in Kingdom Nile Plaza representing, 34.4% for an aggregate consideration of $21.4 million. The subsidiary paid $9.3 million, net of related party debt amounting $1.2 million, in cash on completion of the share purchase.

Under the terms of the purchase agreement, the remaining consideration of US$11.1 million was settled in 2006 through the issuance of shares to the seller to the value of the consideration (see note 24). The effective ownership of the Group in Nova Park Cairo increased to 38.57%.

Notes to the consolidated financial statements (continued)

for the year ended December 31, 2006

30. Subsidiaries, joint venture and associates (continued)

The increase in fair value of the assets on acquisition was as follows:

	December 31, 2005 US$'000
Cost of the Group's additional interest in the subsidiary	21,424
Minority interest's share of the assets and liabilities acquired	(12,510)
Related party debt	(1,002)
Increase in fair value of investment in associate	7,912

Kingdom Amman

On October 26, 2005, Kingdom 5-KR-29, Ltd. a wholly owned subsidiary of KHI acquired 1,047 shares in Kingdom Amman for a total consideration of US$1,853 thousand to give it a 100% interest. Kingdom Amman has a 3.7% interest in Mediterranean Tourism Investments Company which in turn owns the Four Seasons Hotel in Amman, Jordan.

31. Reclassifications

Certain reclassifications have been made to the 2005 consolidated financial statements to conform to the classifications and presentation used in 2006 as follows:

Consolidated balance sheet	Notes	2005 US$'000 (Restated)	2005 US$'000 (Original)	2005 US$'000 (Variance)
Assets				
Non-current assets				
Property, plant and equipment	a	377,618	346,246	31,372
Goodwill	a	–	656	(656)
Construction in progress	a	–	31,372	(31,372)
Other financial assets	b	10,686	4,471	6,215
Advance to a contractor	b	–	6,215	(6,215)
Due from related parties	c	–	96	(96)
Deferred tax asset	d	589	–	589
		388,893	389,056	(163)
Current assets				
Due from related parties	c	109	–	109
Prepayments	e	5,644	5,672	(28)
Income taxes recoverable	e	28	–	28
Total assets		394,674	394,728	(54)

31. Reclassifications (continued)

Consolidated balance sheet	2005 US$'000 (Restated)	2005 US$'000 (Original)	2005 US$'000 (Variance)
Equity and Liabilities			
Equity attributable to shareholders of the parent			
Cumulative changes in fair value	12,878	13,534	(656)
Total equity	12,878	13,534	(656)
Non-current liabilities			
Provisions	332	–	332
Deferred tax liabilities	4,803	4,214	589
	5,135	4,214	921
Current liabilities			
Trade and other payables	25,165	18,896	6,269
Accrued expenses and other liabilities	–	6,601	(6,601)
Due to related parties	13	–	13
	25,178	25,497	(319)
Total liabilities	30,313	29,711	602
Total equity and liabilities	43,191	43,245	(54)

Balance sheet movement

a. The reclassification was made as construction in progress relates to property, plant and equipment.

b. The reclassification has been made to combine financial assets under one heading.

c. Gross balances have been presented rather than net balances as the right offset does not exist.

d. Gross balances have been shown rather than net balances as timing differences may not reverse in the same period.

e. Income taxes recoverable have been separated from prepayments to provide more accurate disclosure.

f. Provisions have been separated from other liabilities as they are different in nature and are non current. Accrued expenses and other liabilities have been combined with trade liabilities to simplify the presentation on the grounds of significance to the balance sheet.

Due to the reclassification within the balance sheet, reclassification have been made in the Cash Flow Statement and the Statement of Changes in Equity. Additionally:

- Profit before tax was used as the beginning point for the cash flow replacing profit for the year.
- Interest income and interest expense were not previously shown and now shown in addition to interest paid and interest received. The reclassification has been made to provide more clarity in the cash flow.
- Bank borrowings shown net in the prior year have been reclassified to show repayment of borrowings and proceeds from borrowing separately in addition to the disclosure of the net foreign exchange difference.
- Investment in subsidiaries, cash flow on minority interests and certain other items have been reclassified to reflect gross balances on acquisition which were previously shown net.

The Income Statement has been reclassified to deduct depreciation from gross profit and treat it as a cost of revenue, present interest income and expense on a gross basis in the absence of a right of offset and for other items to simplify the income statement presentation to improve the disclosure of the statement. As a result, of these changes, the sub title earnings before interest, tax, depreciation and amortisation has been removed.

Independent auditors' report

to the shareholders of Kingdom Hotel Investments

Report on the financial statements

We have audited the accompanying consolidated financial statements of Kingdom Hotel Investments ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Director's responsibility for the financial statements

The Directors of the Company are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Dubai
March 19, 2007

Shareholder information

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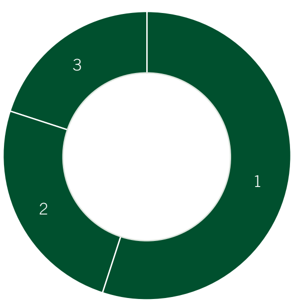
The information contained in this Annual Report and other information about the Group is available on this website.

Financial calendar
Financial year: January 1 to December 31
Earnings releases: twice yearly, by April 30 and August 30 at the latest
Annual General Meeting held on May 8, 2007

KHI ownership structure

Shareholder name	Number of shares	Ownership %
Kingdom 5-KR-124	75,416,240	43.16
Free Float	44,481,817	25.46
Other Shareholders, individually less than 5%	35,740,687	20.45
Kingdom 5-KR-51	19,100,000	10.93
Total	**174,738,744**	**100.00**

Ownership of Kingdom Hotel Investments shares



1 Kingdom (combined) 54.09%
2 Free Float 25.46%
3 Other Shareholders, individually less than 5% 20.45%

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