



March 20, 2007

**Kingdom Hotel Investments (“KHI”)
Preliminary results for the twelve months to December 31, 2006**

Kingdom Hotel Investments (ticker: KHIq), the leading international hotel and resort investment company focused on high growth emerging markets, today reports its preliminary results for the year ended December 31, 2006 – a year of substantial expansion and delivery.

Financial Highlights

Strong revenue and profit growth demonstrate the strength of KHI’s business model

- Revenue up 68 per cent to US\$99.0 million (2005: US\$58.8 million)
- Gross profit up 24 per cent to US\$14.3 million (2005: US\$11.5 million)
- EBITDA up by 67 per cent to US\$30.0 million (2005: US\$18.0 million)
- Net Income up by 248 per cent to US\$42.8 million (2005: US\$12.3 million)
- EPS up 53 per cent to US\$0.26 (2005: US\$0.17)¹
- Primary listing on DIFX and GDS’s on LSE following successful IPO in March 2006

Operational Highlights

Accelerated global expansion combined with sound performance from the majority of existing assets

- Leveraged competitive advantage to increase portfolio by more than 50% to a total of 33 hotels
 - Exceeded target of six acquisitions a year with agreements to acquire and/or develop 11 hotels in nine territories including five new developments
 - Acquired interests in US\$1.4 billion worth of hotels and projects comprising ancillary real estate
 - Origination offices opened in Singapore and South Africa
- Generally strong performance across the operating portfolio despite impact of local conditions on three operating hotels:
 - As announced on 7 March, following the war in Lebanon, difficult trading conditions in Beirut continued in the second half of 2006 and there was a corresponding impact on trading at the Four Seasons Hotel in Damascus. Softer than expected market conditions have also affected the trading performance of KHI’s operating assets in the Red Sea and Mauritius
 - Having implemented a significant risk mitigation strategy, Four Seasons Hotel Beirut is now expected to be completed in second half of 2008
 - Strong operating performance of Four Seasons Hotel Cairo at Nile Plaza, Four Seasons Hotel George V in Paris and Mövenpick Hotel Bur Dubai driven by substantial RevPar growth
- Increased focus on acquisitions with a significant ancillary branded real estate opportunity including Four Seasons Private Residences Marrakech, Four Seasons Mauritius and Bur Dubai Residence
- Continued progress in consolidating minority interests and increasing control of prime hotel assets including, Four Seasons Hotel Cairo at Nile Plaza, Four Seasons Hotel Damascus and the proposed Fairmont Palm Hotel Dubai
- Enhanced capabilities since IPO - strengthened finance capabilities with appointment new Senior Vice President, Finance and Chief Financial Officer in November 2006

¹Using weighted average number of shares (2005: 71.8 million; 2006: 163.7 million)

Outlook

- KHI is well positioned to continue to leverage its competitive advantage and build its portfolio in high growth emerging markets
- Momentum has increased in 2007 with acquisitions in Malaysia, Vietnam and the Philippines
 - *February 2007: Proposed Raffles Resort, Da Nang, Vietnam*
 - *March 2007: Four Seasons Resort, Langkawi island of Malaysia*
 - *March 2007: Proposed Fairmont Manila Hotel and Raffles Suites, Manila, Philippines*
- The operating outlook across the portfolio is strong, except in Beirut where conditions are expected to remain challenging
- KHI is committed to invest in people and systems to support its growth strategy
- Balance sheet liquidity remains high with potential for further additional leverage to fund growth
- KHI will continue to source projects with ancillary real estate components

Commenting on the results, Chairman HRH Prince Alwaleed Bin Talal said:

“KHI continues to successfully execute its dynamic expansion strategy in high growth emerging markets while delivering a robust performance from its existing assets despite challenging conditions in specific markets. In 2007, KHI has already identified and secured some key unique assets in target markets and continues to drive our fast paced expansion strategy in emerging territories.”

Chief Executive Officer Sarmad Zok said:

“Our financial performance in 2006 demonstrates the strength of KHI’s business model and our characteristics as a high growth company with an average of one acquisition per month last year. Our strategy is to continue to diversify and extend our operating base focusing on properties in global emerging and high growth markets. We have built up a strong, diversified and resilient asset base. I am delighted with the outlook on our development pipeline in emerging territories, particularly in Asia. We have accentuated our investment focus on branded ancillary real estate and continue to invest in people and systems to support KHI’s growth.”

Enquiries

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About Kingdom Hotel Investments

KHI, headquartered in Dubai (UAE), is a leading international hotel and resort acquisition and development company focused on high growth emerging markets such as the Middle East, Asia, Africa and Europe.

The company has ownership interests in 33 properties in 16 countries including 19 operational hotels and resorts and 12 hotels and resorts currently under construction or as part of existing hotel expansion. KHI is listed on the Dubai and London stock exchanges.

Financial Performance

KHI's strong revenue and profit growth in the year to December 31, 2006 demonstrate the Company's strong business model and its ability to build on this as it grows its asset base.

- KHI's revenues increased by 68 per cent for the year ended December 31, 2006 to reach US\$99.0 million, representing a 61 per cent cumulative average growth rate since 2004
- KHI's EBITDA for the year ended December 31, 2006 increased by 67 per cent to reach US\$30.0 million, representing a 85 per cent cumulative average growth rate since 2004
- KHI's net income increased by 248 per cent in 2006 to reach US\$42.8 million, representing a 211 per cent cumulative average growth rate since 2004
- KHI's total assets increased by 86 per cent as at December 31, 2006 to reach US\$1,477.8 million from US\$795.3 million as at December 31, 2005, representing a 72 per cent cumulative average growth rate since 2004
- KHI's total shareholders' equity increased by 107 per cent as at December 31, 2006, to reach US\$1,108.0 million from US\$536.1 million as at December 31, 2005, representing a 102 per cent cumulative average growth rate since 2004

KHI selected highlights:

	Dec 31, 2006	Dec 31, 2005	Dec 31, 2004	%CAGR 2004-2006	% Change 2005-06
Hotel statistics:					
Number of operating hotels	17	13	6	68%	31%
Total number of rooms*	4,060	2,882	1,915	46%	41%
Financial highlights (US\$):					
Revenue	99,047	58,755	38,371	61%	69%
Gross profit**	14,263	11,462	8,118	33%	24%
Profits before interest , taxes, depreciation and amortization (EBITDA)***	30,038	18,050	8,797	85%	66%
Net income	42,809	12,320	4,427	211%	248%
EPS	0.26	0.17	0.08	81%	153%
Wtd number of shares	163,660	71,815	56,757	n/c	229%

* Includes all available rooms from consolidated and associates entities

** Includes depreciation expenses

*** Excludes depreciation expense already included in the gross profit figure

Portfolio Review – Operating hotels

The portfolio review includes consolidated and associate operating properties but excludes the affiliate property of the Four Seasons Hotel Amman.

	Hotel	Location	Year Opened/ Acquired	Rooms	Effective Ownership ¹⁾	Cost of investment ²⁾	Return of capital	Net cost of Investment	Property Debt ³⁾
Consolidated									
i)	Mövenpick Karon Beach Resort ¹¹⁾	Phuket, Thailand	2006	339	100.0% ^(b)	71.2	-	71.2	32.4
ii)	Mövenpick Hotel & Resort Beirut ⁹⁾	Beirut, Lebanon	2002	292	81.2% ^(b)	72.6	(9.3)	63.3	41.9
iii)	Four Seasons Hotel Damascus	Damascus, Syria	2005	297	49.5% ^(b)	43.9	-	43.9	20.0
iv)	Mövenpick Hotel Bur Dubai & Residence	Dubai, UAE	2001/2003	232	100.0% ^(b)	54.8	(20.0)	34.8	33.8
v)	Intercontinental Lusaka	Zambia	2006	221	100.0% ^(b)	28.5	-	28.5	0.3
vi)	Mövenpick Resort & Spa Mauritius ¹⁰⁾	Bel Ombre, Mauritius	2006	181	100.0% ^(b)	25.6	-	25.6	29.1
vii)	Fairmont Kenya 5 Properties	Kenya	2005	440	70.0% ^(b)	23.4	-	23.4	5.0
viii)	Mövenpick Resort El Quseir ⁶⁾	Red Sea, Egypt	1995/2002	250	87.3% ^(b)	22.8	-	22.8	4.7
ix)	Mövenpick Royal Palm Hotel	Dar Es Salaam, Tanzania	1995/2004	230	96.0% ^(b)	18.3	-	18.3	7.4
	<i>Subtotal</i>			2,482		361.1	(29.3)	331.8	174.6
Associate									
x)	Four Seasons Hotel George V ⁸⁾	Paris, France	2005	245	25.0% ^(a)	95.5	-	95.5	368.1
xi)	Four Seasons Hotel Cairo at Nile Plaza ⁴⁾	Cairo, Egypt	2004	365	43.7% ^(a)	73.2	-	73.2	53.4
xii)	Four Seasons Resort Sharm El Sheikh ⁵⁾	Red Sea, Egypt	2002	200	39.3% ^(a)	28.4	-	28.4	21.8
xiii)	Mövenpick Resort & Spa El Gouna ⁷⁾	Red Sea, Egypt	1996/2002	576	29.3% ^(a)	8.0	-	8.0	2.8
	<i>Subtotal</i>			1,386		205.1	-	205.1	446.1
	<i>Total</i>			3,868		566.2	(29.3)	536.9	620.7

Affiliate property: Four Seasons Amman (192 rooms)

* Subsequently KHI acquired a 90% interest in the Four Seasons Langkawi, Malaysia for US\$102.8 million

- 1) KHI's effective (direct and indirect) ownership in each individual hotel as of December 31, 2006.
- 2) Cost of investment includes initial acquisition cost paid to the seller, expenses relating to the acquisition such as legal, financial and technical due diligence. Consultancy fees and other, amount also includes shareholders advances.
- 3) Debt for consolidated associate investments represent the full value as appearing on the balance sheet of the entities and not KHI share of the indebtedness. Debt includes overdrafts, finance leases and borrowing from non financial institutions.
- 4) In July 2006 we completed the acquisition of an additional ownership interest of 5.13 per cent in the Four Seasons Hotel Cairo at Nile Plaza to increase our effective ownership to 43.7 per cent from 38.57 per cent.
- 5) In July 2006 we completed the acquisition of an additional ownership interest of 7.4 per cent in the Four Seasons Resort Sharm El Sheikh to increase our effective ownership to 39.3 per cent from 31.96 per cent. Agreements were signed and share registration is in progress.
- 6) In July 2006 we completed the acquisition of an additional ownership interest of 56.8 per cent in the Mövenpick Resort El Quseir to increase our effective ownership to 87.3 per cent from 30.5 per cent.

- 7) The Mövenpick Resort & Spa El Gouna completed a 158-room expansion increasing number of rooms from 418 to 576 rooms.
- 8) In February 2006, we acquired an interest of 25 per cent in the Four Seasons Hotel George V. We have included the results of this hotel since acquisition only.
- 9) Although our effective ownership of the Mövenpick Hotel and Resort Beirut is 81.2 per cent, we receive 92 per cent of the profits of this property as the real estate owners of B shares who own 7.25 per cent of this property are not entitled to receive dividends on their shares.
- 10) In April 2006, we acquired a controlling interest in the Mövenpick Resort and Spa Mauritius. We have included the results of this hotel since acquisition.
- 11) In May 2006, we acquired a controlling interest in the Mövenpick Karon Beach Resort. We have included the result of this hotel since acquisition.
- 12) In October 2006, we acquired a controlling interest in the Intercontinental Hotel in Lusaka. We have included the result of this hotel since acquisition.

KHI System portfolio

KHI's System hotel portfolio is defined as operating hotel results that are included in the Group's consolidated financial results or investment in associates as at December 31, 2006, and is used by KHI management to measure and assess the performance of the portfolio of hotels in which it has invested capital, irrespective of the timing irrespective of KHI's ownership or the timing of acquisitions and divestitures. The System portfolio excludes results of any hotels that may have sustained substantial physical damage, experienced material business disruption or undergone large scale disruptive capital improvements or projects.

Of the 17 hotels owned by KHI in 2006, 15 were classified in the System portfolio: 11 consolidated hotels (including 5 hotels Kenya portfolio) and 4 associate hotels. The System portfolio excludes results of the Four Seasons Hotel Damascus and the Mövenpick Karon Beach Resort that were both opened in 2005, as well the Four Seasons Hotel Amman (minority investment) and Four Seasons Hotel Langkawi (acquired in March 2007).

The following information includes System hotel operating results (revenues, gross operating profit and hotel EBITDA) and statistics (exchange rate, number of rooms, occupancy rate, ADR, RevPar, gross operating margin, hotel EBITDA margin) presented on a comparable 12 month or 6 month, like-for-like basis.

Performance Summary

System RevPar for the second half of 2006 increased 17% and hotel EBITDA margins increased 4 percentage points. These increases were driven by robust 19% increases in room rates that were slightly offset by a 1 percentage point decline in occupancy and room inventory, respectively. RevPar expanded at double-digit levels in 9 of the hotels led by Cairo which grew revenue by 50%, and Red Sea resorts also posted strong pricing growth, showing signs of a recovery after the soft start to the year. System revenue grew despite major occupancy-driven setbacks in Beirut Mövenpick (Lebanon summer war and civil strife in Q4) and continued follow-on impacts of Chikungunya virus in Mauritius where these properties experienced RevPar declines of 43% and 36%, respectively. System EBITDA growth of 31% was very strong in the second half of the year due to pricing impacts and lapping 2005 losses at Mauritius Mövenpick.

For the year, RevPar increased 16% driven by pricing increases and a 1 percent change in room inventory, and hotel EBITDA margins expanded by 2 percentage points. RevPar grew in 8 of the hotels led by strong double-digit pricing growth in Cairo that spanned the whole year, while Red Sea resorts were impacted by a soft start in 2006 (carryover of terrorist attacks) and Mauritius Mövenpick's strong start was impacted in the second half by Chikungunya virus, causing both of those respective markets to grow at low single digits for the year. Beirut Mövenpick's full year RevPar decline of 14.5% was driven by the impact of the summer war and civil strife in the back half of the year that combined to more than offset a record 26% RevPar growth achieved in the first half of the year before the abrupt start of the Israel-Lebanon crisis.

2006 System hotel EBITDA grew by 25% on the back of pricing increases that more than offset the significant impacts of external events on the System portfolio, notably impacts of war and civil strife on Mövenpick Beirut during the second half despite significant profit protection actions, softness in Red Sea resorts and transition costs of Mövenpick Mauritius during the first half of 2006.

KHI System Hotel Operating Results

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005	Change
Rooms	3,194	3,219	(1)%	3,213	3,186	1%
Occupancy	64.1%	65.0%	(1)pt	63.9%	64.4%	n/m
ADR	US\$234	US\$197	19%	US\$224	US\$193	17%
RevPar	US\$150	US\$128	17%	US\$143	US\$124	16%
Hotel Revenue	149.2	130.0	13%	288.8	251.2	15%
Gross Operating Profit	63.1	50.3	25%	120.8	98.8	23%
Gross Operating Margin	42%	38%	+4pts	42%	39%	+3pts
Hotel EBITDA	46.4	35.5	31%	87.2	69.8	25%
Hotel EBITDA Margin	31%	27%	+4pts	30%	28%	+2pts

Selected financial & operating information by property

Egyptian hotels

Recent terrorist bombings in the Egyptian resort towns of Dahab (April 2006) and Sharm El Sheikh (July 2005) adversely impacted trading conditions at KHI's three Red Sea resorts during 2006. The Red Sea tourist region was further impacted by the publication (30 September 2005) by a Danish newspaper of a series of Islam-offensive cartoons which caused a major backlash of anti-Danish sentiment throughout the Muslim world and led to heavy tourist cancellations from the important Scandinavian source markets.

The Cairo hotel market remained largely unaffected by these security events, and actually benefited from the Israel-Lebanon crisis (July 2006) which led to many Middle East tourists diverting their travel plans from Beirut to Cairo at the height of the summer season.

Four Seasons Hotel Cairo at Nile Plaza

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005	Change
Exchange Rate	5.73	5.76	(0.5)%	5.79	5.80	(0.9)%
Rooms	365	365	-	365	365	-
Occupancy	74.0%	69.7%	+4.3pts	73.3%	65.1%	+8.2pts
ADR	US\$317	US\$217	46.3%	US\$291	US\$220	32.1%
RevPar	US\$235	US\$151	55.4%	US\$213	US\$143	48.8%
Hotel Revenue	25.46	17.33	46.9%	46.46	31.49	47.5%
Gross Operating Profit	15.52	8.59	80.6%	27.88	15.69	77.9%
Gross Operating Margin	61.0%	49.6%	+11.4pts	60.0%	49.8%	+10.2pts
Hotel EBITDA	11.20	5.77	94.1%	19.89	10.94	81.9%
Hotel EBITDA Margin	44.0%	33.3%	+10.7pts	42.8%	34.7%	+8.1pts

* Year 2006 excludes 20 rooms, which is part of the rental pool

The Four Seasons Hotel Nile Plaza had an outstanding 2006 as it firmly established itself as the leading hotel in Cairo in just its second full year of operations while delivering record results. The hotel now enjoys an ADR premium of almost 25% over its nearest competitor and was recently voted the No. 1 hotel in Africa by Conde Nast magazine. For the full year, the hotel achieved record RevPar growth of 49%, driven by robust pricing and occupancy increase in the year. This along with a strong ramp-up in food & beverage outlets' performance led the total revenue increase of 48% for the year. The combination of a strong topline and cost controls saw operating leverage improve as margins expanded 8 percentage points and Hotel EBITDA increased by 82% for the year.

Four Seasons Resort Sharm El Sheikh

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005	Change
Exchange Rate	5.73	5.76	(0.5)%	5.79	5.80	(0.9)%
Rooms	200	200	-	200	200	-
Occupancy	52.6%	57.0%	(4.4)pts	57.6%	63.8%	(6.2)pts
ADR	US\$276	US\$231	19.7%	US\$282	US\$256	10.2%
RevPar	US\$145	US\$131	10.6%	US\$163	US\$163	(0.4)%
Hotel Revenue	9.82	8.97	9.5%	21.57	21.30	1.3%
Gross Operating Profit	4.15	3.57	16.3%	10.08	10.36	(2.7)%
Gross Operating Margin	42.3%	39.8%	+2.5pts	46.7%	48.6%	(1.9)pts
Hotel EBITDA	2.98	2.31	28.8%	6.72	6.69	0.4%
Hotel EBITDA Margin	30.3%	25.8%	+4.5pts	31.2%	31.4%	(0.2)pts

2006 was a challenging year for the overall market in Sharm El Sheikh due to a drop in visitor arrivals caused by the above-mentioned security incidents. Despite lower demand the Four Seasons Resort Sharm El Sheikh successfully increased the annual average daily rate by 10% for the year to maintain revenue levels at prior year levels. Stringent cost controls in the second half of the year allowed the hotel to deliver the same EBITDA of last year. The Four Seasons Resort Sharm El Sheikh continues to be the premier resort in Sharm El Sheikh and in 2006

achieved an ADR premium of over double its closets competitor. The resort was included amongst the Top 50 Resorts worldwide in the 2006 Zagat Survey.

Mövenpick Resort El Quseir

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005	Change
Exchange Rate	5.73	5.76	(0.5)%	5.82	5.80	(0.4)%
Rooms	250	250	-	250	250	-
Occupancy	63.0%	69.6%	(6.6)pts	60.0%	70.6%	(10.6)pts
ADR	US\$63	US\$60	5.9%	\$58	\$58	(0.2)%
RevPar	US\$40	US\$42	(4.1)%	\$35	\$41	(14.6)%
Hotel Revenue	4.03	4.01	0.4%	7.18	7.83	(8.3)%
Gross Operating Profit	2.26	2.19	2.9%	3.89	4.16	(6.3)%
Gross Operating Margin	56.0%	54.6%	+1.4pts	54.2%	53.1%	+1.1pts
Hotel EBITDA	1.59	1.64	(3.4)%	2.87	3.10	(7.4)%
Hotel EBITDA Margin	39.4%	41.0%	(1.6)pts	40%	39.6%	+0.4pts

2006 was also a challenging year for this hotel as total revenues declined by 8% for the full year due to the above-mentioned security incidents, recent additions to hotel supply and a decline in business from the traditional European feeder markets of Switzerland, Germany and Italy. In order to diversify its source business the property has adjusted its marketing strategy to attract higher growth markets such as Russia and Britain. The hotel has put in place cost containment initiatives and was able to improve its gross operating margins and maintain its EBITDA margins. KHI acquired a controlling interest in this hotel in July 2006.

Mövenpick Resort & Spa El Gouna

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005	Change
Exchange Rate	5.73	5.76	(0.5)%	5.79	5.80	(0.1)%
Rooms	576	565	1.9%	576	531	8.5%
Occupancy	66.5%	64.2%	+2.3pts	66.3%	69.7%	+3.4pts
ADR	US\$71	US\$61	16.6%	US\$68	US\$63	7.9%
RevPar	US\$47	US\$39	20.7%	US\$45	US\$44	2.2%
Total Revenue	8.54	7.04	21.3%	16.59	15.09	9.9%
Gross Operating Profit	4.67	3.90	19.5%	9.26	8.54	8.4%
Gross Operating Margin	54.6%	55.4%	(0.8)pts	55.8%	56.6%	(0.8)pts
Hotel EBITDA	3.70	3.14	17.9%	7.47	6.86	9.0%
Hotel EBITDA Margin	43.3%	44.6%	(1.3)pts	45.0%	45.4%	(0.4)pts

Despite the challenging trading conditions along the Red Sea, the hotel was able to grow revenues by 10% and EBITDA by 9% through increased room inventory and aggressive marketing and sales strategy in the latter half of the year.

Four Seasons Hotel George V

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005	Change
Exchange Rate	0.79	0.83	(4.8)%	0.79	0.81	(1.9)%
Rooms	245	245	-	245	245	-
Occupancy	85.2%	82.8%	+2.4pts	83.1%	80.7%	+2.1pts
ADR	US\$1,028	US\$880	16.7%	US\$983	US\$865	13.7%
RevPar	US\$876	US\$729	20.1%	US\$817	US\$698	17.1%
Hotel Revenue	61.82	53.04	16.6%	117.69	103.22	14.0%
Gross Operating Profit	24.44	19.73	23.9%	46.09	36.92	24.8%
Gross Operating Margin	39.5%	37.2%	+2.3pts	39.2%	35.8%	+3.4pts
Hotel EBITDA	18.49	14.61	26.5%	34.80	26.83	29.7%
Hotel EBITDA Margin	29.9%	27.6%	+2.3pts	29.6%	26.0%	+3.6pts

This landmark hotel continued to deliver very strong results in 2006 on the back of an early pricing increase, higher occupancy and 3% forex translation impacts that drove full year reported revenue and EBITDA increases of 14% and 30%, respectively. This was as a result of a successful yield strategy program implemented by hotel management to exploit limited rate resistance from international travelers at this award winning hotel. The Four Seasons Hotel George V was recently voted the world's No. 1 hotel in Condé Nast Traveler's Best International Business Hotel List survey.

Mövenpick Hotel Bur Dubai

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005	Change
Exchange Rate	3.67	3.67	-	3.67	3.67	-
Rooms	232	232	-	232	232	-
Occupancy	86.7%	72.6%	+14.1pts	87.8%	78.0%	+9.7pts
ADR	US\$150	US\$155	(2.9)%	US\$161	US\$152	5.9%
RevPar	US\$131	US\$113	16.0%	US\$142	US\$118	20.3%
Hotel Revenue	8.15	7.14	14.1%	17.42	14.75	18.1%
Gross Operating Profit	3.94	3.55	11.0%	9.23	7.79	18.5%
Gross Operating Margin	48.4%	49.7%	(1.3)pts	53.0%	52.8%	+0.2pts
Hotel EBITDA	2.97	2.74	8.5%	7.30	6.20	17.7%
Hotel EBITDA Margin	36.4%	38.3%	(1.9)pts	41.9%	41.0%	+0.9pts

The hotel had another good year in 2006 benefiting from unabated demand growth in Dubai. Revenue growth of 18% for the year was driven by revenue management plans that saw balanced rate and occupancy increases, resulting in significant 20% RevPar growth for the year. RevPar penetration for this hotel within its competitive set (8 hotels) increased from 5th place to 2nd place as a result of these active revenue management and active asset management initiatives.

For 2007 the hotel has planned an expansion of 24 rooms and new health club and spa, and in September 2006 KHI acquired an adjacent recently completed apartment building for about US\$25 million. This 12 storey tower offers 57 apartments, 66 space garage is planned to be renovated and incorporated into the hotel in 2008.

Mövenpick Hotel & Resort Beirut

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005	Change
Exchange Rate	1,507.50	1,507.50	-	1,507.50	1,507.50	-
Rooms	292	292	-	292	292	-
Occupancy	45.6%	60.6%	(15)pts	54.2%	56.0%	(1.8)pts
ADR	US\$152	US\$201	(24.1)%	US\$166	US\$186	(10.7)%
RevPar	US\$69	US\$122	(42.9)%	US\$90	US\$105	(14.2)%
Hotel Revenue	8.63	12.64	(31.7)%	20.44	22.14	(7.6)%
Gross Operating Profit	1.70	4.90	(65.2)%	5.08	7.67	(33.8)%
Gross Operating Margin	19.7%	38.8%	(19.1)pts	24.9%	34.7%	(9.8)pts
Hotel EBITDA	0.63	3.15	(80.1)%	2.67	4.79	(44.3)%
Hotel EBITDA Margin	7.3%	24.9%	(17.6)pts	13%	21.6%	(8.6)pts

This overall hospitality market in Lebanon has been suffering the consequences of the Israel-Lebanon war last July, the height of the busiest season of the year, and the subsequent domestic repercussions that trailed the assassination of prominent politician Pierre Gemayel in November 2006 and pro-Hizbollah demonstrations in December. Prior to these disturbances the hotel was experiencing record-breaking performance in the first half of 2006 (hotel RevPar and EBITDA grew by 26% and 30% in the first half of the year). The tumultuous events of the second half resulted in RevPar and revenue declines of 43% and 32% respectively during that period, with room revenue shortfalls being slightly offset by non-guest food and beverage revenues (summer resort and a renowned Lebanese restaurant).

Despite major cost containment initiatives in the second half of 2006 to offset increased war related increases in utility, security and provisioning costs this hotel could not overcome the loss of mid-season peak revenues and high margin business. Second half 2006 hotel EBITDA declined by 81%, which more than offset strong first half gains to push down full year hotel EBITDA by 44% as compared with 2005.

Fairmont Kenya- 5 Properties

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005	Change
Exchange Rate	71.89	74.62	(3.7)%	72.05	75.29	(4.5)%
Rooms	402	438	(8.2)%	421	439	(4.1)%
Occupancy	58.0%	69.5%	(11.5)pts	57.5%	63.5%	(6.0)pts
ADR	US\$111	US\$69	60.3%	US\$93	US\$63	32.2%
RevPar	US\$64	US\$48	33.7%	US\$53	US\$40	32.5%
Hotel Revenue	10.48	9.15	14.5%	18.87	16.01	17.8%
Gross Operating Profit	3.16	2.33	35.6%	4.69	3.65	28.4%
Gross Operating Margin	30.2%	25.5%	+4.7pts	24.6%	22.8%	+1.8pts
Hotel EBITDA	1.92	1.30	47.9%	2.56	2.38	7.5%
Hotel EBITDA Margin	18.3%	14.2%	+4.1pts	13.4%	14.9%	-1.5pts

Note: Kenya Properties are Norfolk Hotel, Mt. Kenya Safari Club, Aberdare Country Club, The Ark, Mara Safari Club

The Norfolk Hotel in Nairobi accounted for about one-half of KHI Kenya properties' revenues in 2006 and was the primary driver of Kenya's strong performance in 2006, driven by the Fairmont re-branding strategy that saw RevPar increases of 32% for the year, coupled with strong corporate business demand in the last quarter of the year at the Norfolk. Profitability was diluted by re-branding transition costs in the first half of the year as Fairmont service and quality standards translated into higher transition payroll costs, management fees and other fixed charges. During the year, the scope of the planned refurbishment in Kenya was expanded from the initial US\$26 million to about US\$34 million to further enhance the revenue potential at the properties.

In August, the hotel operation at the Aberdare Country Club rooms business was closed down without major impacts to KHI's Kenya business as a result of profitability studies that indicated this property was not providing adequate returns. The hotel continues to serve as the check-in facility and luncheon restaurant for The Ark, and the employees were relocated to the other units in Kenya.

Mövenpick Royal Palm Hotel

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005	Change
Exchange Rate	1,291	1,129	14.4%	1,256	1,106	13.6%
Rooms	230	230	-	230	230	-
Occupancy	60.7%	55.0%	+5.7pts	58.5%	55.1%	+3.4pts
ADR	\$94	\$98	(3.8)%	\$94	\$92	2.12%
RevPar	\$57	\$54	6.1%	\$55	\$50	10.0%
Hotel Revenue	4.16	3.85	7.8%	7.81	7.20	8.47%
Gross Operating Profit	1.10	1.00	9.7%	2.02	1.85	8.41%
Gross Operating Margin	26.5%	26.0%	+0.5pts	25.8%	25.6%	+0.7pts
Hotel EBITDA	0.64	0.46	41.0%	1.48	1.14	29.82%
Hotel EBITDA Margin	15.5%	11.8%	+3.7pts	18.9%	15.8%	+3.5pts

This hotel is one of the markets leaders in Dar Es Salam, Tanzania. Last year saw a focus on volume and occupancy growth as the hotel leveraged its position as the hotel of choice for business and diplomat customers to garner MICE business, hosting a number of large conferences including that of the Burundi Peace Agreement in the latter half of 2006. This successful revenue management strategy led to occupancy driven RevPar and revenue growth of 10% for the year despite forex devaluation of 14%. This flowed through to hotel EBITDA growth of 30% primarily as a result of operating leverage and forex impacts.

In October 2006 a soft renovation of the guestrooms and public areas including the lobby, restaurants and meeting space was initiated. These improvements are scheduled to be completed in 2007 and should further strengthen the hotel's market position within its competitive set.

Intercontinental Lusaka

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005¹⁾	Change
Exchange Rate	3,629.16	4,402.55	-17.6%	3,780.00	4,517.20	-16.3%
Rooms	221	221	0.0%	221	221	0.0%
Occupancy	60.1%	63.5%	-3.4pts	58.5%	62.2%	-3.7pts
ADR	\$104	\$80	30.8%	\$94	\$78	20.5%
RevPar	\$63	\$51	23.8%	\$55	\$49	12.2%
Hotel Revenue	\$4,71	\$3,79	24.2%	\$8,2	\$7,11	15.4%
Gross Operating Profit	\$1,5	\$1,08	38.9%	\$2,42	\$2,08	16.3%
Gross Operating Margin	31.9%	28.6%	+3.3pts	29.5%	29.4%	+0.1pts
Hotel EBITDA	\$1,01	\$.75	34.6%	\$1,67	\$1.46	14.3%
Hotel EBITDA Margin	21.4%	19.7%	+1.7pts	20.3%	20.5%	-0.3pts

In October 2006, KHI acquired the Intercontinental Hotel Lusaka and KHI extended the existing management agreement with Intercontinental Hotels & Resorts until the end of December 2008. This is the first property in KHI's portfolio that is not operated by Mövenpick, Four Seasons or Fairmont/ Raffles.

Performance in the second half of 2006 was notably better than during the first six months. During the first half of 2006, the hotel saw a drop in occupancy due to a decrease in the travel budgets for local NGOs and Embassies. A comparison of the financial results of the Intercontinental Lusaka between 2005 and 2006 is significantly influenced by the change in the exchange rate. In local currency, the hotel saw a decline during 2006 in total revenue by 3 per cent, in gross operating profit by 2.7 per cent and in Hotel EBITDA by 6.5 per cent. Prior to the acquisition of the property by KHI, many expenses relating to sales and marketing as well as the re-hiring of senior management that had left the property were put on hold, which resulted in higher GOP and EBITDA levels during the second half of the year.

Mövenpick Resort & Spa Mauritius

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005	Change
Exchange Rate	30.00	30.00	-	32.20	30.00	7.3%
Rooms	181	181	-	181	181	-
Occupancy	45.9%	37.6%	+8.3pts	36.9%	28.1%	+8.8pts
ADR	US\$113	US\$216	(47.5)%	US\$116	US\$146	(20.4)%
RevPar	US\$52	US\$81	(35.8)%	US\$43	US\$41	4.8%
Hotel Revenue	\$3.43	\$4.81	(28.6)%	5.39	4.80	12.2%
Gross Operating Profit	\$.63	-.94	167.0%	(0.05)	(0.36)	86.1%
Gross Operating Margin	18.3%	-19.7%	+38.0pts	(0.9)%	(7.5)%	+8.4pts
Hotel EBITDA	\$.40	-\$1.04	138.4%	(0.33)	(0.49)	32.6%
Hotel EBITDA Margin	11.6%	-21.6%	+33.2pts	(6.1)%	(10.2)%	+4.1pts

2006 was a transitional year for the Mövenpick Mauritius. KHI acquired the property in April 2006 and immediately identified significant opportunities to improve the performance and profitability of the resort. The greatest challenge faced by the resort in 2006 was a lack of occupancy caused by the failure of the previous management to sign enough tour operator contracts for the 2006 year; almost all business in this market is originated by tour operators. The hotel strengthened and reinforced its marketing strategy by increasing the number of the feeder markets, signing contracts with new tour operators and creating attractive new packages.

Total revenue at the Mövenpick Mauritius during 2006 was 12 per cent higher than in 2005 as a result of a 32 per cent higher occupancy. On the expense side, the operation was burdened with high overhead costs, which result in a Gross Operating Loss. Management is working on cost saving measures in order to significantly improve the profitability of the resort. Results of these initiatives were already visible in the second half of 2006, where the hotel achieved a positive hotel EBITDA of US\$409,160.

In order to create additional revenue generating opportunities, a US\$1.5 million renovation started during the second half of 2006. This enhancement program will allow the operator to generate additional revenue in particular from corporate meetings business. An aggressive strategy has been created to develop the special packages and MICE business in order to alleviate the seasonality effect at the resort. The renovation is expected to be completed in early 2007.

Consolidated and associated hotel 2006 results not included in KHI System

KHI System portfolio excludes results of the Four Seasons Hotel Damascus and the Mövenpick Karon Beach Resort as these were opened in December and August 2005, respectively, and therefore are not considered as comparable in line with KHI's System definition.

Four Seasons Hotel Damascus*

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005	Change
Exchange Rate	50.00	50.00	-	50.00	50.00	-
Rooms	297	297	-	297	297	-
Occupancy	52.1%	13.7%	n/c	46.8%	13.7%	n/c
ADR	US\$196	US\$214	n/c	US\$198	US\$214	n/c
RevPar	US\$102	US\$29	n/c	US\$93	US\$29	n/c
Hotel Revenue	9.51	0.53	n/c	17.10	0.53	n/c
Gross Operating Profit	3.96	(0.17)	n/c	6.14	(0.17)	n/c
Gross Operating Margin	41.6%	(31.5)%	n/c	36.3%	-31.5%	n/c
Hotel EBITDA	3.18	(0.21)	n/c	4.93	(0.21)	n/c
Hotel EBITDA Margin	33.5%	(39.8)%	n/c	28.8%	(39.6)%	n/c

* Hotel opened on 1 December 2005, and is excluded from KHI System portfolio

This new hotel opened in December 2005 and is the premier property in Damascus with daily rates that are significantly above its competitors. Occupancy was lower than planned in the critical summer season as a consequence of the Lebanon war and civil disturbances as Gulf based holidaymakers and other market segments curtailed their travel plans to Syria. This, together with the ramp-up effects of its first year of operation that

involved staffing, refining performance and adjustments to rates, menus, hours of operation, staffing, menu pricing and so on (specifically in food and beverage operations) resulted in lower than expected EBITDA and profit margins for the year. Despite this, the hotel did deliver US\$4.9 million in EBITDA in its first full year of operation while establishing pole position in that market.

Mövenpick Resort and Spa Karon Beach*

(unaudited, in US\$ millions, except for unit and statistical amounts)

	Six Months ended December 31,			Year ended December 31,		
	2006	2005	Change	2006	2005	Change
Exchange Rate	36.18	42.11	(14.1)%	37.37	42.11	(11.2)%
Rooms	339	342	n/c	339	342	n/c
Occupancy	52.3%	29.9%	n/c	48.2%	29.9%	n/c
ADR	US\$93	US\$68	n/c	US\$94	US\$68	n/c
RevPar	US\$49	US\$20	n/c	US\$45	US\$20	n/c
Hotel Revenue	4.54	1.66	n/c	8.48	1.66	n/c
Gross Operating Profit	1.49	0.06	n/c	2.74	0.06	n/c
Gross Operating Margin	32.9%	3.5%	n/c	32.4%	3.5%	n/c
Hotel EBITDA	1.06	(0.02)	n/c	2.14	(0.02)	n/c
Hotel EBITDA Margin	23.4%	(1.2)%	n/c	25.2%	(1.2)%	n/c

* This hotel opened on 1st August 2005, and is excluded from KHI System portfolio

KHI acquired an operating hotel (Crown Plaza Karon Beach) in May 2006 and re-branded it to the Mövenpick Resort & Spa Karon Beach, Phuket. Prior to acquisition by KHI the hotel was closed and fully refurbished during 2004/05 and reopened in August 2005. At that time the Phuket market was still feeling the after-effects of the December 2004 Tsunami although there had been relatively small physical damage to the island, and was struggling to attract international visitors to the region. 2006 saw a return of tourist arrivals to Phuket, and these were not materially impacted by the political coup.

It is a slightly challenging to compare the hotel's performance in 2006 with results of 2005, where the hotel was only open since August and still suffered from the aftermath of the Tsunami. The results of 2006 reflect a good recovery of demand, which is in line with the market. The main strategy in 2006 for the property was to gain confidence from tour operators and educate the market about the new hotel brand, as the Mövenpick brand is relatively new in Asia. However, due to strong marketing initiatives, Mövenpick is attracting many European guests to the resort and increasing the brand awareness in the region. Profitability of the resort is showing healthy levels, though there is scope with further room for improvements as the property grows occupancy and rate going forward.

Definitions of KHI hotel financial and statistical terms

The following KHI and hotel industry definitions and statistics are part of the indicators used by the Company to manage its business and may or may not be included in this release or other announcements by KHI.

“Rooms” refers to the number of permanent rooms or villas owned by the hotel and available for rent during the reporting period, and don't include any ancillary real estate rooms, villas or apartments for sale. Rooms available under rental pool arrangements are included in room count.

“Occupancy or Occupancy Rate” is a measure of the percentage of daily rooms occupied for the reporting period.

“Occupied Rooms” is the total rooms sold including complementary rooms.

“ADR or Average Daily Rate” is the total room revenue generated by paying guests divided by the number of rooms occupied during the reporting period.

“RevPar or Revenue Per Available Room” is the product of ADR and Occupancy for the reporting period, but does not reflect any food and beverage or other hotel operations such as telephone, parking, laundry or other guest services.

“Total RevPar or Total Revenue Per Available Room” is RevPar in addition to food and beverage and other hotel revenue per room for the reporting period;

“Hotel Revenue” consists of (i) **Rooms revenue** (revenue generated by hotel guests paying for rooms), (ii) **Food and beverage revenue** (revenue generated from food and beverage sales from hotel restaurants and for group meetings and social affairs- primarily driven by occupancy and non-guest customers), and (iii) **Operating services revenue** (ancillary hotel revenue such as telephone, parking, laundry, golf course, spa, entertainment and other guest services- primarily driven by occupancy).

“Gross Operating Profit or GOP” which is the Hotel Revenue less (i) **Hotel Departmental Expenses** which is the sum of Rooms cost (payroll expenses and costs of rooms linens and other consumables), Food and beverage cost (payroll expenses and costs related to food and beverage provided at hotel restaurants and related outlets and for group meetings and social affairs), and Other operating costs (costs related to telephones, health club, spa, laundry, etc) and (ii) **Undistributed Operating Expenses** which is the sum of Hotel General & Administrative costs (payroll expenses, audit, consultancy fees, cost of supplies, travel, etc), Sales and Marketing costs (payroll expenses and costs of promotions, events and advertising), Property Operation & Maintenance (payroll expenses, cost of maintenance contracts and expenses for air conditioning, pool, telephone and others) and Utilities cost (Fuel, Water and Electricity cost).

“Income Before Fixed Charges” is GOP less Management fees (base and incentive fees paid to hotel management companies).

“Net Operating Income or NOI” is Income Before Fixed Charges less Other property expenses (lease costs, insurance and property taxes).

“Hotel EBITDA, Adjusted Net Operating Income or Adjusted NOI” is Net Operating Income less FF&E reserves (Furniture, Fixtures and Equipment Reserves are contractual deductions as a percentage of revenue that are set aside to accumulate funds required for future replacements of furniture, fixtures and equipment).

Ancillary Real Estate

Ancillary real estate is a significant part of KHI's business model. Thirteen of the existing and future hotel portfolio have exposure to ancillary real estate sales or leases. The following is a description and progress of our ancillary real estate portfolio for the twelve months ended December 31, 2006, as well as subsequent acquisitions announced in 2007.

Four Seasons Nile Plaza Cairo (Egypt)

The property includes leased retail space and residential and commercial real estate for sale. The property has 131 apartments with a total built up area of 44,644 square meters, 241 parking spaces and 6,096 square meters of office and commercial space. As at December 31, 2005 a total of 46 apartments, 21 parking spaces and 4,989 square meters of available commercial space had been sold. During 2006, the operation sold an additional 25 apartments (8,443 square meters at an average of US\$4,031/sq. m), 10 parking spaces (at an average of US\$43 thousand per space) for US\$34.5 million. Sales and marketing efforts will continue in 2007 and the property will assess options to accelerate disposition of the remaining real estate during 2007 and 2008.

The property also includes a leased area comprising of 6,780 square meters of retail space that is leased to one tenant on a long-term basis at an annual average revenue of US\$350 per square meter (2006 retail lease revenues: US\$2.3 million)

Four Seasons Sharm El Sheikh (Egypt)

The property includes 112 chalets and 34 villas. Of this total 57 chalets and 22 villas had been sold by December 31 2005, with an additional 3 chalets and 2 villas sold in 2006 at an average price of US\$1.8 million and US\$5.8 million, respectively. The impact of softer tourism arrivals in Red Sea resorts affected the marketability of these units in 2006. Of the 112 chalets, 64 chalets are included in the hotel's rental pool of 200 rooms (52 of the 64 chalets were not sold as of December 31, 2006). Sales and marketing efforts will continue in 2007 and the property will assess options to accelerate disposition of the remaining real estate during 2007 and 2008.

Mövenpick Resort & Spa Phuket (Thailand)

This property includes 30 two-bedroom residential apartments available to be sold with a total built up area of 3,857 square meters. The Company was initially targeting a sale of half the units in the second half of 2006 and the remainder in 2007. This was not achieved as a result of licensing delays that impacted sales execution and registration contracts. All remaining issues are expected to be resolved in the first half of 2007 and all 30 units will be offered for sale during 2007 and managed by Mövenpick. Owners of these apartments may elect to participate in the hotel's rental pool program. This program provides the prospective owners of the apartments with a right of use for a specified number of days each year, and for the apartments to be included as part of the Hotel's room inventory under a contractual revenue sharing arrangement with the management company (Mövenpick).

Four Seasons Marrakech (Morocco)

This property currently under construction includes 40 residential villas for sale with a total built up area of 12,913 square meters. Of the total number of villas 10 are 2-bedroom, 21 are 3-bedroom and 9 are 4-bedroom villas. The sales and marketing program of these villas was initiated in May 2006 as the Four Season Private Residences Marrakech, with 34 villas (11,328 square meters) sold by year end under a preliminary sales contract with buyers at an average gross sales price of US\$4,360 per square meter. As of December 31, 2006 a total amount of US\$5.3 million was received from buyers representing 10% of the total purchase price. Remaining amounts due are subject to the conditions of the preliminary sales contract and expected to be received in full upon completion of pre-agreed development milestones, with the final milestone expected in second half of 2008. As of March 7, 2007 11 remaining villas have been sold.

Owners of these villas may elect to participate in the hotel's rental pool program. This program provides the prospective owners of the villas with a right of use for a specified number of days each year, and for the villas to be included as part of the Hotel's room inventory under a contractual revenue sharing arrangement with the management company (Four Seasons).

Four Seasons Mauritius

This property currently under construction includes 46 villas with a total built up area of 15,472 square meters. Of the total number of villas 24 are 2-bedroom, 12 are 3-bedroom and 10 are 5-bedroom villas. This total includes an additional 7 villas that were added to the scope of the development in 2006 as a result of strong market demand. Of the total, 36 villas will be managed by Four Seasons under a mandatory rental pool program while the owners of the remaining villas may elect, but are not required, to participate in the hotel's rental pool program.

The sales and marketing program of these villas as the Four Seasons Private Residences Mauritius started in December under a 2 phase program of 23 villas each, and by the end of December most of the first phase villas had been reserved at an average gross sales price of over US\$7,500 per square meter. The second marketing phase is expected to commence in 2007. All the villas are expected to be delivered by 2008. Buyers will be required to pay for the villas in full upon completion.

Four Seasons Damascus (Syria)

This property includes 13 residential units (1,449 square meters) that have been converted into office leases and an adjacent retail commercial area of 16 retail units (2,504 square meters). 11 office and 14 retail unit leases (2,192 square meters) were signed in 2006, subsequent to the opening of the hotel in December 2005. The annual lease revenue of retail units and office leases is US\$1.4 million and US\$0.3 million, respectively.

Mövenpick Beirut (Lebanon)

This property includes 75 cabanas, 25 marina mooring spaces and 864 square meters of retail commercial area available for lease. Cabanas and marina spaces are leased on short term/ seasonal basis by the hotel management company and 7% of the retail area was leased. Total lease revenues in 2006 were US\$0.15million.

Mövenpick Bur Dubai/ Residences (UAE)

This 12 floor residential building adjacent to the hotel encapsulates 57 apartments and a 66 space garage, and was acquired in the second half of 2006 for US\$25.5 million with the objective of conversion in the second half of 2008 into serviced apartments linked to, and managed by the hotel. In the meantime, all apartments have been leased on a limited 1 year contract at an annualized total net annualized rental income of US\$1.5 million.

Portfolio Review – Projects under construction

The following projects under construction includes future or existing consolidated and associate properties and development but excludes the future affiliate developments.

	Property	Location	Year of completion	Rooms	Total Budget US\$ Million	Effective Ownership %	Type
<i>Consolidated</i>							
i)	Four Seasons Hotel Mauritius	Mauritius	2008	90	169	50.0%	New Development/ Including Auxiliary real estate
ii)	Four Seasons Hotel Marrakech	Marrakech	2008	140	116	78.0%	New Development/ Including Auxiliary real estate
iii)	Raffles Phang Nga	Phuket	2009	120	115	80.0%	New Development/ Including Auxiliary real estate
iv)	Four Seasons Hotel Beirut	Beirut	2008	230	110	37.8%	New Development
v)	Mövenpick Hotel Ambassador Accra	Ghana	2008	250	60	100.0%	New Development
vi)	Mövenpick Kampala	Uganda	2010	120	58	100.0%	New Development
vii)	Fairmont Kenya 5 Properties	Kenya	2007	442	34	70.0%	Refurbishment & Rebranding (3 hotels)
viii)	InterContinental Lusaka	Zambia	2006	221	12	100.0%	Refurbishment
ix)	Mövenpick Hotel, Bur Dubai	U.A.E.	2007	24	5	100.0%	Refurbishment/ Capacity Expansion
x)	Mövenpick Residence, Bur Dubai	U.A.E.	2008	57	5	100.0%	Refurbishment/ Capacity Expansion
		<i>Subtotal</i>		<i>1694</i>	<i>684</i>		
<i>Associate</i>							
xi)	The Fairmont Palm Hotel & Resort	U.A.E.	2009	400	266	20.1%	New Development
xii)	Mövenpick Beach & Spa resort Zanzibar	Tanzania,	2007	190	32	30.0%	New Development
		<i>Subtotal</i>		<i>590</i>	<i>298</i>		
xiii)	Mövenpick Hotel, Tripoli	Libya	TBD	TBD	TBD	TBD	
		Total		2284	982		

Affiliate developments: Fairmont Nile City, Cairo (525 rooms) and Mövenpick Gaza (222 rooms)

Material changes to previously announced budgets and completion dates

Four Seasons Hotel Beirut (Lebanon)

As a result of recent hostilities and civil strife in Lebanon, specifically their impacts on the availability of materials and labor in the country, this project is now expected to be completed in the second half of 2008.

Mövenpick Ambassador, Accra (Ghana)

The hotel is the first of a 3 phase development that includes commercial and residential ancillary real estate. The first phase is for the hotel only and is scheduled for completion in 2008. Based on growing market demand for office and residential units in Accra the Company is at the advanced planning stages to combine the initial 2 phases with tentative completion date of 2009.

The Fairmont Palm Hotel & Resort, Dubai (UAE)

The project is now expected to be completed during the second half of 2009 primarily as a result of late site delivery by the master developer, and value enhancing re-scoping that includes the addition of penthouses to the rooftop of the hotel. The Company's share of the increased budget is expected to be funded through ancillary real estate income from the project.

Mövenpick Hotel Tripoli (Libya)

In September 2006 the Company announced its intention to re-scope the project to capture demand for branded residential and commercial real estate in Tripoli. Subsequently, in early 2007 KHI received notice of the Libyan authorities' intention to relocate the hotel to an alternative site. Unless resolved amicably, these material changes may result in a significant delay or termination of the project.

Acquisitions and Business Development

KHI continued to extend and diversify its investments with its focus on premium properties in high growth and emerging markets as well as 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 total enterprise value / project cost of approximately US\$1.4 billion and additions to room inventory of about 2,000 rooms. Of this total, 6 were new developments; 4 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 incorporated into an existing KHI hotel. KHI also withdrew from its acquisition of the Radisson SAS Resort in El-Quseir due to the emergence of new pricing considerations.

Also during the year, and in line with its strategy, KHI increased its minority shareholdings in (i) the Four Seasons Hotel Cairo at Nile Plaza from 29.25% to 43.70%, (ii) the owning company of the Fairmont Palm Hotel and Resort from 14.29% to 20.1%, (iii), the Damascus Four Seasons Hotel from 35.75% to 49.50%, and (iv) the Four Seasons Resort Sharm El Sheikh from 31.96% to 39.30%.

The following are summary descriptions of the acquisitions and/or developments executed by KHI during 2006 and subsequent transactions, ordered by date 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 that encompasses 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 2008 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 2 year old operating beachfront resort that encompasses 181 rooms. Total acquisition cost was US\$45.9 million of which KHI's equity was US\$25.6 million.

6. Mövenpick Kampala (Uganda)

Acquired: April 2006

KHI signed a memorandum of understanding for a long-term peppercorn lease with the Government of Uganda for the development of a new mixed-use development that is expected to comprise a 120-room hotel, 50 serviced apartments as well as offices and a shopping center. 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 2007 (see "Definition of transactions" below)

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 its 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 31st 2006.

9. Intercontinental Lusaka (Zambia)

Acquired: October 2006

KHI acquired a 100% equity interest in this operating city hotel that encompasses 221 rooms and a total capacity of 402 rooms. Total acquisition cost was US\$28.5 million, all of which was for KHI's equity.

10. Raffles Resort and Residences, Phang Na (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.

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 incorporating this into 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.

Withdrawal from announced transactions in 2006

KHI has exercised its option of withdrawing from the acquisition of the Radisson SAS Resort prior to closing, following the emergence of new pricing considerations.

Acquisitions in Group associated companies

The Company also closed 3 step-up acquisitions and one new minority acquisition during 2006:

1. Four Seasons Hotel Cairo at Nile Plaza (Egypt)

In January 2006 KHI acquired Salam Investment Company's 23.9% share in [Kingdom 5-KR-30] for the sum of US\$14.8 million, thus increasing its effective ownership in the hotel from 29.25% to 38.42% (partial payment for 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% hotel to increase its effective ownership to 43.70% from 38.57% for a total consideration of US\$13.4 million.

2. Fairmont Palm Hotel & Resort, Dubai (U.A.E)

In January 2006, KHI increased its effective equity ownership in this hotel development from 14.29% to 20.1%. As of December 31st, 2006 the total amount of equity paid was US\$14.9 million.

3. Damascus Four Seasons Hotel Damascus (Syria)

In March KHI acquired Majed Al Futtaim Trust's ("MAFT") 25% in [Kingdom 5-KR-71] for the sum of US\$15.0 million, thus increasing its effective ownership in the hotel from 35.75% to 49.50%.

4. Four Seasons Resort Sharm El-Sheikh (Egypt)

In July 2006 KHI completed the acquisition of an additional ownership interest of 7.4% hotel to increase its 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.

Subsequent events

The Company has undertaken the following additional acquisitions since December 31, 2006:

1. Raffles Da Nang Resort and Residences, Da Nang (Vietnam)

January 2007

KHI acquired an 80% equity interest in this resort development close to Da Nang on the South China Sea that is planned to encompass 150 suites and ancillary real estate of 15 villas for sale, (negotiations with management companies is underway). The total project cost is expected to be US\$65 million, with KHI equity commitment before ancillary real estate proceeds of about US\$26 million. Expected completion is in 2011.

2. Four Seasons Hotel, Langkawi (Malaysia)

March 2007

KHI acquired a 90% equity stake in this 35 hectare operating resort of 91 suites, with the intention of adding about 20 additional suites as well as ancillary real estate of 14 villas for sale at an additional cost of US\$35 million. The total project cost is expected to be US\$138 million (total acquisition cost of US\$103 million and an estimated US\$35 million of development costs), with KHI equity commitment before ancillary real estate proceeds of about US\$64 million. Expected completion is in 2008.

3. Fairmont Makati Hotel and Raffles Suites. Makati City, Manila (Philippines)

March 2007

KHI acquired an 80% equity interest in this city development in the heart of Manila's Makati central business district. The development is planned to include a 300 room Fairmont Hotel, a 30 suite Raffles hotel and ancillary real estate for sale of 189 Raffles-branded apartments and residences (negotiations with management company is underway). The total project cost is expected to be US\$152 million, with KHI equity commitment before ancillary real estate proceeds of about US\$61 million. Expected completion is in 2011.

Executed memorandums of understanding and announcement of acquisitions

KHI policy is to announce specific transaction details upon signature of definitive purchase agreements or closing of transactions. The Company may selectively disclose the total number of executed acquisition memorandums of understanding, (MOU's) or details thereof.

Other developments & considerations

In addition to the above mentioned ancillary real estate portfolio, the Company has announced the following hotel acquisitions and future developments that include ancillary real estate. These ancillary real estate components are provided for guidance only and are subject to material changes that may be driven by future market or other conditions:

Property	Announced	Ancillary Real Estate*
Mövenpick Kampala (Uganda)	June 2006	Extended stay apartments, office& retail space (for lease)
Raffles Resort, Phang Na (Thailand)	September 2006	25 luxury villas for sale
Raffles Da Nang Resort & Residences (Vietnam)	January 2007	15 luxury villas for sale
Four Seasons Langkawi (Malaysia)	March 2007	14 luxury villas for sale
Raffles Suites and Residence Makati City, Manila (Philippines)	March 2007	189 branded apartments for sale

Note : Most villas/ apartments for sale are expected to be included in respective hotels' room rental pool

Sales and marketing costs to dispose of ancillary real estate are expected to be between 5% and 10% of the gross sales price of each property, depending on the location and property. In some countries additional real estate taxes and duties are also payable as part of disposition costs.

FINANCIAL RESULTS December 31, 2006

KINGDOM HOTEL INVESTMENTS
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2006

	2006 <i>US\$'000</i>	2005 <i>US\$'000</i> <i>(Restated)</i>
Assets:		
Non-current assets:		
Property, plant and equipment	633,504	377,618
Goodwill	6,231	-
Investment properties	28,953	-
Investments in associates	234,888	80,563
Available for sale financial assets	87,112	76,838
Other financial assets	12,144	10,686
Deferred tax asset	1,557	589
	<hr/>	<hr/>
Current assets	1,004,389	546,294
Real estate held for sale	-	3,429
Inventories	3,386	1,879
Trade and other receivables	20,576	8,365
Due from related parties, net	6,903	109
Prepayments	11,394	5,644
Cash and cash equivalents	430,788	229,597
Income taxes recoverable	366	28
	<hr/>	<hr/>
TOTAL ASSETS	1,477,802	795,345
 EQUITY AND LIABILITIES		
Equity attributable to Kingdom Hotel Investments shareholders		
Share capital	873,694	541,673
Share Premium	180,993	-
Foreign currency translation reserve	(20,375)	(19,952)
Cumulative change in fair value	28,250	12,878
Retained earnings	44,289	1,480
Cash flow hedge reserve	1,168	-
	<hr/>	<hr/>
	1,108,019	536,079
Minority interests	<hr/>	<hr/>
	109,210	113,783
	<hr/>	<hr/>
TOTAL EQUITY	1,217,229	649,862
 Non-current liabilities		
Interest-bearing loans and borrowings	170,405	77,835
Provisions	1,835	332
Retentions payable	8,507	7,453
Deferred tax liability	6,447	4,803
Deferred credit	-	12,832
Other financial liability	-	11,104
	<hr/>	<hr/>
	187,194	114,359
 Current liabilities		
Trade and other payables	52,082	25,165
Interest-bearing loans and borrowings	21,108	5,946
Due to related parties	189	13
	<hr/>	<hr/>
	73,379	31,124
	<hr/>	<hr/>
TOTAL LIABILITIES	260,573	145,483
	<hr/>	<hr/>
TOTAL EQUITY AND LIABILITIES	1,477,802	795,345

KINGDOM HOTEL INVESTMENTS
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2006
(US Dollars)

	<u>2006</u> <i>US\$'000</i>	<u>2005</u> <i>US\$'000</i>
Revenue	99,047	58,756
Direct cost of revenue	(73,793)	(40,820)
Depreciation	(10,991)	(6,474)
Gross profit	14,263	11,462
General and administrative expenses	(14,961)	(7,698)
Pre-operating expenses	-	(3,205)
Share of results associates	14,392	11,017
Project costs written off	(1,983)	-
Gain on sale of investments	7,328	-
Amortization of deferred credit	12,832	1,870
Other Income	1,118	450
Profit before tax and finance cost / income	32,989	13,896
Finance costs	(11,184)	(5,293)
Finance income	22,545	1,858
Profit before taxes	44,350	10,461
Income tax expenses	(426)	(554)
Profit for the year	43,924	9,907
Attributed to:		
Kingdom Hotel Investments' shareholders	42,809	12,320
Minority interests	1,115	(2,413)
Equity holder of the parent	43,924	9,907
Earning per share (US cents):		
Basic	0.26	0.17
Diluted	0.26	0.17

Attributable to equity holders of the parent

	<i>Share capital</i>	<i>Share premium</i>	<i>Cummulative foreign currency translation reserve</i>	<i>Cummulative change in in fair value</i>	<i>Retained earnings</i>	<i>Cash flow hedge reserve</i>	<i>Total</i>	<i>Minority interests</i>	<i>Total equity</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Balance at 1 January 2006	541,673	-	(19,952)	12,878	1,480	-	536,079	113,783	649,862
Foreign currency translation	-	-	(423)	-	-	-	(423)	-	(423)
Net gains on cash flow hedges	-	-	-	-	-	1,168	1,168	-	1,168
Net changes in the fair value of available-for-sale financial assets	-	-	-	15,372	-	-	15,372	-	15,372
Total income and expenses for the year recognised in equity	-	-	(423)	15,372	-	1,168	16,117	-	16,117
Net profit for the year	-	-	-	-	42,809	-	42,809	1,115	43,924
Total income and expenses for the	-	-	(423)	15,372	42,809	1,168	58,926	1,115	60,041
Issue of share capital	332,021	208,488	-	-	-	-	540,509	-	540,509
Net Minority costs	-	(27,495)	-	-	-	-	(27,495)	-	(27,495)
Net minority interest acquired	-	-	-	-	-	-	-	(5,688)	(5,688)
Balance at 31 December 2005	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

	<i>Share capital</i>	<i>Share premium</i>	<i>Cummulative foreign currency translation reserve</i>	<i>Cummulative change in in fair value</i>	<i>Retained earnings</i>	<i>Cash flow hedge reserve</i>	<i>Total</i>	<i>Minority interests</i>	<i>Total equity</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Balance at 1 January 2005	298,208	-	(22,905)	6,565	(10,840)	-	271,028	111,387	382,415
Net changes in the fair value of available-for-sale financial assets	-	-	-	6,313	-	-	6,313	-	6,313
Foreign currency translation	-	-	2,953	-	-	-	2,953	-	2,953
Total income and expenses for the year recognised directly in equity	-	-	2,953	6,313	-	-	9,266	-	9,266
Net profit for the year	-	-	-	-	12,320	-	12,320	(2,413)	9,907
Total income and expenses for the	-	-	2,953	6,313	12,320	-	21,586	(2,413)	19,173
Issue of share capital	243,465	-	-	-	-	-	243,465	-	243,465
Net minority interest acquired	-	-	-	-	-	-	-	4,809	4,809
Balance at 31 December 2005	541,673	-	(19,952)	12,878	1,480	-	536,079	113,783	649,862

KINGDOM HOTEL INVESTMENTS
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

(US Dollars)

	<u>2006</u>	<u>2005</u>
	<i>US\$'000</i>	<i>US\$'000</i>
OPERATING ACTIVITIES		
Profit before tax	44,350	10,461
Adjustments for:		
Depreciation	10,991	6,474
Income from associates	(14,392)	(11,017)
Interest income	(22,545)	(1,858)
Interest expense	11,184	5,293
Gain on disposal of investments	(7,328)	-
Amortization of deferred credit	(12,832)	(1,871)
Operating profit before working capital	9,428	7,483
Trade and other receivables	(11,345)	(5,483)
Due from related parties, net	(6,596)	-
Inventories	(431)	1,535
Payables and other payables	18,716	5,589
Cash generated from operations	9,772	9,124
Income taxes paid	(507)	(425)
Interest paid	(11,184)	(5,293)
Net cash (outflows) flows from operating activities	(1,919)	3,406
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(45,499)	(39,643)
Acquisition of subsidiaries and joint venture net of cash acquired	(152,251)	(40,733)
Acquisition of associates	(34,069)	-
Purchase of investment properties	(25,524)	-
Proceeds from disposal of available for sale investments	12,429	-
Dividends received from associates	-	305
Interest received	22,545	1,858
Net cash outflows from investing activities	(222,369)	(78,213)
FINANCING ACTIVITIES		
Repayment of borrowings	(32,907)	(11,157)
Proceed from borrowings	68,779	22,819
Proceed from issue of share capital	378,010	243,465
Deferred credit	-	2,835
Notes payable	-	(4,386)
Minority interest	1,080	14,237
Proceeds from release of restricted cash	1,600	-
Net cash provided by financing activities	416,562	267,813
Net increase in cash and cash equivalents	192,274	193,006
Net foreign exchange difference	423	(2,953)
Cash and cash equivalents at 1 January	227,599	37,546
Cash and cash equivalents at 31 December	420,296	227,599

COMPARISON OF THE YEARS ENDED DECEMBER 31, 2006 AND DECEMBER 31, 2005

Consolidated Statement of Income

Profit for the year ended December 31, 2006 was US\$42.8 million, as compared to US\$12.3 million for the year ended December 31, 2005, reflecting an increase of 248 per cent.

Profit is derived principally from revenue less cost of revenue, plus share or results of associates, less general and administrative expenses, less project costs written off, plus gain on sale of investments, financial charges and depreciation, plus financial income, deferred credit, and other income less taxes and plus/less minority interests.

Revenue

Total revenue for the year ended December 31, 2006 was US\$99.0 million, as compared to US\$58.8 million for the year ended December 31, 2005, reflecting an increase of 68 per cent.

Comparable revenue growth of 4% was driven by Beirut Mövenpick declined as a result war and political disturbance in the second half of 2006. Excluding this hotel for both years, revenue growth would have been 16% for 2006.

The following Table presents the components of our revenue for the year ended December 31, 2006 and 2005:

	<u>December 31, 2006</u> US\$ '000	<u>December 31, 2005</u> US\$ '000
Revenue:		
Hotels revenues	96,712	55,354
Others	2,335	3,402
Total Revenue	<u>99,047</u>	<u>58,756</u>

Hotel Revenue

Hotel revenue for the year ended December 31, 2006 was US\$96.7 million, as compared to US\$55.4 million for the year ended December 31, 2005, reflecting an increase of 75 per cent.

Comparable hotel revenue growth of 4% was driven by Beirut impacts. Excluding this hotel from both years revenue growth would have been 15% for 2006.

The following Table represents the component of our hotel revenue for the year ended December 31, 2006 and 2005:

	<u>December 31, 2006</u> US\$ '000	<u>December 31, 2005</u> US\$ '000
Hotel Revenue:		
Rooms	52,577	30,575
Food and beverage	31,970	17,463
Other operating revenues	12,165	7,316
Total Hotel Revenue	<u>96,712</u>	<u>55,354</u>

Room Revenue: Room Revenue for the year ended December 31, 2006 was US\$52.6 million, as compared to US\$30.6 million for the year ended December 31, 2005, reflecting an increase of 72 per cent. This increase was principally due to the impact of the opening of the Four Seasons hotel Damascus in December 2005, as well as hotel revenue reported by the newly acquired hotels (see below). Additionally, room revenue from the Mövenpick Resort & Spa El Quseir, Egypt is reflected above due to the 56.83 per cent share purchased during 2006 which increased our ownership interest to 87.33 per cent from July 1 to December 31, 2006 and accordingly changing the accounting treatment of the investment from an associate to a subsidiary.

Additionally, RevPar for our consolidated operating hotels was stable at US\$74 for the year ended December 31, 2006 as compared to the year ended December 31, 2005. ADR increased to US\$127 for the year ended December 31, 2006 from US\$107 for the year ended December 31, 2005 while occupancy rates decreased to 57.3 per cent for the year ended December 31, 2006 as compared to 63 per cent for the year ended December 31, 2005.

The consolidated operating hotel figures included above were primarily affected by the following movements at the individual hotel level:-

- (i) The inclusion of twelve months of room revenue amounting to US\$8.2 million for the year ended December 31, 2006 of the Kenya hotels held through Kingdom Kenya 01 Limited (acquired in May 2005), as compared to eight months room revenue amounting to US\$4.5 million from these hotels for the year ended December 31, 2005, an increase of US\$3.7 million or 82 per cent.
- (ii) The inclusion of twelve months room revenue amounting to US\$10.1 million from the Four Seasons Damascus (which opened for business in December 2005) for the year ended December 31, 2006, as compared to US\$0.5 million revenue from this property for the one month period ended December 31, 2005, an increase of US\$9.6 million. Average revenue during 2006 was US\$1.4 million per calendar month some 180 per cent higher on average than the revenue earned in the one month ended December 31, 2005. This increase can be mainly attributed to the fact that December 2005 was the first operational month, in addition to the increase in number of rooms as the hotel gradually opened its rooms to reach 277 available rooms compared to 70 available rooms in December 2005.
- (iii) The inclusion of nine months room revenue amounting to US\$1.8 million from the Mövenpick Resort & Spa Mauritius (acquired in April 2006), for the year ended December 31, 2006, as compared to no room revenue from this property for the year ended December 31, 2005.
- (iv) The inclusion of seven months room revenue amounting to US\$3.2 million from the Mövenpick Karon Beach Phuket Thailand (acquired in late May 2006), for the year ended December 31, 2006, as compared to no room revenue from this property for the year ended December 31, 2005.
- (v) The Mövenpick Hotel Bur Dubai increased room revenue by US\$2.0 million or 19.7 per cent. The RevPar increased to US\$142 for the year ended December 31, 2006 from US\$118 for the year ended December 31, 2005 as a result of the increase in the ADR from US\$152 for the year ended December 31, 2005 to US\$161 for the year ended December 31, 2006, and increase in occupancy from 10 per cent for the year ended December 31, 2005 to 87.8 per cent for the year ended December 31, 2006.
- (vi) The Mövenpick Hotel Royal Palm increased by US\$0.3 million or 10 per cent. The RevPar increased to US\$55 for the year ended December 31, 2006 from US\$50 for the year ended December 31, 2005 as a result of the increase in the ADR from US\$92 for the year ended December 31, 2005 to US\$94 for the year ended December 31, 2006, and increase in occupancy from 55.1 per cent for the year ended December 31, 2005 to 58.5 per cent for the year ended December 31, 2006.
- (vii) The inclusion of six months room revenue amounting to US\$1.8 million from the Mövenpick Resort & Spa El Quseir (treated as a subsidiary in July 2006), for the year ended December 31, 2006, as compared to no room revenue from this property for the year ended December 31, 2005.
- (viii) The inclusion of three months room revenue amounting to US\$1.2 million from Lusaka (acquired in October 2006), for the year ended December 31, 2006, as compared to no room revenue from this property for the year ended December 31, 2005.
- (ix) The decrease in room revenue for the Mövenpick Hotel and Resort Beirut by US\$1.6 million or 14.5 per cent for the year ended December 31, 2006 as compared to the year ended December 31, 2005 was due to the decrease in the RevPar for the hotel to US\$90 for the year ended December 31, 2006 as compared to US\$105 for the year ended December 31, 2005, resulting from a decrease in ADR to US\$166 for the year ended December 31, 2006 as compared to US\$186 for the year ended December 31, 2005. Occupancy also decreased to 54.2 per cent for the year ended December 31, 2006 as compared to 56 per cent for the year ended December 31, 2005 (refer to trading summary section for further details).

Food and Beverage Revenue: Food and beverage revenue for the year ended December 31, 2006 was US\$32 million, as compared to US\$17.5 million for the year ended December 31, 2005, reflecting an increase of 83 per cent. The increase in food and beverage revenue for the year ended December 31, 2006, as compared to the year ended December 31, 2005, was primarily due to:-

- (i) The inclusion of twelve months of food and beverage revenue for the Kenya hotels held through Kingdom Kenya 01 Limited of US\$7.7 million for the year ended December 31, 2006 as compared to the inclusion of eight month's revenue of US\$4.6 million for the year ended December 31, 2005, an increase of US\$3.1 million or 67 per cent.
- (ii) The inclusion of twelve months revenue from the Four Seasons Damascus amounting to US\$5.2 million, nine months revenue for the Mövenpick Resort & Spa Mauritius amounting to US\$1.4 million and seven months revenue for the Mövenpick Karon Beach Phuket, Thailand amounting to US\$1.4 million for the year ended December 31, 2006, compared to no food and beverage revenue included for these hotels for the year ended December 31, 2005.
- (iii) The increase in food and beverage in Mövenpick Hotel Bur Dubai by US\$0.8 million was offset by a decrease US\$0.6 million in Mövenpick Hotel and Resort Beirut.
- (iv) The inclusion of six months food and beverage revenue amounting to US\$1.9 million from the Mövenpick Resort & Spa El Quseir (acquired as a subsidiary in July 2006), for the year ended December 31, 2006, as compared to no food and beverage from this property for the year ended December 31, 2005.
- (v) The inclusion of three months food and beverage revenue amounting to US\$0.7 million from Lusaka (acquired in October 2006), for the year ended December 31, 2006, as compared to no food and beverage revenue from this property for the year ended December 31, 2005.

Other Operating Revenue: Other operating revenue for the year ended December 31, 2006 was US\$12.2 million as compared to US\$7.3 million for the year ended December 31, 2005, reflecting an increase of US\$4.9 million or 66 per cent. The increase in other operating revenue for the year ended December 31, 2006, as compared to the year ended December 31, 2005, was primarily due to the inclusion of twelve months of other operating revenue for the Kenya hotels held through Kingdom Kenya 01 Limited amounting to US\$2.4 million as compared to the inclusion of seven months of operating revenue in the prior year amounting to US\$1.6 million, and of twelve months other operating revenue from the Four Seasons Hotel Damascus amounting to US\$1.8 million, nine months for the Mövenpick Resort & Spa Mauritius amounting to US\$0.5 million, seven months for the Mövenpick Karon Beach, Phuket Thailand amounting to US\$0.2 million and three months for Kingdom Lusaka amounting to US\$0.3 for the year ended December 31, 2006, as compared to no other operating revenue for these hotels for the year ended December 31, 2005. Other operating revenue consist primary of ancillary revenue such as telephone, parking, entertainment and other guest services.

Other Revenue

Other revenue for the year ended December 31, 2006 was US\$2.3 million, as compared to US\$3.4 million for the year ended December 31, 2005, reflecting a decrease of US\$1.1 million or 31 per cent. The decrease in the other revenue in December 31, 2006, as compared to December 31, 2005, was principally due to the Fairmont Hotels and Resorts Inc. success fees of US\$2.0 million in the prior year relating to the branding of certain hotels within the KHI. This was offset by (i) an increase of US\$0.5 million principally arising from Business development income received from Mövenpick Hotels and Resorts (ii) increase in asset management fees for non consolidated entities of US\$0.1 million (iii) rental revenue from Bur Dubai Residence (acquired in 2006) of US\$0.2 million (iv) rental revenue from the commercial and residential unit in the Northern strip (Four Seasons Damascus) of US\$0.5 million.

Hotel Operating Costs

Cost of revenue for the year ended December 31, 2006 was US\$73.8 million, as compared to US\$40.8 million for the year ended December 31, 2005, reflecting an increase of US\$33.0 million or 81 per cent.

The following table represents the components of our cost of revenue for the years ended December 31, 2006 and 2005:

	<u>December 31, 2006</u> US\$ '000	<u>December 31, 2005</u> US\$ '000
Direct Cost of Revenue:		
Hotels operating costs	73,380	40,403
Others	413	417
Total Direct Cost of Revenue	<u>73,793</u>	<u>40,820</u>

Hotels' operating costs for the year ended December 31, 2006 was US\$73.4 million, as compared to US\$40.4 million for the year ended December 31, 2005, reflecting an increase of US\$32.9 million or 82 per cent. The increase in hotels operating costs for the year ended December 31, 2006, as compared to the year ended December 31, 2005, was principally due to:

- (i) The inclusion of US\$16.6 million of hotel operating cost for twelve months in Kenya hotels held through Kingdom Kenya 01 Limited for the year ended December 31, 2006 as compared to US\$9.2 million of hotel operating costs for the eight months year ended December 31, 2005 an increase of US\$7.4 million or 80 per cent.
- (ii) The inclusion of US\$12 million hotel operating costs for the Four Seasons Damascus for the year since opening in December 2005 as compared to US\$0.7 million hotel operating costs for the property for the one month year ended December 31, 2005, an increase of US\$11.3 million.
- (iii) The inclusion of US\$4.0 million of hotel operating costs for the Mövenpick Resort & Spa Mauritius, US\$4.5 million of hotel operating costs for the Mövenpick Karon Beach Phuket, US\$1.8 million of hotel operating costs for the Mövenpick Resort & Spa El Quseir and US\$1.7 million for the Lusaka Hotel, Zambia for the year ended December 31, 2006 as compared to no hotel operating costs for these hotels in December 31, 2005.
- (iv) The inclusion of a US\$9.5 million of hotel operating costs for the Mövenpick Hotel Bur Dubai for the year ended December 31, 2006, as compared to US\$8.1 million for the year ended December 31, 2005, which was mainly due to the increase in the hotel business, an increase of US\$1.4 million or 17 per cent.
- (v) The inclusion of a US\$16.6 million of hotel operating costs for the Mövenpick Hotel and Resort Beirut for the year ended December 31, 2006, as compared to US\$15.9 million for the year ended December 31, 2005, an increase of US\$0.7 million or 5 per cent.

The following table presents the components of our cost of revenue for the years ended December 31, 2006 and 2005:

	December 31, 2006	December 31, 2005
	US\$ '000	US\$ '000
Hotels operating costs:		
Rooms cost	8,447	5,500
Food and beverage cost	17,976	10,648
Other operating services cost	3,461	2,802
Hotel general and administrative expenses	18,256	6,135
Sales and marketing cost	4,244	2,634
Fuel, water and electricity cost	6,354	3,995
Repairs and maintenance cost	4,255	3,327
Other expenses	10,387	5,362
Total Hotel Operating Costs	73,380	40,403

Comparable hotel operating costs increased by 7% (excluding Beirut:12%), due to the high employee cost in Mövenpick Hotel Bur Dubai (17% staffing/ housing increase) and Mövenpick Royal Palm (18% hotel cost increase), the increase was partially offset by 10% reduction in hotel operating costs in Beirut in the second half of the year as a result of the implementation of a profit protection plan.

Other Cost

Other costs for the year ended December 31, 2006 were roughly the same for the year ended in 2005 amounting to US\$0.4 million, which was principally in 2005 due to the sale of marina rights of the Mövenpick Hotel and Resort Beirut and the non-recurring costs associated therewith. However, the major other costs in 2006 represented the expenses relating to Northern Strip in Four Seasons Damascus of US\$0.3 million and expenses relating to the Bur Dubai residence of US\$0.1 million.

Share of results of Associates

Share of results of Associates for the year ended December 31, 2006 was US\$14.4 million, as compared to US\$11.0 million for the year ended December 31, 2005 reflecting an increase of US\$3.4 million or 31 per cent. The major changes were principally due to:

- (i) Share of results from the Four Seasons Nile Plaza increased to US\$11.1 million for the year ended December 31, 2006 as compared to US\$7.7 million for the year ended December 31, 2005, reflecting an increase of US\$3.4 million or 44 per cent. This was due to the (i) the strong performance of the hotel in 2006 where RevPar increase from US\$143 in 2005 to US\$215 in 2006 driven by both rate and occupancy growth (ii) rental income from Ancillary real-estate from US\$0.9 million in 2005 to US\$2.5 million in 2006 (iii) additional 4.4 per cent equity interest in Nova Park Cairo Co.
- (ii) The inclusion of US\$1.0 million as share of profit from the Four Seasons Hotel George V for the year ended December 31, 2006 as compared to Nil for the year ended December 31, 2005.
- (iii) Share of profit from the Four Seasons Resort Sharm El Sheikh decreased to US\$0.8 million for the year ended December 31, 2006 from US\$1.1 million for the year ended December 31, 2005 the hotel was faced with a drop in demand in 2006 as compared to 2005 where occupancy dropped from 63.8 per cent in 2005 to 57.6 per cent in 2006 this drop was offset by the increase of the rate from US\$256 in 2005 to US\$282. The main reason for the decrease was the net income from rental villas where it dropped from US\$0.4 million in 2005 to US\$0.05 million in 2006. This decrease is despite an increase of an additional 7.4 per cent equity interest in Alexandria Saudi Co. for Touristic Projects profit overall decreased in the company by 41 per cent.
- (iv) The decrease in our share of profit in the Mövenpick Resort El Quseir to US\$0.1 million, for the year ended December 31, 2006, from US\$0.7 million for the year ended December 31, 2005 was due to the additional 56.83 per cent interest on July 1, 2006, which increased the effective ownership from 30.5 per cent to 87.33 per cent changing the treatment of interest from an associates to a subsidiary.

General and Administrative Expenses:

The following table presents the components of the general and administrative expenses for the year ended December 31, 2006 and for the year ended December 31, 2005:

	December 31, 2006	December 31, 2005
	US\$ '000	US\$ '000
General and Administrative Expenses:		
Salaries and benefits	8,740	4,119
Legal and professional fees	2,134	683
Travel and accommodation	594	890
Insurance	427	313
Maritime lease fee	224	213
Telecommunication	234	158
Municipal Tax	265	673
Rent Expense	339	172
Exhibition & Conferences	104	77
Other	1,900	400
Total General and Administrative Expenses	14,961	7,698

General and administrative expenses for the year ended December 31, 2006 was US\$14.9 million, as compared to US\$7.7 million for the year ended December 31, 2005, reflecting an increase of US\$7.3 million or 94 per cent.

- (i) The increase in general and administrative expenses was predominantly caused by an increase in salaries and benefits of US\$4.6 million related to the increased number of employees on the corporate level and in the consolidated entities from 30 and 11 respectively as of December 31, 2005 to 47 and 21 as of December 31, 2006.
- (ii) Municipal taxes during the year ended December 31, 2006 were US\$0.3 million as compared to US\$0.7 million in December 31, 2005, relating to the Mövenpick Hotel and Resort Beirut. In 2006 and 2005 these taxes consisted of US\$0.3 million, imposed on the Mövenpick Hotel and Resort Beirut based on a calculation of the hotel's market rental value while in 2005 an amount of US\$0.4 million was paid relating to taxes imposed on the Four Seasons Hotel Beirut by the Investment Development Authority of Lebanon "IDAL" as stamp duty relating to its granting of tax exemption status to the hotel.
- (iii) Legal and professional fees increased in the year ended December 31, 2006 as compared to the year ended December 31, 2005 due to the expansion and growth of the company. The charges related to head office legal fees of US\$0.9 million, professional and consultancy fees of US\$0.7 million, and audit fees of US\$0.1 million. Those were offset by a decrease of US\$0.3 million related to the expenses in other consolidated entities.
- (iv) Travel and accommodation decreased from US\$0.9 million for the year ended December 31, 2005, to US\$0.7 million for the year ended December 31, 2006, this decrease was principally due to the decrease in expensed travel charges (against capitalized as part of project cost).
- (v) Rent expenses is related to the new corporate office in Dubai.

Project Costs Written Off

Projects costs written off for the year ended December 31, 2006 were US\$2.0 million as compared to Nil for the year ended December 31, 2005. Amounts written off relate to costs incurred or potential acquisitions which are no longer considered feasible.

Gain from Sale of Investments

Gain from sale of investments for the year ended December 31, 2006 were US\$7.3 million as compared to Nil for the year ended December 31, 2005 which arose from the partial disposal of KHI's share of common stock in Fairmont Hotels & Resorts Inc. in October 2006, for a consideration of US\$12.6 million or 0.5 per cent of the total shares while KHI retained a 0.37 per cent stake in the shareholding in Fairmont. The share sale represented a realized Return of 138 per cent of KHI's invested capital and an Equity IRR of 51.78 per cent.

Financial costs

Finance costs for the year ended December 31, 2006 were US\$11.2 million as compared to US\$5.3 million for the year ended December 31, 2005, reflecting an increase of US\$5.9 million or 111 per cent due principally to the following:-

- (i) Financial charges of Syrian Saudi Tourism Investments Company the owning company of the Four Seasons Damascus amounting to US\$2.3 million from December 2005 when the loan was drawn down.
- (ii) Mövenpick Hotel and Resort Beirut of US\$0.5 million which relates partly to the increase of the Libor rate, and the increase in borrowing amount following the refinancing during 2006 from US\$32 million in 2005 to US\$41.6 million in 2006.
- (iii) Mövenpick Karon Beach, Phuket, Thailand by US\$1.3 million and Mövenpick Resort and Spa Mauritius by US\$1.8 million, both of which were acquired in May 2006 and April 2006 respectively.

Finance income

Finance income for the year ended December 31, 2006 was US\$22.5 million as compared to US\$1.9 million for the year ended December 31, 2005 which arose from the cash held on deposit generated from KHI capital increase of US\$220 million in September 2005, and the IPO proceeds on March 1, 2006 and US\$0.2 million of interest income from the Mövenpick Royal Palm hotel for the year ended December 31, 2006.

Deferred revenue

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 recorded as real estate held for sale. The proceeds from the sale of the B shares are not transferred to 5-KR-57, Ltd.; rather they are remitted to MPPT to complete the financing of the Mövenpick Hotel in Beirut. Pursuant to the Security Sharing Agreement with a consortium of banks, sales proceeds will not be distributed until the sale proceeds from the B shares reach \$30,000,000 and any and all repayments by MPPT to Kingdom 5-KR-57, Ltd are subordinated to all of MPPT's debts.

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 amortized to match the maintenance costs and other expenses which could have been incurred in future years in connection to 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 recognized in full during the year.

Taxes

While we are subject to income taxes in numerous jurisdictions, we currently enjoy tax exemptions in several other jurisdictions. We have tax-exempt status in the Cayman Islands. Income taxes for the year ended December 31, 2006 were US\$0.4 million, as compared to US\$0.6 million for the year ended December 31, 2005. The decrease in income taxes for the year ended December 31, 2006, as compared to the year ended December 31, 2005, was due to the decrease of US\$0.2 million of income taxes relating to the profit made by the hotels owned by Kingdom Kenya 01 Limited.

Minority Interest

The movement in the minority interest represents minorities' share in the net income or loss of related subsidiaries. Minority interest for the year ended December 31, 2006 showed US\$1.1 million shares of the profits of the subsidiaries, as compared to minority share of the losses of US\$2.4 million, of the subsidiaries for the year ended December 31, 2005.

Comparable hotel financials and statistics

KHI's consolidated financial statements include properties in which it has either a controlling interest (subsidiaries) or a minority equity investment (associates). The company presents certain financial and statistical information of its hotel assets separately from the portfolio of hotels that are included in its consolidated financial statements in order to show like-for-like comparable performance impacts on the company's operations and financials. Comparable hotel assets are defined as those subsidiaries that (i) are consolidated in KHI's financials for the entirety of the reporting periods being compared, and (ii) have not sustained substantial physical damage, experienced material business disruption or undergone large scale disruptive capital improvements or projects. Of the 18 consolidated and associate hotels owned by KHI on December 31st, 2006, only 3 have been classified as comparable hotels: Beirut Mövenpick, Royal Palm and Mövenpick Bur Dubai

	<u>KHI Consolidated</u>			<u>KHI Comparable</u>		
	December 31 2006 US\$ '000	December 31 2005 US\$ '000	Change %	December 31 2006 US\$ '000	December 31 2005 US\$ '000	Change %
Hotel revenues	96,712	55,354	75%	45,664	44,093	4%
Other revenues	<u>2,335</u>	<u>3,402</u>	<u>(31)%</u>	<u>149</u>	-	<u>n/c</u>
Total revenues	99,047	58,756	69%	45,812	44,093	4%
Cost of revenues	(73,793)	(40,820)	81%	(32,765)	(30,529)	7%
Depreciation	<u>(10,991)</u>	<u>(6,474)</u>	<u>70%</u>	<u>(5,361)</u>	<u>(5,680)</u>	<u>(6)%</u>
Gross profit	14,263	11,462	24%	7,686	7,884	(3)%
Share of results of associates	14,392	11,017	31%			
General and admin. expenses	(14,961)	(7,698)	94%			
Pre-operating expenses	-	(3,205)	n/c			
Project costs written off	(1,983)	-	n/c			
Gain on sale of investments	7,328	-	n/c			
Amortization of deferred credit	12,832	1,870	586%			
Other income	<u>1,118</u>	<u>450</u>	<u>148%</u>			
Profit before tax and finance cost/income	32,989	13,896	137%			
Net finance income (cost)	<u>11,361</u>	<u>(3,435)</u>	<u>n/c</u>			
Profit before tax	44,350	10,461	324%			
Income tax expense	(426)	(554)	(23)%			
Minority interests	<u>(1,115)</u>	<u>2,413</u>	<u>(146)%</u>			
KHI Net Profit	42,809	12,320	247%			

Reconciliation of net income to EBITDA and Adjusted EBITDA

	KHI Consolidated			KHI Comparable		
	December 31, 2006 US \$ '000	December 31, 2005 US \$ '000	%	December 31, 2006 US \$ '000	December 31, 2005 US \$ '000	%
Profit for the year(2)	43,924	9,907	343%	15,617	4,410	254%
Income tax expense	426	554	n/c	-	-	n/c
Finance (income) costs	(11,361)	3,435	n/c	5,380	5,300	n/c
Other income	(1,118)	(450)	n/c	(196)	117	n/c
Amortization of deferred credit	(12,832)	(1,870)	n/c	(12,832)	(1,870)	n/c
Depreciation	10,991	6,474	n/c	5,361	5,680	n/c
Profits before interest , taxes, depreciation and amortization (EBITDA)	30,030	18,050	66%	13,330	13,637	(2.25) %
Add: KHI Share of EBITDA in associates						
Share of depreciation and amortization of associates	4,441	2,994	n/c	1,021	1,037	n/c
Share of finance cost, net	6,183	2,293	n/c	617	878	
Adjusted EBITDA	40,654	23,337	74%	14,968	15,552	(3.76) %

- (1) Includes depreciation and amortization relating to associates that are categorized as general and administrative expenses and cost of sales on the statement of income of those entities, KHI's share of results of associates includes KHI share from depreciation, amortization and finance cost.
- (2) Represents profit for the year before minority share of income or loss.

KHI uses EBITDA and Adjusted EBITDA:

- As measurements of operating performance, used by management to compare operating performance on a consistent basis, as they remove the impact of items not directly resulting from the company's operations;
- For planning purposes, including the preparation of its internal annual operating budgets
- To establish targets for certain management performance and compensation; and
- To evaluate the Company's capacity to incur and service debt, fund capital expenditures and expand its business.

EBITDA and Adjusted EBITDA as calculated by the Company are not necessarily comparable to similarly titled measures used by other companies. In addition, EBITDA and Adjusted EBITDA: (a) do not represent net income or cash flows from operating activities as defined by GAAP or IFRS; (b) are not necessarily indicative of cash available to fund cash flow needs; and (c) should not be considered as alternatives to net income, operating income, cash flows from operating activities or other financial information as determined under GAAP and IFRS.

The Company prepares Adjusted EBITDA by adjusting EBITDA to eliminate the impact of a number of items that it does not consider indicative of its core operating performance. These adjustments should be used to as supplemental analysis to the financial statements issued by the company.

Basic and Diluted Earning 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:

	<i>2006</i>	<i>2005</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Net profit attributable to ordinary equity holders of the parent	42,809	2,320
	<i>2006</i>	<i>2005</i>
	<i>Thousands</i>	<i>Thousands</i>
Weighted average number of ordinary shares for basic earnings per share	163,660	71,815
Earnings per share (US cents)		
From continuing operations:		
- Basic	0.26	0.17
- Diluted	0.26	0.17

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.

SEGMENTAL INFORMATION – CONSOLIDATED STATEMENT OF INCOME

The KHI's primary continuing operations are organised on a worldwide basis into four geographical segments, Middle East, Africa, Asia and Europe

	Year ended 31 December 2006					<i>Total operations</i> US \$ '000
	<i>Head Office</i> US \$ '000	<i>Middle East</i> ⁽¹⁾ US \$ '000	<i>Africa</i> US \$ '000	<i>Asia</i> US \$ '000	<i>Europe</i> US \$ '000	
Hotel Revenue	-	58,955	32,716	5,041	-	96,712
Other revenue	1,576	759	-	-	-	2,335
Total revenue	<u>1,576</u>	<u>59,714</u>	<u>32,716</u>	<u>5,041</u>	<u>-</u>	<u>99,047</u>
Results ⁽²⁾	(4,506)	23,786	(214)	(1,587)	-	17,479
Share of results of associates	-	13,392	-	-	1,000	14,392
Finance Income	21,874	96	575	-	-	22,545
Finance Costs	-	(7,137)	(2,736)	(1,311)	-	(11,184)
Other income	1,118	-	-	-	-	1,118
Profit before tax	18,486	30,137	(2,375)	(2,898)	1,000	44,350
Income tax	-	-	(426)	-	-	(426)
Profit for the year 2006	<u>18,486</u>	<u>30,137</u>	<u>(2,801)</u>	<u>(2,898)</u>	<u>1,000</u>	<u>43,924</u>
Profit for the year 2005	<u>(128)</u>	<u>11,453</u>	<u>(1,418)</u>	<u>-</u>	<u>-</u>	<u>9,907</u>

Included within 'Share of profit of associates' is US\$7.3 million profit arising from real estate sales.

⁽¹⁾ Middle East: includes Egypt

⁽²⁾ Results: EBITDA less income from associates, net

Financial Condition

Our total assets as at December 31, 2006 were US\$1,477.8 million, as compared to US\$795.3 million as of December 31, 2005, reflecting an increase of 86 per cent. The increase in our total assets was principally due to changes in cash and cash equivalent, trade and other receivables, prepayments, investments in associates, investments available for sale, property and equipment, investment property, goodwill and other financial assets. The increase in liabilities and shareholders' equity was predominantly due to an increase in loans and borrowings, Trade and other payable, the increase in share capital and share premium arising from the IPO and retained earnings resulting from current year profits.

Cash

Cash and bank balances increased from US\$229.6 million as at December 31, 2005 to US\$430.8 million as of December 31, 2006, reflecting an increase of 88 per cent.

During 2006 the KHI had cash from financing activities of US\$417 million mainly from net borrowings of US\$36.3 million and raised net cash proceeds after costs of US\$378 million from IPO which closed in March 2006. The KHI utilized US\$220.2 million in its investing activities mainly in cash expensed for the acquisition of subsidiaries, associates. Major investment acquisitions during the year resulted in cash outflows net of cash on hand at banks at the date of acquisition were US\$69.3 million for the Mövenpick, Karon Beach, Phuket, Thailand, US\$25.6 million for the Mövenpick Mauritius, US\$11 million for the Four Seasons Mauritius, US\$8.2 million on the Fairmont Palm, US\$1.6 million from Mövenpick Zanzibar, US\$28.4 million for Lusaka Zambia, an additional interest of 56.83 per cent in Mövenpick Resort & Spa El Quseir for US\$19.8 million, also in Kingdom Nile Plaza by 4.4 per cent and Sharm El Sheikh by 7.4 per cent amounted to US\$13.4 million and US\$10.5 million, respectively and cash expensed on purchases of property plant and equipment (including projects under construction) of US\$229.7 million, purchase of investment properties (Bur Dubai residence) of US\$25.5 million, the cash outflow was partially offset by the proceed which arose from the partial disposal of KHI's share of common stock in Fairmont Hotels & Resorts Inc. in October 2006, for a consideration of US\$12.6 million and the interest income of US\$12.5 million.

The cash in flow from financing activities was partially utilized to finance the operations.

Trade and other receivables

Trade and other receivables was US\$20.6 million as at December 31, 2006 compared to US\$8.4 million as at December 31, 2005. This increase of US\$12.2 million or 146 per cent was due to the expansion of the KHI's business, trade and other receivables from acquisitions made in 2006 which are included in 2006 figures were US\$2.5 million from Mövenpick Karon Beach Phuket, US\$1.4 million from Mövenpick Resort & Spa Mauritius, US\$0.8 million from Mövenpick Resort & Spa El Quseir, US\$0.9 million from and the commencement of operations in December 2005 for US\$0.9 million from Four Seasons Damascus. Other reasons for the increase were changes in the working capital requirements of the other hotels within the KHI, and the overall increase in the KHI combined ADR from US\$116 for the year ending December 31, 2005 to US\$127 for the year ending December 31, 2006.

Due from related party transaction

Due from related party transactions was US\$6.9 million as at December 31, 2006 compared to US\$0.1 million as at December 31, 2005. This increase of US\$6.8 million was mainly due to the extension of US\$5.3 million in share holder's advance during 2006 to Anahita Hotel limited (hotel owning company of Four Seasons Mauritius), the remaining amount includes US\$0.4 million relating to Kingdom Holding company and US\$0.9 million to Anahita golf limited (a subsidiary of Anahita Hotel limited).

Prepayment

Prepayments increased from US\$5.7 million as at December 31, 2005 to US\$11.4 million as of December 31, 2006, reflecting an increase of US\$5.7 million or 100 per cent. The increase was mainly due to balances in the Mövenpick Karon Beach Phuket, the Mövenpick Resort & Spa Mauritius, the Mövenpick Resort & Spa El Quseir and Lusaka with prepayments and other assets amounting to US\$2.9 million that were consolidated since acquisition. In addition, an amount equal to US\$2.8 million from Four Seasons Hotel Marrakech representing VAT receivables paid on suppliers' invoices those receivables will be matched against VAT payables on future revenues mainly from real estate and hotel.

Available for Sale Financial Assets

Investments available for sale as at December 31, 2006 were US\$87.1 million, as compared to US\$76.8 million as at December 31, 2005, reflecting an increase of US\$10.3 million or 13 per cent. The reason for the increase was the increase of the share value of Four Seasons Hotels Inc. US\$5.8 million due to the increase in the share value in November 06, 2006 to US\$82 per share from US\$49.75 per share in December 31, 2005. KHI's share in the Mövenpick Hotels & Resorts increased by US\$13.3 million based on a valuation undertaken by an independent third party. This was offset by a decrease of US\$7.3 million due to the disposal of a part of Fairmont share.

	<i>2006</i> <i>US\$'000</i>	<i>2005</i> <i>US\$'000</i>
Quoted shares	33,524	43,072
Unquoted shares	53,588	33,766
	<hr/>	<hr/>
	87,112	76,838
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2006 investments with a value of US\$6.5 million which were included within quoted shares in the year ended 31 December 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\$80.6 million are carried at cost and US\$6.5 million are carried at the latest traded price prior to delisting on 11 May 2006.

Investments in Associates, Net

Net investments in associates as at December 31, 2006 was US\$234.9 million, as compared to US\$80.6 million as at December 31, 2005, reflecting an increase of US\$154.3 million or 192 per cent. This increase was due in part to the recognition of US\$14.4 million as net share of profit from associates. Additionally investments in associates increased by US\$110.9 million related to the acquisition of 25 per cent of Four Seasons George V. In addition our investment in associates increased by US\$8.2 million relating to the first installment on the share of capital of the investment of the Fairmont Palm Hotel, Dubai which will eventually become an investment of US\$18.7 million. Additionally, investments in associates increased by US\$1.6 million from acquiring 30 per cent of the Mövenpick Beach & Spa Resort Zanzibar, US\$14.5 million for the additional ownership interest of 5.13 per cent in the Four Seasons Hotel Cairo at Nile Plaza and US\$10.5 million for the additional ownership interest of 7.4 per cent in the Four Seasons Resort Sharm El Sheikh. The increase was partially offset by the removal of the cost of investment of El-Quseir from associates as the accounting treatment of the investment changed from an associate to a subsidiary resulting from the increase of ownership from 30.5 per cent to 87.3 per cent.

Goodwill

Goodwill as at December 31, 2006 was US\$6.2 million, as compared to Nil as at December 31, 2005, reflecting an increase of US\$6.2 million. Goodwill acquired on acquisition is measured at cost being the excess of the cost of the investment over the KHI's interest in the net fair value of the identified assets, liabilities and contingent liabilities of the investment acquired. Goodwill arising on acquisitions during the year was US\$6.2 million which arose from the additional acquisition of shares in Syrian Saudi Tourism Investments Company ("SSTIC") the owning company of the Four Seasons Damascus.

Property, Plant and Equipment

Net property and equipment as at December 31 2006 was US\$633.5 million, as compared to \$377.6 million as at December 31, 2005, reflecting an increase of US\$255.9 or 68 per cent which was due to (i) Purchased PP&E during the year of US\$47.6 million including US\$ 31.5 relating to projects under construction (ii) additional assets resulting from subsidiaries acquisitions of US\$141.1 million including US\$15 million relating to projects under construction (iii) excess of fair value over cost of acquired subsidiaries of US\$80.4 million (US\$14.5 resulting from the acquisition of Mövenpick Resort and Spa Mauritius, US\$36.9 million relating to the acquisition of Mövenpick Karon Beach , Phuket, US\$13.1 million relating to the acquisition of an addition ownership in Mövenpick Resort El-Qusier, US\$15.1 million resulting from the acquisition of Intercontinental Lusaka and US\$0.9 relating to the acquisition of Four Seasons Resort, Mauritius. These overall increases were offset by depreciation expenses of US\$11 million.

Investments in properties

Investment in properties as at December 31, 2006 was US\$28.9 million, as compared to Nil as at December 31, 2005, reflecting an increase of US\$28.9 million, main reason for the increase is our acquisition of an apartment building (Bur Dubai Residence) adjacent to the existing Mövenpick Hotel in Bur Dubai for a total consideration including acquisition costs of US\$25.5 million. In 2006, properties amounted US\$3.4 million were transferred from real estate held for sale to investment properties as they are occupied by tenants.

Investment properties are stated at fair value, which has been determined based on independent valuations.

Other financial assets

Other financial assets as at December 31, 2006 was US\$12.1 million, as compared to US\$10.7 million as at December 31, 2005, reflecting an increase of US\$1.4 million or an increase of 13 per cent. This item includes mainly advances to contractors, costs incurred on potential acquisitions and pipeline projects and payments made towards the incorporation of newly formed subsidiaries and projects. Cost related to each of the projects will be capitalized as part of the cost of the investment once the transaction is complete. Costs incurred on potential acquisitions which are no longer considered feasible are written off. The increase was due to an increased number of pipeline projects, the payment of US\$2.6 million related to the acquisition of land and the cost of investment related to the acquisition of Fairmont Phang Nga, Thailand, This increase was partially offset by the decrease in advance to a contractor by US\$1.6 million relating to the Four Seasons Beirut.

During 2006 the company had written of costs relating to a number of projects that were deemed not feasible of US\$2.0 million (2005 nil).

Interest Bearing loans and Borrowings

Interest bearing loans and borrowings increased from US\$83.8 million as of December 31, 2005 to US\$191.5 million as of December 31, 2006 representing an increase of US\$107.7 million or 129 per cent. The increase was principally due to the loans consolidated from the new properties acquired, being the Mövenpick Resort & Spa Mauritius, Mövenpick Karon Beach Phuket and Four Seasons Resort Mauritius of US\$29.1 million, US\$32.4 million and US\$14.9 million, respectively. Additionally borrowings increased in the Mövenpick Hotel Bur Dubai by US\$16.9 million as a result of the loan refinancing done during the year, in addition, the loan of Mövenpick Hotel & Resort Beirut increased by US\$11.4 million due to the additional utilization to settle part of the payables due to shareholders. Details of current and none current loans are as shown:

	31 December, 2006			31 December, 2005		
	Current Portion		Non-current Portion US\$'000	Current portion		Non-current portion US\$'000
	Overdrafts US\$'000	Short term Loan US\$'000		Overdrafts US\$'000	Short term Loan US\$'000	
Kingdom 5-KR-71 Ltd. Subsidiary of Damascus Holding (A)	-	2,000	17,866	-	-	19,866
Kindgom Beiruit Subsidiary of Kindgom 5-KR-59, Ltd (B)	-	-	7,324	-	-	-
Merryland Pour les Projects Touristiques (MPPT) – Subsidiary of Kingdom 5-KR-57, Ltd. (C)	-	-	41,878	-	1,500	30,500
Kingdom Kenya 01 Limited Indirect Subsidiary of Kingdom 5-KR-166, Ltd. (D)	-	-	5,000	-	-	5,000
Serena Beach Company Subsidiary of Kingdom 5-KR-153, Ltd. (E)	-	1,598	3,129	-	-	-
Kingdom 01 FZ-LLC- Indirect Subsidiary of Kingdom 5-KR-168, Ltd. (F)	-	3,938	29,853	-	3,450	14,591
Tanruss Investment Limited Subsidiary of Kingdom 5-KR-90, Ltd. (G)	-	921	6,465	-	996	7,878
Anahita Hotel Limited Subsidiary of Kingdom 5-KR-182, Ltd. (H)	7,513	-	-	-	-	-
EHC Maroc Subsidiary of Kingdom 5-KR-172, Ltd. (I)	2,181	-	-	-	-	-

Salt Lake Resort Subsidiary of Kingdom 5-KR-188, Ltd. (J)(a)	401	-	25,987	-	-	-
Movenpick Hotels & Resort AG (b)		500				
Obligation under finance lease		277	1,966			
SRF and SRC Indirect Subsidiary of Kingdom 5-KR-194&195, Ltd. (K)	-	1,685	30,749	-	-	-
Marasa Holdings Limited Indirect Subsidiary of KHI-7, Ltd. (L)	-	94	188	-	-	-
Total	10,095	11,013	170,405	-	5,946	77,835

- 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 350bps 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 installments, 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 favor 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 13 December 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 31 December 2007. This loan is subject to interest at the rate of six months LIBOR plus 325bps per annum and is subject to commitment fees. This loan will be repaid in four yearly installments 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 325bps 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 31 December 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 31 December 2007.

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

- 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 325bps per annum and is subject to commitment fees annually. This overdraft facility has not been drawn as of 31 December 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 9 November 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 subsidized 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 installments 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 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 utilized 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 275bps per annum and is subject to commitment fees. The loan is to be repaid in 16 equal semi-annual installments 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 utilized 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 150bps 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 million 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 installments.
- 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 200bps 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 installments.
- Effective interest rate for both loans is 7.27%. These loans are unsecured.

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 installments 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 USD LIBOR (three months) plus 175bps per annum and is repayable in 36 unequal quarterly installments 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 USD 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 31 July 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 15 March and 15 September, commencing on 15 September 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 31 December 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 Bridge Facility agreement (that will be settled and replaced by a Long Term Loan) with a Moroccan bank for the Moroccan Dirham ("MAD") equivalent of US\$70.2 million. The Bridge Facility is subject to interest of three months Moroccan Lending rates plus 150bps 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 150bps 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 31 December 2006, the amount of US\$2.2 million was outstanding for this facility.
- Long Term Loan: The Bridge Facility is to be settled by the disbursement of the Long Term Loan of MAD equivalent of US\$70.2 million. 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. 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.

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 €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 installments 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

Saltlake Resorts Limited

Finance lease liabilities - minimum lease payments:	<i>US\$'000</i>
- Within one year	510
- Later than one year and not later than five years	1,760
- Later than five years	893
	<hr/>
	3,163
Future finance charges	(920)
	<hr/>
Present value of finance lease liabilities	2,243
	<hr/> <hr/>
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
	<hr/>
	2,243
	<hr/> <hr/>
(2005 –nil)	

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 installments, with the first repayment due within thirty eight months after the first drawdown date (28 February 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 installments, with the first repayment due within thirty eight months after the first drawdown date (28 February 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.

I. Marasa Holdings Limited on 5 October, 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 installments starting from 2007.

Trade and Other Payables

Trade and other payables was US\$52.1 million as at December 31, 2006 compared to US\$25.2 million as at December 31, 2005 representing an increase of US\$26.9 million or 107 per cent. This increase was primarily due to the increase in trade payables of US\$0.3 million at the Mövenpick Resort & Spa Mauritius which was acquired in April 2006, US\$1.6 million at the Mövenpick Karon Beach Phuket Thailand, which was acquired in May 2006 and US\$0.4 million at Lusaka which was acquired in October 2006. Four Seasons Hotel Marrakech accounts payable also rose by US\$6.0 million primarily as a result of the ongoing construction in the property. Accounts payable at the other consolidated entities rose by a net US\$4.0 million due to working capital requirements for the year.

The increase was also due to accrued expenses and payables This increase was primarily due to US\$1.9 million at the Four Seasons Damascus, which began operations in December 2005, US\$2.8 million at the Mövenpick Karon Beach Phuket Thailand, which was acquired in May 2006, US\$1.5 million at the Mövenpick Resort and Spa Mauritius, which was acquired in April 2006, US\$1.5 million at Mövenpick Hotel Bur Dubai, US\$5.7 million at the Four Seasons Hotel Marrakech, US\$0.4 million at Mövenpick Resort & Spa El Quseir and US\$0.9 million at Lusaka. That was offset by a decrease of US\$0.1 million relating to fluctuations in the working capital requirements of the other properties within the KHI.

Deferred Taxation

The deferred tax liability was US\$6.4 million as at December 31, 2006 compared to US\$4.8 million as at December 31, 2005 representing an increase of US\$1.6 million or 34 per cent. The tax is provided by the operating entities, within Kingdom Kenya 01 Limited and Lusaka using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts within the financial statements. The liability is measured at the tax rates that are expected to apply to the year when the liability is settled, based on the laws of Kenya at the balance sheet date.

Minority Interest of Consolidated Subsidiaries

Minority interest of consolidated subsidiaries represents the share of the minority in the subsidiary's equity, which includes capital, cumulative foreign currency translation, cumulative change in the fair market value of investment and retained earnings.

The minority interest of consolidated subsidiaries as at December 31, 2006 was US\$109.2 million, as compared to US\$113.8 million as at December 31, 2005, reflecting a decrease of US\$4.6 million or 4 per cent. This decrease was principally due to the acquisition of the effective ownership of 13.75 per cent in SSTI the owning company of the Four Seasons Damascus from MAFT shares by Kingdom 5-KR-71 and 56.83 per cent in Mövenpick Resort & Spa El Quseir.

Paid Up Share Capital

Paid up share capital as at December 31, 2006 was US\$873.7 million, as compared to US\$541.7 million as at December 31, 2005, reflecting an increase of 61 per cent. The increase in subscribed capital as at December 31, 2006, as compared to December 31, 2005, was due to the following:

- (i) issue of 19,100,000 shares in respect of the acquisition of the George V, Paris for a total value of US\$95.5 million.
- (ii) issue of 44,344,967 shares in respect of the Initial Public Offering for a total nominal value of US\$221.7 million.
- (iii) issue of 1,200,405 shares to Salaam Investments as part of the acquisition of an available shares in the Four Seasons Cairo at Nile Plaza for a nominal value of US\$6 million.
- (iv) the issue of 1,621,622 shares to MAFT resulting from the acquisition of shares in SSTIC the owning company of the Four Seasons Damascus for a total nominal value of US\$8.1 million.
- (v) a "Greenshoe option", following the IPO, was exercised by the underwriters and a further 136,850 shares were issued at price of US\$9.25, for a total consideration of US\$1,265,863.

Share premium

The share premium balance arose from the excess of the above share issues at US\$9.25 per share in excess of the nominal value of US\$5 per share on the issue of shares above, less the costs of US\$27.0 million incurred in respect of the IPO.

Foreign currency translation reserve

The cumulative foreign currency translation reserve as at December 31, 2006 was US\$20.4 million, as compared to US\$20.0 million as at December 31, 2005, reflecting a reduction of US\$0.4 million or 2 per cent. This reduction primarily reflected an accumulated translation adjustment arising from the re-translation of our investments in Tanzania, Kenya, Mauritius and Zambia, due to the appreciation of those currencies against the U.S. Dollars, in accordance with International Accounting Standards 21. We pay and book our investments in U.S. Dollars, while the respective hotel owning companies book our investments and capital contributions in their national currency at the exchange rate on the transaction date.

SEGMENTAL INFORMATION - CONSOLIDATED BALANCE SHEET

The KHI's primary continuing operations are organized on a worldwide basis into four geographical segments, Middle East, Africa, Asia and Europe

	Year ended 31 December 2006					
	<i>Head Office</i> US \$ '000	<i>Middle East⁽¹⁾</i> US \$ '000	<i>Africa</i> US \$ '000	<i>Asia</i> US \$ '000	<i>Europe</i> US \$ '000	<i>Total operations</i> US \$ '000
Assets and liabilities						
Segment assets	450,432	460,812	226,249	106,077	-	1,243,570
Investments in associates	-	121,919	1,618	-	111,351	234,888
Total assets for 2006	<u>450,432</u>	<u>582,731</u>	<u>227,867</u>	<u>106,077</u>	<u>111,351</u>	<u>1,478,458</u>
Total assets for 2005	<u>239,232</u>	<u>481,232</u>	<u>75,537</u>	<u>-</u>	<u>-</u>	<u>796,001</u>
Total liabilities for 2006	<u>6,097</u>	<u>135,541</u>	<u>82,135</u>	<u>36,800</u>	<u>-</u>	<u>260,573</u>
Total liabilities for 2005	<u>15,237</u>	<u>101,313</u>	<u>28,933</u>	<u>-</u>	<u>-</u>	<u>145,483</u>

⁽¹⁾ Middle East: includes Egypt

Liquidity and capital resources

Our short-term liquidity requirements consist primarily of funds necessary to pay for operating expenses and other expenditures directly associated with our hotels, including:

- i) Investments relating to acquisitions and new developments;
- ii) Interest expense and scheduled principal payments on outstanding indebtedness;
- iii) Recurring capital expenditures necessary to maintain our hotels properly; and Capital expenditures incurred to improve our hotels. We have in the past derived, and we expect to continue to derive, substantially all of our revenue from funds generated by our operating subsidiaries, mainly in the form of asset management fees or dividends, and, therefore, we rely on the ability of these companies to transfer funds to us.

The table below presents our cash flows for year ended December 31, 2006 and December 31, 2005:

Year ended December 31,	2006	2005
	US\$ '000	US\$ '000
Net cash (used) provided from operating activities	(1,919)	3,406
Net cash used in investing activities	(222,369)	(78,213)
Net cash provided from financing activities	416,562	267,813
Cash and cash equivalents		
Beginning cash and cash equivalents	227,599	37,546
Ending cash and cash equivalents	420,296	227,599
Net increase in cash and cash equivalents	192,697	190,053

As at December 31, 2006, net cash and cash equivalents for cash flow purposes were US\$420.3 million, as compared to US\$227.6 million, as at December 31, 2005 reflecting an increase of 85 per cent.

Operating activities

Net cash outflow from operating activities for the year ended December 31, 2006 was US\$1.9 million, as compared to cash inflow from operating activities of US\$3.4 million for the year ended December 31, 2005. This change in net cash from operating activities for the year ended December 31, 2006, as compared to the year ended December 31, 2005, was principally due to the following:

- i) Increase in the operating profit before working capital to US\$9.4 million for the year ended December 31, 2006, as compared to US\$7.5 million for the year ended December 31, 2005
- ii) Change in working capital adjustments to a cash out flow of US\$0.2 million from a cash inflow of US\$1.2 million which lead to the increase of cash generated from operations from US\$9.1 for the year ended December 31, 2005 to US\$9.8 million for the year ended December 31, 2006.
- iii) Interest paid increase from US\$5.3 for the year ended December 31, 2005 to US\$11.2 an increase of US\$5.9 million or 111 per cent.

Investing activities

Net cash outflow from investing activities for the year ended December 31, 2006 was US\$222.4 million, as compared to US\$78.2 million for the year ended December 31, 2005, reflecting an increase of 184 per cent. The increase in cash used in investing activities for the year ended December 31, 2006, as compared to the year ended December 31, 2005, was principally due to the following:-

- i) Increase in cash expended on acquisition of subsidiaries and associates net of cash acquired. During the year ended December 31, 2006, we paid US\$152.3 million for investments compared to US\$40.7 million for the year ended December 31, 2005. Major investment acquisitions during the year resulted in cash outflows net of cash on hand at banks at the date of acquisition were US\$69 million for the Mövenpick, Karon Beach, Phuket, Thailand, US\$25.6 million for the Mövenpick Mauritius, US\$11 million for the Four Seasons Mauritius, US\$8.2 million on the Fairmont Palm, US\$1.6 million from Mövenpick Zanzibar, US\$28 million for Lusaka Zambia, an additional interest of 56.83 per cent in Mövenpick Resort & Spa El Quseir for US\$19.8 million, also in Kingdom Nile Plaza by 4.4 per cent and Sharm El Sheikh by 7.4 per cent amounted to US\$13.4 million and US\$10.5 million .
- ii) Increase in cash expended on Investment properties. During the year ended December 31, 2006 we expended US\$25.5 million as compared to Nil in the year ended December 31, 2005. Main reason for the increase is our acquisition of an apartment building (Bur Dubai Residence) adjacent to the existing Mövenpick Hotel in Bur Dubai for a total consideration including acquisition costs of US\$25.5 million.
- iii) Cash outflow relating to the purchase of property and equipment and construction in progress for the year ended December 31, 2006 was US\$45.5 million, as compared to US\$39.6 million for the year ended December 31, 2005 an increase of US\$5.9 million or 15 per cent which related to capital expenditure at existing properties.
- iv) The cash outflows as per above were partially offset by the proceeds from disposal of the Fairmont shares of US\$12.4 million against Nil for the year ended December 31, 2005, and interest received which was US\$22.5 for the year ended December 31, 2006 against US\$1.9 million for the year ended December 31, 2005 an increase of US\$20.7 million or 1,111 per cent.

Financing activities

Net cash from financing activities for the year ended December 31, 2006 was US\$416.6 million, as compared to US\$267.8 million for the year ended December 31, 2005, reflecting an increase of US\$148.8 million or 56 per cent. The increase in net cash from financing activities for the year ended December 31, 2006, as compared to the year ended December 31, 2005, was principally due to:

- i) The cash proceeds received from the IPO on March 1, 2006 of US\$378.0 million net of expenses compared with US\$243.5 million during the year ended December 31, 2005 relating to a share issue;
- ii) The net increase net borrowings of US\$35.9 million for the year ended December 31, 2006 as compared to US\$11.7 million for the year ended December 31, 2005. Borrowing increased in the Mövenpick Hotel Bur Dubai, Mövenpick Beirut and Mövenpick Mauritius resulting from loan refinancing during the year ended December 31, 2006.

End -

ANIX (1)

LIST OF SUBSIDIARIES, JOINT VENTURE, AND ASSOCIATES

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

KHI subsidiary and per centage owned	Operating entity	Name and location	Per centage of nominal value of issued shares controlled by KHI	
			2006	2005
Subsidiaries without changes in ownership during the year:				
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%) Kenya	Kingdom Kenya 01 Ltd.	Fairmont Aberdare, Ark Lodge, Mount 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	N/A	100%	100%

KHI subsidiary and per centage owned	Operating entity	Name and location	Per centage of nominal value of issued shares controlled by KHI	
			2006	2005
Subsidiaries where ownership per centage has changed during the year:				
Damascus Holding and Kingdom 5-KR-184 Ltd (100%) through its subsidiary Kingdom 5- KR-71 Ltd (65%)	Syrian Saudi Tourism Investments Co. (SSTIC)	Four Seasons – Damascus, Syria	55%	55%
Subsidiaries which were formerly associates:				
Kingdom 5-KR-153 Ltd (100%)	Serena Beach Company	Mövenpick - El Quesir, Egypt	87%	30%
Subsidiaries acquired:				
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%	-
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%	-

KHI subsidiary and per centage owned	Operating entity	Name and location	Per centage of nominal value of issued shares controlled by KHI	
			2006	2005
Interests acquired in joint ventures:				
Kingdom 5-KR-182 Ltd (100%)	Anahita Hotel Ltd	Four Seasons – Mauritius	50%	-
At 31 December 2006, the KHI had investments in the following subsidiaries and incorporated joint ventures:				
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 per centage 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%	-