



# KINGDOM HOTEL INVESTMENTS

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## **Kingdom Hotel Investments (“KHI”) December 31, 2007 Results**

Kingdom Hotel Investments (“KHI”), the leading hotel investment company, which owns 35 luxury and upscale properties across various emerging markets, today reports results for the twelve months ended 31 December 2007.

### **Financial Highlights**

KHI reports a strong financial performance for the year, from both existing hotels and acquisitions underpinned by continued diversification into high growth markets, particularly Asia, and further investment.

- **Consolidated hotel revenues increased by 80% to US\$178.6 million (77% growth before foreign exchange impacts)**
  - Acquisition of majority interests in 9 hotels during 2007 and 2006, which contributed revenues of US\$80.0 million and accounted for most of KHI’s revenue growth for the year
  - Comparable hotel like-for-like revenue (8 hotels) increased 10% to US\$87.5 million as growth in Damascus and Dubai more than offset Beirut declines and renovation impacts in Kenya and Tanzania
  - Other non-hotel revenue increased by 190% to US\$11.1 million in 2007, driven by ancillary real estate sales in Phuket and other real estate revenue in Damascus, Beirut and Dubai
- **KHI EBITDA increased by 246% and KHI adjusted EBITDA by 116%**
  - KHI EBITDA increased by US\$25.3 million to US\$35.6 million, driven by (i) a US\$21.0 million contribution from non-comparable acquisitions; (ii) a 31% increase in comparable hotel EBITDA from higher revenue and margins in Damascus, Dar Es Salam, Dubai and Kenya which offset declines in Beirut; (iii) US\$3.3 million of additional non-hotel EBITDA, US\$0.9 million of which was from Phuket real estate sales; and (iv) incremental dividends of US\$0.4 million. Cumulatively, these more than offset the effect of higher corporate overheads.
  - KHI Adjusted EBITDA, which includes KHI’s share in EBITDA of its non-consolidated equity investments and excludes minority interests in its EBITDA, increased by US\$36.2 million to US\$67.6 million. This increase was driven by (i) EBITDA expansion as above; (ii) the US\$10.8 million increase in the share of associates’ EBITDA before real estate sales; and (iii) a US\$3.4 million increase in the share of gains on real estate sales in Egypt associates. Cumulatively, these increases more than offset a US\$3.3 million increase in minorities’ share of EBITDA.
- **Net Profit before non-recurring items expanded 40% to US\$32.8 million, while reported Net Profit declined by 20% to US\$34.1 million** as KHI lapped a non-recurring deferred credit gain recorded in 2006.
- **EPS before non-recurring items grew by 31% to US\$0.19 per share, while reported EPS declined 25% to US\$0.20 per share.** The weighted average number of shares was 174.7 million in 2007 (2006: 163.7 million).
- **KHI’s balance sheet remained conservatively leveraged (Debt to Equity ratio of 10% at 2007 year-end),** reflecting the deployment of available cash on acquisitions, developments and capital expenditure projects ahead of planned refinancing activities. Net debt at 31 December 2007 was US\$134.3 million compared with a net cash position of US\$239.3 million in December 2006 as interest-bearing debt increased by US\$123.4 million to US\$314.9 million, and cash balances declined by US\$250.2 million to US\$180.6 million.

## Summary financials and key ratios

	<b>Consolidated KHI Results</b>				
	<i>12 months ended 31 December</i>				
<i>(In US\$ 000's)</i>	<u>2007</u>	<u>2006</u>	<u>US\$ Change</u>	<u>% Change</u>	<u>Excl. Forex</u>
<b><u>KHI System operating hotels</u></b>					
No. of consolidated hotels {rooms}	<i>17 {3,531}</i>	<i>13 {2,486}</i>		<i>{42%}</i>	
No. of associated hotels {rooms}	<i>4 {1,364}</i>	<i>4 {1,364}</i>		<i>{ - }</i>	
<b>Total KHI System</b>	<b><i>21 {4,895}</i></b>	<b><i>17 {3,850}</i></b>		<b><i>{27%}</i></b>	
<b>Total revenues</b>	<b>178,556</b>	99,059	79,497	<b>80%</b>	<b>77%</b>
Hotel revenues	167,418	95,216	72,203	76%	73%
Other revenues	11,137	3,844	7,294	190%	
Hotel EBITDA	<b>48,976</b>	22,051	26,924	122%	119%
<b>Total gross profit</b>	<b>34,741</b>	<b>14,512</b>	<b>20,229</b>	<b>139%</b>	<b>133%</b>
Hotel gross profit	28,247	11,297	16,951	150%	142%
Other gross profit	6,493	3,215	3,278	102%	
<b>Operating profit</b>	<b>14,009</b>	(696)	14,705	n/a	
<b>KHI Net Profit</b>	<b><u>34,093</u></b>	<b><u>42,810</u></b>	<b><u>(8,717)</u></b>	<b>(20%)</b>	
<b>Earnings Per Share</b>	<b><u>\$ 0.20</u></b>	<b><u>\$ 0.26</u></b>	<b><u>\$ (0.07)</u></b>	<b>(25%)</b>	
Weighted Avg. no. shares outstanding	174,732	163,660	11,072	7%	
<b><u>Before non-recurring items:</u></b>					
<b>KHI Net Profit before non-recurring items</b>	<b><u>32,839</u></b>	<b><u>23,515</u></b>	<b><u>9,323</u></b>	<b>40%</b>	
<b>Earnings Per Share before non-recurring items</b>	<b><u>\$ 0.19</u></b>	<b><u>\$ 0.14</u></b>	<b><u>\$ 0.04</u></b>	<b>31%</b>	
<i>(In US\$ 000's)</i>					
KHI EBITDA	35,644	10,296	25,348	246%	
Adjusted KHI EBITDA	67,562	31,348	36,214	116%	
Net Debt/ (Net Cash)	134,336	(239,276)	373,612		
<b><u>Key Ratios</u></b>					
KHI EBITDA margin (% Total revenues)	20%	10%		9.6 pts	
Hotel Gross margin (% Hotel revenues)	17%	12%		5.0 pts	
Operating profit margin (% Total revenues)	8%	n/a		n/a	
KHI Net Profit before non-recurring items (% Total revenues)	18%	24%		(5.3) pts	
Net Debt/ Shareholders' Equity	10%	n/a		n/a	

## Strategic Highlights

- **Increased diversification of the portfolio during 2007 through acquisitions in high growth, Asian emerging markets.** Asia today accounts for 6 of 17 consolidated hotels, 39% of invested equity and approximately a third of consolidated 2007 hotel revenues (2006: 5%).
- **Continued to progress on acquisition objectives and committed most of the IPO proceeds.** During 2007, KHI invested into US\$634.4 million of assets across 8 acquisitions; which included 5 operating hotels, two new developments in Asia and one new development in the Seychelles.
  - **Raffles Da Nang Resort and Residences, Da Nang (Vietnam)** (announced January 2007). KHI expects to develop a 140-room resort and 45 luxury residential condominiums that will be sold over several phases for a total development cost of US\$74 million. KHI has an 80% equity interest in the project.
  - **Fairmont Makati Hotel and Raffles Suites & Residences, Makati City, Manila (Philippines)** (announced March 2007). KHI expects to develop a 300-room Fairmont hotel together with a 30-suite Raffles hotel and 226 luxury apartments for sale with a total development cost of US\$153 million. KHI has an 80% equity interest in the project.
  - **Four Seasons Resort Langkawi (Malaysia)** (announced April 2007). KHI acquired a 90% equity interest in this 91-room resort for a total cost of US\$117.3 million and at the same implied enterprise value. KHI plans to add about 14 rooms to hotel inventory and 20 luxury residential villas for sale at an estimated development cost of US\$85 million.
  - **Swissôtel Kunshan (China)** (announced May 2007). KHI acquired a 100% equity interest in this 387-room hotel for US\$43.7 million at an implied enterprise value of US\$61.3 million.
  - **Raffles Le Royal, Phnom Penh and Raffles Grand Hotel d'Angkor Siem Reap (Cambodia)** (announced July 2007). KHI acquired a 100% equity interest in two hotels (Le Royal: 170 rooms, Grand Hotel: 125 rooms) for US\$36.4 million and at the same implied enterprise value.
  - **Raffles Seychelles Resort and Residences, Praslin (Seychelles)** (announced July 2007). KHI expects to develop a 90-room resort and 23 luxury residential villas for sale with a total development cost of US\$144 million. KHI has a 91% equity interest in the project.
  - **Four Seasons Jakarta (Indonesia)** (announced September 2007). KHI acquired a 91.2% equity interest in this 320-room hotel for a total cost of US\$46.8 million and at the same implied enterprise value. In November 2007, KHI received notice from its minority shareholders of their intention to convert an existing US\$2.3 million shareholder advance into a 9.1% equity position under an agreement that pre-dates the acquisition, which will dilute KHI's equity interest to 82.1% pro-forma.
- **Rationalised the portfolio through the disposal of minority investments, generated refinancing proceeds and completed step-up acquisition.**
  - Disposed of the remaining equity interest in Four Seasons Hotels & Resorts, Inc. for US\$14.7 million, with a realised gain of US\$2.7 million in April 2007.
  - Participated in the Fairmont Raffles Holdings International share buyback to retire 26% of its outstanding shares for US\$3.0 million and a realised gain of US\$1.9 million in December 2007.
  - Realised cash proceeds of US\$31.1 million through two subordinated and guaranteed shareholder loans in October and December mainly from additional debt financing at our associate hotel, Four Seasons George V.
  - Signed agreements to dispose of KHI's equity interest in the Mövenpick Pearl Dubai, an affiliated development project, for a total consideration of US\$8.2 million. In November 2007, KHI received a deposit against this agreement of US\$1.0 million and received an additional US\$3.1 million consideration in January 2008. As at 31 December 2007, KHI invested a total of US\$3.7 million in this project.

- Increased KHI's equity interest in the Four Seasons Damascus from 49.4% to 54.9% by acquiring an effective 5.5% and settled a pending equity obligation for a total consideration of US\$19 million.

## Operational Highlights

- **Strong top line and bottom line performance throughout the System hotel portfolio.**
  - **Robust System RevPAR growth of 23% (18% before foreign exchange impacts)**, a reflection of strong trading and asset management actions. This increase was driven primarily by rate gains and favourable foreign exchange translation effects. Forex-neutral rate increases drove growth in Cairo, Paris, Langkawi, Lusaka and Dubai. Occupancy significantly increased in Damascus, Mauritius and Jakarta. For the remaining hotels, strong RevPAR growth was distributed between rate and occupancy. Beirut RevPAR declined by 22% due to political events in that market.
  - **System EBITDA increased by 39% (34% before foreign exchange impacts)** as revenue growth and efficiency gains drove profit expansion, particularly in Cairo, Red Sea resorts, Paris and Damascus. Cost-containment initiatives mitigated the impact of softer trading in Beirut and minimised comparable margin erosion at that property.
- **Ancillary real estate continues to support revenue growth, operating profits and ROI.**
  - Completed the off-plan sale of all 43 Four Seasons Marrakesh luxury residences and 31 of 45 villas in the Four Seasons Mauritius. Additionally, 13 of 30 apartments have been sold at the Mövenpick hotel in Phuket. KHI realised US\$9.7 million from its share of gains from real estate sales at the two associated Four Seasons properties in Egypt.
  - Damascus retail outlets were fully leased, real estate revenue increased in Beirut and the Bur Dubai residence building was short-leased, pending its integration into the Mövenpick Bur Dubai in the H2 2008.
- **Development pipeline has progressed with 9 consolidated development projects:** three under construction, three at tender and negotiation phase and three at scoping and design phase. The associated development, Dubai Fairmont Palm project is also under construction and is expected to open in 2009. KHI's affiliated investment, Fairmont Nile City in Cairo is expected to open in 2008.
  - Construction at the Four Seasons Beirut and Mauritius hotels continues unabated and is expected to conclude in the second half of 2008. In addition, KHI has awarded the construction contract for the Four Seasons Marrakech development and advanced three projects into the tendering and negotiation phase (Da Nang, Manila and Seychelles).
  - Completed the land acquisitions in the Phang Nga, Manila and Seychelles developments.
  - Renovation of the Mövenpick Royal Palm in Tanzania and the Fairmont Mara Safari Club in Kenya were completed during the year. Other renovation projects are ongoing at two Kenyan hotels and the Intercontinental Lusaka as well as the capacity expansion and integration at the Mövenpick Bur Dubai.
  - The Fairmont Zanzibar (Tanzania), an associated investment in which KHI owns a 30% interest, opened in November 2007. This 109-room seafront resort is located on the Northeast coast of Zanzibar's main island, 25 kilometres off the east coast of Tanzania.
  - Investments in non-consolidated developments progressed significantly. The Dubai Fairmont Palm hotel project is under construction. In Cairo, the Fairmont Nile City, an affiliate investment, is expected to open in 2008.

## **Subsequent events**

- In January 2008, the Four Seasons Mauritius residences booked 9 reservations on the remaining units at the project. KHI expects these to be converted into sales agreements ahead of both completion and the opening of the hotel, which is expected in Q4 2008.
- In January 2008, KHI completed the acquisition of land for the previously announced Seychelles development valued at US\$6 million. The seller remains as a minority shareholder in the development.
- In January 2008, KHI received US\$3.1 million which represents payments under its agreement to dispose of its equity investment in the Mövenpick Pearl Dubai development project.

## **Outlook**

- Based on current trading trends, KHI expects System RevPAR growth in the mid-teens for 2008.
- In Kenya, (less than 5% of 2007 consolidated hotel EBITDA) the planned renovation programme will be delayed, possibly beyond H2 2008, subject to developments on the ground. In Beirut, (approximately 8% of 2007 consolidated hotel EBITDA) the trading impact for 2008 will be less pronounced as this will lap a full year of post-crisis results. Profit protection plans will remain in place in Beirut and is being implemented in Kenya.
- During 2008, KHI will complete renovations (Dubai, two hotels in Kenya, Zambia) and open hotels (Beirut, Mauritius) as well as complete design and scoping of projects (Ghana, Uganda). KHI will also award construction contracts, in addition to finalising construction contracts for three projects currently in the tender and negotiation phase: Raffles Praslin (Seychelles), Raffles Da Nang (Vietnam) and Raffles Manila (Philippines).
- Operationally, the focus will be on the continued integration of KHI's newly acquired hotels, to further deliver growth across the portfolio.
- A dedicated off-plan, pre-sales and marketing programme will be launched for three developments with a view to accelerate ancillary real estate sales.
- KHI will continue to leverage the balance sheet and will seek to raise US\$400-US\$500 million of debt during 2008.

Kingdom Hotel Investments  
CONSOLIDATED INCOME STATEMENT  
For the year ended 31 December 2007

	<i>2007</i> <i>US\$'000</i>	<i>2006</i> <i>US\$'000</i> <i>Restated</i>
Revenue	<b>178,556</b>	99,059
Direct cost of revenue	<b>(123,087)</b>	(73,793)
Depreciation	<b>(20,728)</b>	(10,754)
<b>Gross profit</b>	<b>34,741</b>	14,512
General and administration expenses	<b>(20,256)</b>	(14,973)
Depreciation	<b>(476)</b>	(237)
Share of results of associates	<b>26,883</b>	14,392
Dividend income	<b>430</b>	-
Project costs written-off	<b>(3,980)</b>	(1,983)
Gain on sale of investments	<b>4,625</b>	7,328
Amortisation of deferred credit	<b>-</b>	12,832
Other income	<b>610</b>	1,118
<b>Profit before tax and interest income / expense</b>	<b>42,577</b>	32,989
Interest income	<b>11,503</b>	22,545
Interest expense	<b>(13,549)</b>	(11,184)
<b>Profit before tax</b>	<b>40,531</b>	44,350
Income tax expense	<b>(2,057)</b>	(426)
<b>Profit for the year</b>	<b>38,474</b>	43,924
Attributable to:		
Shareholders of the parent	<b>34,093</b>	42,809
Minority interests	<b>4,381</b>	1,115
	<b>38,474</b>	43,924
<b>Earnings per share (US\$)</b>		
From continuing operations:		
- Basic	<b>0.20</b>	0.26
- Diluted	<b>0.20</b>	0.26

Kingdom Hotel Investments  
CONSOLIDATED BALANCE SHEET  
At 31 December 2007

	2007 US\$'000	2006 US\$'000 <i>Restated</i>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	996,344	585,419
Goodwill and intangible assets	84,715	62,474
Investment properties	33,197	28,953
Investments in associates	268,534	234,888
Available-for-sale financial assets	76,002	87,112
Other financial assets	18,545	12,144
Deferred tax asset	848	1,557
	<u>1,478,185</u>	<u>1,012,547</u>
<b>Current assets</b>		
Real estate held for sale	4,540	-
Inventories	5,726	3,386
Trade and other receivables	26,426	20,576
Due from related parties	5,374	6,903
Prepayments	31,332	11,394
Cash and short term deposits	180,564	430,788
Income taxes recoverable	393	366
	<u>245,355</u>	<u>473,413</u>
<b>TOTAL ASSETS</b>	<u><u>1,732,540</u></u>	<u><u>1,485,960</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to shareholders of the parent</b>		
Share capital	873,694	873,694
Treasury shares	(1,220)	-
Share premium	180,989	180,993
Foreign currency translation reserve	(896)	(20,375)
Cumulative changes in fair value	30,676	28,250
Retained earnings	78,383	44,289
Cash flow hedge reserve	1,453	1,168
	<u>1,163,079</u>	<u>1,108,019</u>
Minority interests	142,642	109,210
<b>TOTAL EQUITY</b>	<u>1,305,721</u>	<u>1,217,229</u>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	292,087	170,405
Provisions	3,888	1,835
Retentions payable	5,223	8,507
Deferred tax liabilities	16,943	14,605
Deferred credit	-	-
Other financial liabilities	10,697	-
	<u>328,838</u>	<u>195,352</u>
<b>Current liabilities</b>		
Trade and other payables	68,127	52,082
Interest-bearing loans and borrowings	22,812	21,108
Due to related parties	7,042	189
	<u>97,981</u>	<u>73,379</u>
<b>TOTAL LIABILITIES</b>	<u>426,819</u>	<u>268,731</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u><u>1,732,540</u></u>	<u><u>1,485,960</u></u>

Kingdom Hotel Investments  
CONSOLIDATED CASH FLOW STATEMENT  
For the year ended 31 December 2007

	<i>2007</i> <i>US\$'000</i>	<i>2006</i> <i>US\$'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit before tax	<b>40,531</b>	44,350
Adjustments for:		
Depreciation	<b>21,205</b>	10,991
Income from associates	<b>(26,883)</b>	(14,392)
Dividend received on available-for-sale investments	<b>(430)</b>	-
Interest income	<b>(11,503)</b>	(22,545)
Interest expense	<b>13,549</b>	11,184
Gain on disposal of investments	<b>(4,625)</b>	(7,328)
Amortisation of deferred credit	-	(12,832)
<b>Operating profit before working capital changes</b>	<b>31,844</b>	9,428
Trade and other receivables	<b>(13,359)</b>	(11,345)
Due from related parties net	<b>7,762</b>	(6,596)
Inventories	<b>(990)</b>	(431)
Trade and other payables	<b>17,809</b>	18,716
Real estate held for sale	<b>4,330</b>	-
Cash generated from operations	<b>47,396</b>	9,772
Interest paid	<b>(12,374)</b>	(11,184)
Income taxes paid	<b>(2,057)</b>	(507)
<b>Net cash inflows (outflows) from operating activities</b>	<b>32,965</b>	(1,919)
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	<b>(130,534)</b>	(45,499)
Acquisition of subsidiaries and joint venture net of cash acquired	<b>(273,946)</b>	(152,253)
Acquisition of associates	<b>(6,282)</b>	(34,069)
Purchase of investment properties	-	(25,524)
Proceeds from disposal of available-for-sale financial assets	<b>17,665</b>	12,425
Dividends received from associates	<b>430</b>	-
Interest received	<b>11,583</b>	22,545
Purchase of intangible asset	<b>(2,283)</b>	-
<b>Net cash outflows from investing activities</b>	<b>(383,367)</b>	(222,375)
<b>FINANCING ACTIVITIES</b>		
Repayment of borrowings	<b>(15,211)</b>	(32,907)
Proceeds from borrowings	<b>125,416</b>	68,785
Proceeds from issue of share capital	-	378,010
Purchase of treasury shares	<b>(1,220)</b>	-
Minority interest	-	1,080
(Repayment) Proceeds from release of restricted cash	<b>(12,168)</b>	1,600
<b>Net cash inflows from financing activities</b>	<b>96,817</b>	416,568
<b>Net increase in cash and cash equivalents</b>	<b>(253,585)</b>	192,274
Net foreign exchange difference	<b>140</b>	423
Cash and cash equivalents at 1 January	<b>420,296</b>	227,599
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>166,851</b>	420,296

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Note on Forward-Looking Statements**

On one or more occasions, we may make statements regarding our assumptions, projections, expectations, targets, intentions or beliefs about future events. All statements other than statements of historical facts included or incorporated in the release are forward-looking statements. Forward-looking statements reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. Such statements are made in good faith and based on reasonable assumptions, including without limitation, management's examination of historical operating trends, data contained in records and other data available from third parties, we cannot assure you that our projections will be achieved.

### **Company Overview**

Kingdom Hotel Investments – hereafter referred to as KHI, the Company or the Group – was incorporated in the Cayman Islands in May 2000 to acquire, develop, finance and actively asset manage high quality hotels in key emerging markets destinations. KHI completed its initial public offering, or IPO, of common stock in March 2006 and is listed on the Dubai International Financial Exchange and has Global Depository Shares traded on the London Stock Exchange. KHI's consolidated financial statements include properties in which it has either a controlling interest (subsidiaries) or minority investments that we account for under the equity method (associates). Throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" section, references to "we", "our" and "us" are references to KHI and its consolidated subsidiaries and associate investments. When presenting the dollar equivalent amount for any amounts expressed in a foreign currency, the dollar equivalent amount has been computed based on the exchange rate on the date of the transaction or the exchange rate prevailing on December 31, 2007 as applicable, unless otherwise noted, The income statement of overseas subsidiaries and joint ventures are translated at average exchange rates for the reported year.

KHI either controls or exercises significant influence over 32 hotel investments in 20 countries and three continents encompassing about 7,000 rooms. Its portfolio consists predominantly of operating assets, and approximately one-third (10 hotels and 1,740 rooms) are new development projects that are in various stages of development phases. In addition to the hospitality business, KHI's several operating investments and developments include ancillary real estate components that comprise of residential and/or commercial real estate inventory for lease or sale.

To date, KHI has invested US\$ 822.3 million in the equity of 22 operating hotels (excluding Four Seasons Amman). Asia and Middle East/North Africa regions represent the largest allocation of KHI capital at a respective 39 per cent and 36 per cent of the net cash invested. Sub-Saharan Africa represent 14 per cent and Europe (France) 12 per cent. These allocations are subject to change in subsequent years as we execute various capital expenditure programs, financing and refinancing initiatives across the operating portfolio.

The Company manages its business operations across 4 geographic segments: Middle East/North Africa, Sub-Saharan Africa, Asia and Europe (France). The following table represents the number of operating hotels and hotel development projects in the current KHI portfolio and includes acquisitions and announcements made subsequent to the reporting date:

### KHI Hotel Portfolio

#### Operating Hotels

	Country	Type	% Equity ownership	No. of Rooms	% Total Rooms
<b><u>Middle East/ North Africa:</u></b>					
Mövenpick Resort & Spa El Gouna	Egypt	Resort	29%	554	8%
Four Seasons Nile Plaza, Cairo	Egypt	City	44%	365	5%
Four Seasons Damascus	Syria	City	55%	297	4%
Mövenpick Beirut	Lebanon	City	81%	292	4%
Mövenpick Resort El Quseir	Egypt	Resort	87%	250	4%
Mövenpick Hotel Bur Dubai	UAE	City	100%	232	3%
Four Seasons Resort Sharm El Sheikh	Egypt	Resort	39%	200	3%
<b>Total Middle East/ North Africa</b>				<b>2,190</b>	<b>32%</b>
<b><u>Sub-Saharan Africa:</u></b>					
Fairmont Kenya (4 Properties)	Kenya	Resort	70%	393	6%
Mövenpick Royal Palm, Dar Es Salam	Tanzania	City	96%	230	3%
InterContinental Lusaka	Zambia	City	100%	225	3%
Mövenpick Resort & Spa Mauritius	Mauritius	Resort	100%	181	3%
Fairmont Zanzibar	Tanzania	Resort	30%	109	2%
<b>Total Sub-Saharan Africa</b>				<b>1,138</b>	<b>17%</b>
<b><u>Asia:</u></b>					
Swissotel Kunshan	China	City	100%	387	6%
Four Seasons Jakarta*	Indonesia	City	91% / 81.9%	320	5%
Mövenpick Resort & Spa, Karon Beach	Thailand	Resort	100%	339	5%
Raffles Le Royal, Phnom Penh	Cambodia	City	100%	170	2%
Raffles Grand Hotel d'Angkor Siem Reap	Cambodia	Resort	100%	125	2%
Four Seasons Langkawi	Malaysia	Resort	90%	90	1%
<b>Total Asia</b>				<b>1,431</b>	<b>21%</b>
<b><u>Europe:</u></b>					
Four Seasons George V Hotel, Paris	France	City	25%	245	4%

**Operating Hotel Portfolio** **5,004** **73%**

	No. of Hotels	No. of Rooms	% Total Rooms
<b>Total KHI Portfolio:</b>			
Operating Hotel Portfolio (System)	21	4,895	72%
Non-System Additions (Fairmont Zanzibar)	1	109	2%
New Hotel Developments	10	1,740	25%
Existing Hotel Capacity Expansions (2 Hotels)	-	96	1%
<b>Total KHI Portfolio</b>	<b>32</b>	<b>6,840</b>	<b>100%</b>

#### Hotel Developments & Capacity Expansion

	Country	Type	% Equity ownership	No. of Rooms	% Total Rooms
<b><u>Middle East/ North Africa:</u></b>					
			60%		
Fairmont Palm Hotel & Resort	UAE	Resort	20%	230	3%
Four Seasons Beirut	Lebanon	City	38%	230	3%
Four Seasons Hotel Marrakech	Morocco	City	78%	140	2%
Mövenpick Hotel Dubai & Residence (expansion)	UAE	City	100%	82	1%
<b>Total Middle East/ North Africa</b>				<b>682</b>	<b>10%</b>
<b><u>Sub-Saharan Africa:</u></b>					
Mövenpick Ambassador Hotel, Accra	Ghana	City	100%	251	4%
Mövenpick Kampala	Uganda	City	100%	160	2%
Four Seasons Mauritius	Mauritius	Resort	50%	90	1%
Raffles Seychelles Resort	Seychelles	Resort	91%	90	1%
<b>Total Sub-Saharan Africa</b>				<b>591</b>	<b>9%</b>
<b><u>Asia:</u></b>					
Fairmont Makati Hotel & Raffles Hotel	Philippines	City	80%	330	5%
Raffles Da Nang Resort	Vietnam	Resort	80%	140	2%
Raffles Phang Nga Resort	Thailand	Resort	80%	79	1%
Four Seasons Langkawi (expansion)	Malaysia	Resort	90%	14	0%
<b>Total Asia</b>				<b>563</b>	<b>8%</b>

**Hotel Developments & Capacity Expansion Portfolio** **1,836** **27%**

Note: KHI excludes affiliated investments (defined as investments that the Company have no control over or doesn't exert significant influence over their decision making) i.e. Four Seasons Amman, Jordan (operating), Fairmont Nile City, Cairo (Development) and Dubai Pearl (Development)

\* The previous owners of the Indonesian hotel holding company had entered into an agreement to transfer all outstanding borrowings (US\$ 2.3 million) into a separate company and allow for conversion of this indebtedness into an equity ownership of 9.1 per cent of the hotel holding company. In November 2007, KHI received a formal request to convert the full amount into equity ownership that will dilute our stake from 91.0 per cent to 81.9 per cent once executed

The following table presents the amounts invested, before and after return of capital, as well as the total debt at each property as at December 31, 2007:

*In US\$ millions*

	<u>Opened/ Acquired</u>	<u>Country</u>	<u>% Equity Owned</u>	<u>No. of Rooms</u>	<u>Cash Invested *</u>		<u>Current Investment</u>	<u>Property Debt</u>
					<u>Initial Investment</u>	<u>Net Change</u>		
<b><u>Middle East/ North Africa:</u></b>								
							As at December 31, 2007	
Mövenpick Resort & Spa El Gouna	1996/ 2002	Egypt	29.3%	554	8.0	-	8.0	0.6
Four Seasons Nile Plaza, Cairo	2004	Egypt	43.7%	365	73.2	-	73.2	0.1
Four Seasons Damascus	2005	Syria	55.0%	297	52.7	15.0	67.7	17.9
Mövenpick Beirut	2002	Lebanon	81.2%	292	72.6	(9.3)	63.3	45.6
Mövenpick Resort El Quseir	1995/ 2002	Egypt	87.3%	250	23.9	-	23.9	1.2
Mövenpick Hotel Bur Dubai	2001/ 2003	UAE	100.0%	232	29.3	(26.0)	3.3	56.9
Bur Dubai Residences	2006	UAE	100.0%	-	25.5	-	25.5	-
Four Seasons Resort Sharm El Sheikh	2002	Egypt	39.3%	200	28.4	-	28.4	15.5
<b>Total Middle East/ North Africa</b>				<b>2,190</b>	<b>313.6</b>	<b>(20.3)</b>	<b>293.3</b>	<b>137.7</b>
<b><u>Sub-Saharan Africa:</u></b>								
Fairmont Kenya (4 Properties)	Various/ 2005	Kenya	70.0%	393	23.4	8.0	31.4	5.0
Mövenpick Royal Palm, Dar Es Salam	1995/ 2004	Tanzania	96.0%	230	14.7	3.6	18.3	7.0
InterContinental Lusaka	1970/ 2006	Zambia	100.0%	225	28.5	6.1	34.6	0.1
Mövenpick Resort & Spa, Mauritius	2005/ 2006	Mauritius	100.0%	181	30.0	(1.7)	28.4	26.5
Fairmont Zanzibar	2007/ 2006	Tanzania	30.0%	109	1.4	-	1.4	-
<b>Total Sub-Saharan Africa</b>				<b>1,138</b>	<b>98.0</b>	<b>16.1</b>	<b>114.1</b>	<b>38.6</b>
<b><u>Asia:</u></b>								
Swissotel Kunshan	2005/ 2007	China	100.0%	387	43.7	0.8	44.5	20.0
Four Seasons Jakarta***	1995/ 2007	Indonesia	91% / 81.9%	320	48.2	-	48.2	-
Mövenpick Resort & Spa, Karon Beach	2006	Thailand	100.0%	339	70.1	1.1	71.2	33.2
Raffles Le Royal, Phnom Penh	1929/ 2007	Cambodia	100.0%	170	35.9	-	35.9	-
Raffles Grand Hotel d'Angkor Siem Reap	1932/ 2007	Cambodia	100.0%	125	-	-	-	-
Four Seasons Langkawi	2005/ 2007	Malaysia	90.0%	90	117.3	3.0	120.3	-
<b>Total Asia</b>				<b>1,431</b>	<b>315.2</b>	<b>4.9</b>	<b>320.1</b>	<b>53.2</b>
<b><u>Europe:</u></b>								
Four Seasons George V Hotel, Paris**	1999/ 2006	France	25.0%	245	95.5	-	95.5	532.4
<b>KHI Total Operating Investments</b>				<b>5,004</b>	<b>822.3</b>	<b>0.7</b>	<b>823.0</b>	<b>762.1</b>

\*Represents actual cash movements (disbursements and return) on operating entities and does not correspond to KHI financial statements presentation or IFRS

\*\* KHI realized cash proceeds of US\$31.1 million through two subordinated and shareholder guaranteed loans in October and December 2007 mainly from debt financing proceeds at this hotel.

\*\*\* The previous owners of the Indonesian hotel holding company had entered into an agreement to transfer all outstanding borrowings (US\$2.3 million) into a separate company and allow for conversion of this indebtedness into an equity ownership of 9.1 per cent of the hotel holding company. In November 2007, KHI received a formal request to convert the full amount into equity ownership that will dilute our stake from 91.0 per cent to 81.9 per cent

**Notes**

1) KHI's equity ownership represents the Company's effective (ie. direct and indirect) ownership in each hotel as at December 31, 2007

2) Cost of investment includes acquisition cost paid to the seller, acquisition costs (e.g. legal, due diligence, consultancy, etc) and shareholder's long term advances

3) Property debt represents the balance sheet value of term loans, overdrafts, finance leases and borrowings from non-financial institutions as at December 31, 2007

4) KHI receives 92 per cent of the profits of Beirut Mövenpick despite its 81 per cent interest as owners of class B shares are not entitled to receive dividends

5) The acquisition of the Four Seasons Resort Langkawi Malaysia was closed on April 1, 2007. The Swissôtel Kunshan was acquired on May 30, 2007. The two Raffles hotels in Cambodia were acquired on July 16, 2007. The purchase of the Four Seasons Jakarta completed in September 2007 while the 5.5 per cent step-up acquisition of the Four Seasons Damascus concluded in July 2007.

6) The table excludes investments in affiliates. As at December 31 2007, KHI had an investment in one operating affiliate, the Four Seasons Amman in Jordan in which it owns a 12.8 per cent equity interest

## Results of Operations

### System Performance

*KHI defines its System portfolio as operating hotel results that are included in the Group's consolidated financial results or investments in associates as at December 31, 2007. Management measures and assesses the performance of the portfolio of hotels irrespective of whether acquired as consolidated subsidiaries or as associates accounted for under the equity method, and irrespective of the timing of such acquisitions and/or divestitures. The System portfolio excludes results of any hotels that may have been closed or divested, sustained substantial physical damage, experienced material business disruption or undergone large scale disruptive capital improvements or projects.*

*Of the 21 operating hotels owned by KHI as at December 31, 2007 and classified in the System portfolio, 17 were consolidated subsidiaries and 4 were associated investments. The System portfolio includes the full 12 month operating results for 2006 and 2007 of the Four Seasons Langkawi, Swissôtel Kunshan, Raffles Siem Reap, Raffles Phnom Penh in Cambodia and the Four Seasons Jakarta (acquired in April, May, July, September of 2007, respectively). The System portfolio excludes the results of (i) the Aberdare Country Club in Kenya whose rooms business was discontinued in late 2006; (ii) the Four Seasons Hotel Amman, an affiliate in which KHI owns a 12.8 per cent equity interest.*

KHI System RevPAR grew 23 per cent in 2007 (18 per cent before foreign exchange impacts), a reflection of strong trading and asset management actions. This increase was driven primarily by rate gains and was widespread across the portfolio and KHI regions. Rate increases drove growth in Cairo, Paris, Langkawi, Lusaka and Dubai. Occupancy significantly increased in Damascus, Mauritius and Jakarta. For the remaining hotels, strong RevPAR growth was distributed between rate and occupancy.

The Red Sea resorts, the Four Seasons in Paris, Cairo and Damascus were the main drivers of this solid performance. Cumulatively, these hotels represented 71 per cent of the System RevPAR growth. Recovery was widespread in all our Red Sea investments (Sharm El Sheikh, El Gouna, El Quseir) with RevPar increases in excess of 30 per cent. RevPAR growth of 11 per cent at the Four Seasons George V, an associate investment, was driven by rate increase as this highly acclaimed hotel benefited from strengthening tourist demand. RevPAR growth of 22 per cent at our Cairo associate, another market leader, was driven by rate increases into resilient corporate and inbound demand. The Four Seasons Damascus, also a market leader, continued to ramp-up its occupancy performance which lead to a very strong RevPAR increase.

A combination of pricing and occupancy resulted in a strong 58 per cent RevPar expansion in Mövenpick Karon Beach, Phuket. The Mövenpick Mauritius experienced a strong return of trading as that market lapped a weak prior year due to Chikengunya fever. The InterContinental Lusaka, which initiated a renovation program, grew RevPAR as it maximized the rate with reduced room inventory. Mövenpick Dar Es Salam, which completed a room renovation program in the second half of the year, capitalized on the steady increase in business travelers and reduced hotel room supply in this market. Beirut RevPAR declined by 22 per cent due to political events while Kenya RevPAR declined by 5 per cent due to the ongoing renovation programs. Newly acquired hotels' like-for-like performance also increased.

System EBITDA increased by 39 per cent (34 per cent before foreign exchange impacts) as revenue growth and efficiency gains drove profit expansion. Cairo, Red Sea resorts, Paris and Damascus drove this performance by contributing three quarters of System EBITDA growth in 2007, while Phuket and Dar Es Salam hotels doubled their EBITDA from last year. Cost-containment initiatives mitigated the impact of softer trading in Beirut and minimized comparable margin erosion at that property. In Kenya, margins were stable despite ongoing renovations. EBITDA growth in newly acquired hotels was also strong.

The following tables set forth KHI System performance (hotel only) and reconciliation between System hotel and reported hotel figures for the year ended December 31, 2007 and December 31, 2006:

KHI System Performance for the year ended December 31, 2007 and 2006 is as follows:

	Hotel Rooms		RevPAR (In US\$)			Total RevPAR (In US\$)				Hotel Revenue (In \$000's)				Hotel EBITDA (In \$000's)				
			Year ended Dec 31			Year ended Dec 31				Year ended Dec 31				Year ended Dec 31				
			% Total	No.	2007	2006	% Change	% Total	2007	2006	% Change	2007	2006	\$ Change	% Change	% Total	2007	2006
<b><u>Middle East/ North Africa:</u></b>																		
Mövenpick Resort & Spa El Gouna	11%	554	\$63.3	\$47.6	33%	5%	\$108.5	\$82.9	31%	21,937	16,757	5,180	31%	7%	11,087	8,049	3,038	38%
Four Seasons Nile Plaza, Cairo	7%	365	\$268.5	\$215.5	25%	13%	\$452.0	\$352.2	28%	60,215	46,927	13,288	28%	19%	29,943	20,165	9,778	48%
Four Seasons Damascus	6%	297	\$134.4	\$92.7	45%	5%	\$222.3	\$157.8	41%	24,099	17,104	6,995	41%	6%	9,911	5,103	4,808	94%
Mövenpick Beirut	6%	292	\$70.4	\$90.1	-22%	4%	\$159.6	\$177.9	-10%	17,011	18,957	(1,946)	-10%	1%	1,809	2,669	(860)	-32%
Mövenpick Resort El Quseir	5%	250	\$49.6	\$35.2	41%	2%	\$106.2	\$79.9	33%	9,688	7,289	2,399	33%	3%	4,658	3,211	1,447	45%
Mövenpick Hotel Bur Dubai	5%	232	\$156.2	\$141.6	10%	4%	\$227.6	\$205.1	11%	19,271	17,416	1,855	11%	5%	8,563	7,901	662	8%
Four Seasons Resort Sharm El Sheikh	4%	200	\$231.3	\$163.1	42%	7%	\$402.3	\$296.2	36%	29,367	21,623	7,744	36%	7%	10,650	6,866	3,784	55%
<b>Total Middle East/ North Africa</b>	<b>45%</b>	<b>2,190</b>	<b>\$131.7</b>	<b>\$106.6</b>	<b>24%</b>	<b>40%</b>	<b>\$227.2</b>	<b>\$182.7</b>	<b>24%</b>	<b>181,588</b>	<b>146,073</b>	<b>35,515</b>	<b>24%</b>	<b>49%</b>	<b>76,621</b>	<b>53,964</b>	<b>22,657</b>	<b>42%</b>
<b><u>Sub-Saharan Africa:</u></b>																		
Fairmont Kenya (4 Hotels)	8%	393	\$58.0	\$57.4	1%	4%	\$120.9	\$127.0	-5%	17,342	18,221	(879)	-5%	2%	2,431	2,335	96	4%
Mövenpick Royal Palm, Dar Es Salam	5%	230	\$70.0	\$55.0	27%	2%	\$116.1	\$93.5	24%	9,748	7,851	1,897	24%	1%	2,326	1,104	1,222	111%
InterContinental Lusaka	5%	225	\$64.9	\$59.1	10%	2%	\$112.7	\$110.1	2%	9,255	9,041	214	2%	2%	2,648	2,117	531	25%
Mövenpick Resort & Spa, Mauritius	4%	181	\$69.5	\$45.9	51%	2%	\$130.9	\$87.6	49%	8,650	5,788	2,862	49%	1%	1,264	(278)	1,542	n/a
<b>Total Sub-Saharan Africa</b>	<b>21%</b>	<b>1,029</b>	<b>\$64.2</b>	<b>\$55.2</b>	<b>16%</b>	<b>10%</b>	<b>\$119.8</b>	<b>\$108.9</b>	<b>10%</b>	<b>44,995</b>	<b>40,901</b>	<b>4,094</b>	<b>10%</b>	<b>6%</b>	<b>8,669</b>	<b>5,278</b>	<b>3,391</b>	<b>64%</b>
<b><u>Asia:</u></b>																		
Swissotel Kunshan	8%	387	\$49.8	\$46.0	8%	3%	\$84.9	\$79.7	7%	11,989	11,261	728	6%	2%	3,682	3,163	519	16%
Four Seasons Jakarta	7%	320	\$51.5	\$44.4	16%	4%	\$147.8	\$132.0	12%	17,269	15,422	1,847	12%	1%	2,110	1,481	629	42%
Mövenpick Resort & Spa, Karon Beach	7%	339	\$81.4	\$44.4	83%	3%	\$119.9	\$68.4	75%	14,832	8,460	6,372	75%	4%	5,599	2,287	3,312	145%
Raffles Phnom Penh	3%	170	\$61.6	\$43.8	41%	2%	\$125.0	\$89.6	40%	7,758	5,559	2,199	40%	1%	1,222	(244)	1,466	n/a
Raffles Siem Reap	3%	125	\$102.1	\$88.6	15%	2%	\$204.3	\$175.5	16%	9,322	8,007	1,315	16%	1%	2,261	2,169	92	4%
Four Seasons Langkawi	2%	90	\$405.6	\$356.4	14%	5%	\$647.1	\$567.6	14%	21,258	18,647	2,611	14%	5%	7,893	6,495	1,398	22%
<b>Total Asia</b>	<b>29%</b>	<b>1,431</b>	<b>\$86.0</b>	<b>\$68.2</b>	<b>26%</b>	<b>18%</b>	<b>\$157.8</b>	<b>\$129.0</b>	<b>22%</b>	<b>82,428</b>	<b>67,356</b>	<b>15,072</b>	<b>22%</b>	<b>15%</b>	<b>22,767</b>	<b>15,351</b>	<b>7,416</b>	<b>48%</b>
<b><u>Europe:</u></b>																		
Four Seasons George V Hotel, Paris	5%	245	\$985.1	\$804.3	22%	31%	\$1,570.8	\$1,294.4	21%	140,465	115,753	24,712	21%	31%	48,137	37,720	10,417	28%
<b>Total KHI System</b>	<b>100%</b>	<b>4,895</b>	<b>\$146.9</b>	<b>\$119.5</b>	<b>23%</b>	<b>100%</b>	<b>\$251.6</b>	<b>\$207.1</b>	<b>21%</b>	<b>449,476</b>	<b>370,083</b>	<b>79,393</b>	<b>21%</b>	<b>100%</b>	<b>156,194</b>	<b>112,313</b>	<b>43,881</b>	<b>39%</b>
<b>Excluding Forex impact</b>					<b>18%</b>				<b>17%</b>				<b>17%</b>					<b>34%</b>

KHI System Performance for the year ended December 31, 2007 and 2006

	<u>Occupancy %</u>			<u>Average Rate (In US\$)</u>						<u>RevPAR (In US\$)</u>				
	<u>Year ended Dec 31</u>			<u>% Total</u>	<u>Year ended Dec 31</u>			<u>Excl. Forex</u>		<u>Year ended Dec 31</u>			<u>Excl. Forex</u>	
	<u>2007</u>	<u>2006</u>	<u>Change Pts</u>		<u>2007</u>	<u>2006</u>	<u>% Change</u>	<u>2007</u>	<u>% Change</u>	<u>2007</u>	<u>2006</u>	<u>% Change</u>	<u>2007</u>	<u>% Change</u>
<b><u>Middle East/ North Africa:</u></b>														
Mövenpick Resort & Spa El Gouna	83.5	69.5	14.0	43%	\$75.8	\$68.4	11%	\$74.4	9%	\$63.3	\$47.6	33%	\$62.1	31%
Four Seasons Nile Plaza, Cairo	73.0	73.3	(0.3)	183%	\$367.9	\$294.1	25%	\$361.5	23%	\$268.5	\$215.5	25%	\$263.8	22%
Four Seasons Damascus	66.8	46.8	20.0	91%	\$201.1	\$197.9	2%	\$201.1	2%	\$134.4	\$92.7	45%	\$134.4	45%
Mövenpick Beirut	45.6	54.2	(8.6)	48%	\$154.5	\$166.1	-7%	\$154.5	-7%	\$70.4	\$90.1	-22%	\$70.4	-22%
Mövenpick Resort El Quseir	73.6	60.0	13.6	34%	\$67.3	\$58.6	15%	\$66.1	13%	\$49.6	\$35.2	41%	\$48.7	38%
Mövenpick Hotel Bur Dubai	80.0	87.8	(7.8)	106%	\$195.2	\$161.2	21%	\$195.2	21%	\$156.2	\$141.6	10%	\$156.2	10%
Four Seasons Resort Sharm El Sheikh	66.9	57.6	9.3	157%	\$345.6	\$283.2	22%	\$339.6	20%	\$231.3	\$163.1	42%	\$227.3	39%
<b>Total Middle East/ North Africa</b>	<b>71.4</b>	<b>64.8</b>	<b>6.6</b>	<b>90%</b>	<b>\$184.4</b>	<b>\$164.5</b>	<b>12%</b>	<b>\$182.2</b>	<b>11%</b>	<b>\$131.7</b>	<b>\$106.6</b>	<b>24%</b>	<b>\$130.2</b>	<b>22%</b>
<b><u>Sub-Saharan Africa:</u></b>														
Fairmont Kenya (4 Hotels)	42.8	59.6	(16.8)	39%	\$135.5	\$96.3	41%	\$126.7	32%	\$58.0	\$57.4	1%	\$54.2	-5%
Mövenpick Royal Palm, Dar El Salam	67.9	58.5	9.5	48%	\$103.1	\$94.1	10%	\$100.9	7%	\$70.0	\$55.0	27%	\$68.5	25%
InterContinental Lusaka	55.1	57.5	(2.4)	44%	\$117.8	\$102.8	15%	\$137.6	34%	\$64.9	\$59.1	10%	\$75.9	28%
Mövenpick Resort & Spa, Mauritius	56.1	36.9	19.2	47%	\$123.9	\$124.4	0%	\$128.4	3%	\$69.5	\$45.9	51%	\$72.1	57%
<b>Total Sub-Saharan Africa</b>	<b>53.5</b>	<b>54.9</b>	<b>(1.4)</b>	<b>44%</b>	<b>\$120.2</b>	<b>\$100.6</b>	<b>19%</b>	<b>\$122.2</b>	<b>21%</b>	<b>\$64.2</b>	<b>\$55.2</b>	<b>16%</b>	<b>\$65.3</b>	<b>18%</b>
<b><u>Asia:</u></b>														
Swissotel Kunshan	56.6	55.4	1.2	34%	\$88.0	\$83.0	6%	\$85.8	3%	\$49.8	\$46.0	8%	\$48.6	6%
Four Seasons Jakarta	55.4	45.1	10.3	35%	\$92.8	\$98.4	-6%	\$90.7	-8%	\$51.5	\$44.4	16%	\$50.3	13%
Mövenpick Resort & Spa, Karon Beach	61.2	47.8	13.4	55%	\$133.0	\$92.8	43%	\$114.7	24%	\$81.4	\$44.4	84%	\$70.2	58%
Raffles Phnom Penh	56.0	48.0	8.0	42%	\$109.9	\$91.2	20%	\$109.9	20%	\$61.6	\$43.8	41%	\$61.6	41%
Raffles Siem Reap	56.7	52.8	3.9	70%	\$180.0	\$167.7	7%	\$180.0	7%	\$102.1	\$88.6	15%	\$102.1	15%
Four Seasons Langkawi	63.8	62.9	0.9	276%	\$635.7	\$566.1	12%	\$635.6	12%	\$405.6	\$356.4	14%	\$405.6	14%
<b>Total Asia</b>	<b>57.8</b>	<b>50.7</b>	<b>7.2</b>	<b>59%</b>	<b>\$148.7</b>	<b>\$134.6</b>	<b>10%</b>	<b>\$143.1</b>	<b>6%</b>	<b>\$86.0</b>	<b>\$68.2</b>	<b>26%</b>	<b>\$82.8</b>	<b>21%</b>
<b><u>Europe:</u></b>														
Four Seasons George V Hotel, Paris	83.2	83.1	0.1	671%	\$1,183.9	\$968.0	22%	\$1,069.6	10%	\$985.1	\$804.3	22%	\$889.9	11%
<b>Total KHI System</b>	<b>64.3</b>	<b>59.5</b>	<b>4.8</b>	<b>100%</b>	<b>\$228.6</b>	<b>\$200.9</b>	<b>14%</b>	<b>\$218.9</b>	<b>9%</b>	<b>\$146.9</b>	<b>\$119.5</b>	<b>23%</b>	<b>\$140.7</b>	<b>18%</b>

KHI System to reported results reconciliation for the years ended December 31, 2007 and 2006:

<i>In US\$ millions</i>	Year ended December 31, 2007								Year ended December 31, 2006							
	Hotel Revenues				Hotel EBITDA				Hotel Revenues				Hotel EBITDA			
	<u>KHI</u> System	% Total	<u>KHI</u> Reported	% Total	<u>KHI</u> System	% Total	<u>KHI</u> Reported	% Total	<u>KHI</u> System	% Total	<u>KHI</u> Reported	% Total	<u>KHI</u> System	% Total	<u>KHI</u> Reported	% Total
<b><u>Middle East/ North Africa:</u></b>																
Mövenpick Resort & Spa El Gouna	21.9	5%	-	0%	11.1	7%	-	0%	16.8	5%	-	0%	8.0	7%	-	0%
Four Seasons Nile Plaza, Cairo	60.2	13%	-	0%	29.9	19%	-	0%	46.9	13%	-	0%	20.2	18%	-	0%
Four Seasons Damascus	24.1	5%	24.1	14%	9.9	6%	9.9	20%	17.1	5%	17.1	18%	5.1	5%	5.1	23%
Mövenpick Beirut	17.0	4%	17.0	10%	1.8	1%	1.8	4%	19.0	5%	19.0	20%	2.7	2%	2.7	12%
Mövenpick Resort El Quseir	9.7	2%	9.7	6%	4.7	3%	4.7	10%	7.3	2%	4.0	4%	3.2	3%	2.2	10%
Mövenpick Hotel Bur Dubai	19.3	4%	19.3	12%	8.6	5%	8.6	17%	17.4	5%	17.4	18%	7.9	7%	7.9	36%
Four Seasons Resort Sharm El Sheikh	29.4	7%	-	-	10.7	7%	-	-	21.6	6%	-	0%	6.9	6%	-	0%
<b>Total Middle East/ North Africa</b>	<b>181.6</b>	<b>40%</b>	<b>70.1</b>	<b>42%</b>	<b>76.6</b>	<b>49%</b>	<b>24.9</b>	<b>51%</b>	<b>146.1</b>	<b>39%</b>	<b>57.4</b>	<b>60%</b>	<b>54.0</b>	<b>48%</b>	<b>17.8</b>	<b>81%</b>
<b><u>Sub-Saharan Africa:</u></b>																
Fairmont Kenya*	17.3	4%	17.3	10%	2.4	2%	2.4	5%	18.2	5%	18.9	20%	2.3	2%	2.3	10%
Mövenpick Royal Palm, Dar Es Salam	9.7	2%	9.7	6%	2.3	1%	2.3	5%	7.9	2%	7.9	8%	1.1	1%	1.1	5%
InterContinental Lusaka	9.3	2%	9.3	6%	2.6	2%	2.6	5%	9.0	2%	2.3	2%	2.1	2%	0.5	2%
Mövenpick Resort & Spa, Mauritius	8.7	2%	8.7	5%	1.3	1%	1.3	3%	5.8	2%	3.7	4%	(0.3)	0%	(0.3)	-1%
<b>Total Sub-Saharan Africa</b>	<b>45.0</b>	<b>10%</b>	<b>45.0</b>	<b>27%</b>	<b>8.7</b>	<b>6%</b>	<b>8.7</b>	<b>18%</b>	<b>40.9</b>	<b>11%</b>	<b>32.7</b>	<b>34%</b>	<b>5.3</b>	<b>5%</b>	<b>3.7</b>	<b>17%</b>
<b><u>Asia:</u></b>																
Swissotel Kunshan	12.0	3%	8.4	5%	3.7	2%	2.4	5%	11.3	3%	-	0%	3.2	3%	-	0%
Four Seasons Jakarta	17.3	4%	5.4	3%	2.1	1%	0.3	1%	15.4	4%	-	0%	1.5	1%	-	0%
Mövenpick Resort & Spa, Karon Beach	14.8	3%	14.8	9%	5.6	4%	5.6	11%	8.5	2%	5.0	5%	2.3	2%	0.5	2%
Raffles Cambodia	17.1	4%	8.5	5%	3.5	2%	1.7	3%	13.6	4%	-	0%	1.9	2%	-	0%
Four Seasons Langkawi	21.3	5%	15.2	9%	7.9	5%	5.3	11%	18.6	5%	-	0%	6.5	6%	-	0%
<b>Total Asia</b>	<b>82.4</b>	<b>18%</b>	<b>52.4</b>	<b>31%</b>	<b>22.8</b>	<b>15%</b>	<b>15.4</b>	<b>31%</b>	<b>67.4</b>	<b>18%</b>	<b>5.0</b>	<b>5%</b>	<b>15.4</b>	<b>14%</b>	<b>0.5</b>	<b>2%</b>
<b><u>Europe:</u></b>																
Four Seasons George V Hotel, Paris	140.5	31%	-	-	48.1	31%	-	-	115.8	31%	-	0%	37.7	34%	-	0%
<b>Operating Hotel Portfolio</b>	<b>449.5</b>	<b>100%</b>	<b>167.4</b>	<b>100%</b>	<b>156.2</b>	<b>100%</b>	<b>49.0</b>	<b>100%</b>	<b>370.1</b>	<b>100%</b>	<b>95.2</b>	<b>100%</b>	<b>112.3</b>	<b>100%</b>	<b>22.1</b>	<b>100%</b>
<i>No. Hotels</i>	21		17		21		17		21		13		21		13	
<i>No. of Rooms</i>	4,895		3,531		4,895		3,531		4,895		2,486		4,895		2,486	

\*System has 4 comparable hotels in Kenya. Reported figures in 2006 include results of 5 hotels in Kenya (i.e includes 47 rooms in Aberdare)

## Operating Performance:

The following table summarizes key profit and loss indicators for the year ended December 31, 2007 and 2006:

<i>(In US\$ 000's)</i>	<u>Consolidated KHI Results</u>					<u>Comparable Hotel Results</u>				
	<u>Year ended Dec 31</u>					<u>Year ended Dec 31</u>				
	<u>2007</u>	<u>2006</u>	<u>\$ Change</u>	<u>% Change</u>	<u>Excl. Forex</u>	<u>2007</u>	<u>2006</u>	<u>\$ Change</u>	<u>% Change</u>	<u>Excl. Forex</u>
<b><u>KHI System operating hotels</u></b>										
<i>No. of consolidated hotels {rooms}</i>	<i>17 {3,531}</i>	<i>13 {2,486}</i>		<i>{42%}</i>		<i>8 {1,444}</i>	<i>8 {1,444}</i>	<i>n/a</i>	<i>n/a</i>	
<i>No. of associated hotels {rooms}</i>	<i>4 {1,364}</i>	<i>4 {1,364}</i>		<i>{0%}</i>						
<i>Total KHI System</i>	<i>21 {4,895}</i>	<i>17 {3,850}</i>		<i>{27%}</i>						
<b>Total revenues</b>	<b>178,556</b>	99,059	79,497	80%	77%					
Hotel revenues	<b>167,418</b>	95,216	72,203	76%	73%	<b>87,471</b>	79,549	7,923	10%	8%
Hotel EBITDA	<b>48,976</b>	22,051	26,924	122%	119%	<b>25,041</b>	19,113	5,928	31%	30%
Hotel gross profit	<b>28,247</b>	11,297	16,951	150%	142%	<b>16,767</b>	11,480	5,287	46%	44%
<b>Total gross profit</b>	<b>34,741</b>	14,512	20,229	139%	133%					
<b>Operating profit</b>	<b>14,009</b>	(696)	14,705	n/a						
<b>KHI Net Profit</b>	<b>34,093</b>	42,810	(8,717)	-20%						
<b>Earnings Per Share</b>	<b>\$ 0.20</b>	<b>\$ 0.26</b>	\$ (0.07)	-25%						
Avg. no. shares outstanding	<b>174,732</b>	163,660	11,072	7%						
<b><u>Before non-recurring items:</u></b>										
<b>KHI Net Profit before non-recurring items</b>	<b>32,839</b>	23,515	9,323	40%						
<b>Earnings Per Share before non-recurring items</b>	<b>\$ 0.19</b>	<b>\$ 0.14</b>	\$ 0.04	31%						
<i>(In US\$ 000's)</i>										
KHI EBITDA	<b>35,644</b>	10,296	25,348	246%						
Adjusted KHI EBITDA	<b>67,562</b>	31,348	36,214	116%						
Net Debt/ (Net Cash)	<b>134,336</b>	(239,276)	373,612							
<b><u>Key Ratios</u></b>										
KHI EBITDA margin (% Total revenues)	<b>20%</b>	10%		9.6	<i>pts</i>					
Hotel Gross margin (% Hotel revenues)	<b>17%</b>	12%		5.0	<i>pts</i>					
Operating profit margin (% Total revenues)	<b>8%</b>	n/a		n/a						
KHI Net Profit before non-recurring items (% Total revenues)	<b>18%</b>	24%		(5.3)	<i>pts</i>					
Net Debt/ Shareholders' Equity	<b>10%</b>	n/a								

## Results overview

Group revenues increased 80 per cent to US\$ 178.6 million. Excluding foreign exchange translation effects, group revenue increased 77 per cent. Revenue increase for the year was mainly attributable to the acquisitions of 5 new Asian operating hotel as well as the full-year impacts of the 4 operating hotels acquired in 2006.

Hotel revenues increased 76 per cent to US\$167.4 million. This was primarily driven by new acquisitions that contributed US\$37.5 million or 22 per cent, as well as the full year effects of 2006 operating acquisitions that added 16 percentage points to total hotel revenue growth. Asia grew in prominence through diversification as 6 hotels contributed 31 per cent of reported hotel revenues, up from 5 per cent in 2006.

8 of KHI's 17 consolidated hotels were owned for a full 12 month period in 2006 and 2007. These Comparable hotels grew revenues by 10 per cent in 2007 and were over half of total KHI hotel revenues. In this group, Damascus grew revenues by 41 per cent to US\$ 24.1 million, as a result of strong demand and the hotel's leading position. Dar Es Salam and Dubai grew 24 per cent and 11 per cent respectively, as the former completed renovations, increased prices and benefited from a reduction in hotel room supply and Dubai increased prices into strong market demand. The positive performance in these comparable hotels overcame declines in Beirut that was impacted by continued political uncertainty, and renovation programs in 3 Kenyan hotels.

Other revenues, primarily from ancillary real estate activities, increased to US\$11.1 million and generated US\$6.5 million in profits. KHI recorded profit of US\$0.9 million from the sale 13 of 30 apartments in Phuket. Retail outlets in Damascus were fully leased and our Dubai apartment building was short-leased ahead of a planned integration into the Mövenpick Bur Dubai in 2008. Seasonal cabana rentals in Beirut also improved. Residential sales and marketing activities continued at the Four Seasons Mauritius and Four Seasons Marrakech developments, with significant pre-sales that were not recognized in KHI results (see subsequent section on ancillary real estate).

Operating profit, which we define as hotel and real estate gross profit less sales, general and administrative costs, turned positive in 2007 to US\$14.0 million from a loss of US\$0.7 million in 2006, despite investments in people and capability and residential marketing spending. The turnaround in operating profit was driven by the full year profit impacts of 2006 acquisitions as well as partial year impacts of our 2007 acquisitions in Asia. KHI hotel EBITDA expanded by 122 per cent primarily mainly due to these 2006 and 2007 acquisitions, and Comparable hotel EBITDA and gross profit performance was also strong at growth rates of 31 per cent and 46 per cent, respectively, driven by revenue and margin gains in Damascus and Dar Es Salam that more than offset profit declines in Beirut and renovation impacts in Kenya (Beirut Mövenpick implemented aggressive cost containment initiatives and staff reductions). Real estate profits also contributed to operating profit expansion though increased leasing profits gains from the sale of 13 of 30 Phuket residential apartments. Selling, general and administrative costs increased by 30 per cent to US\$19.4 million mainly as KHI increased staffing and capability investments to support its expanded business agenda, and we expensed US\$0.8 million of marketing costs related to residential sales in Mauritius.

KHI disposed of its remaining investment in Four Seasons Hotels and Resorts and sold part of its holding in Fairmont Raffles Holdings International for a combined gain of US\$4.6 million and we wrote off US\$4.0 million of project costs

We drew down cash balances and added debt to fund acquisitions and developments. This resulted in a net interest expense of US\$2.0 million against an US\$11.4 million net interest income in 2006. Cash balances declined by US\$250 million to US\$181 million while interest-bearing debt increased by US\$123 million to US\$315 million.

Reported net profit attributable to shareholders decreased 20 per cent to US\$34.1 million. Net profits before non-recurring items increased by 40 per cent to US\$32.8 million, primarily due to a US\$12.8 million deferred credit in 2006. EPS before non-recurring items increased 31 per cent to US\$0.19.

*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 total System portfolio of 21 hotels, only 17 have been consolidated in KHI financials and 8 of these are classified as comparable hotels: The Mövenpick Hotel & Resort Beirut, Mövenpick Royal Palm, Mövenpick Bur Dubai, Four Seasons Damascus and Fairmont Kenya (4 properties, excluding the discontinued rooms business at the Aberdare Country Club).*

The following table sets forth KHI performance for the year ended December 31, 2007 including the amount and percentage change for our consolidated results as reported, and our for comparable, like-for-like results as defined above:

<i>(In US\$ 000's)</i>	<b>Consolidated</b>					<b>Comparable</b>				
	<b>Year ended Dec 31</b>					<b>Year ended Dec 31</b>				
	<b>2007</b>	<b>2006</b>	<b>\$ Change</b>	<b>% Change</b>	<b>Excl. Forex</b>	<b>2007</b>	<b>2006</b>	<b>\$ Change</b>	<b>% Change</b>	<b>Excl. Forex</b>
<b>Hotels</b>										
Rooms revenue	94,522	52,577	41,945	80%		49,494	44,495	5,000	11%	
F&B revenue	56,504	31,970	24,534	77%		29,778	26,482	3,295	12%	
Other revenue	16,392	10,668	5,724	54%		8,199	8,572	(372)	-4%	
Hotel revenues	167,418	95,216	72,203	76%	73%	87,471	79,549	7,923	10%	8%
Rooms cost	(15,003)	(8,447)	(6,556)	78%		(7,711)	(7,635)	(77)	1%	
F&B cost	(35,454)	(17,976)	(17,478)	97%		(19,289)	(15,311)	(3,978)	26%	
Other departmental costs	(54,246)	(36,354)	(17,892)	49%		(28,030)	(30,459)	2,428	-8%	
Management fees	(9,067)	(7,977)	(1,089)	14%		(4,984)	(5,970)	986	-17%	
Other expenses	(4,673)	(2,410)	(2,263)	94%		(2,416)	(1,061)	(1,355)	128%	
Hotel operating costs	(118,443)	(73,164)	(45,278)	62%		(62,431)	(60,436)	(1,995)	3%	
Hotel EBITDA	48,976	22,051	26,924	122%	119%	25,041	19,113	5,928	31%	30%
Hotel depreciation	(20,728)	(10,754)	(9,974)	93%		(8,273)	(7,633)	(641)	8%	
<b>Hotel Gross Profit</b>	<b>28,247</b>	<b>11,297</b>	<b>16,951</b>	<b>150%</b>	<b>142%</b>	<b>16,767</b>	<b>11,480</b>	<b>5,287</b>	<b>46%</b>	<b>44%</b>
<b>Other</b>										
Other revenues	11,137	3,844	7,294	190%						
Other direct costs	(4,644)	(628)	(4,016)	639%						
<b>Other Gross Profit</b>	<b>6,493</b>	<b>3,215</b>	<b>3,278</b>	<b>102%</b>						
<b>Total Revenues</b>	<b>178,556</b>	<b>99,059</b>	<b>79,497</b>	<b>80%</b>	<b>77%</b>					
<b>Total Gross Profit</b>	<b>34,741</b>	<b>14,512</b>	<b>20,229</b>	<b>139%</b>	<b>133%</b>					
Corporate general & admin.	(19,406)	(14,971)	(4,435)	30%						
Corporate depreciation	(476)	(237)	(239)	101%						
Sales and Marketing	(850)	-	(850)	n/a						
<b>Operating profit</b>	<b>14,009</b>	<b>(696)</b>	<b>14,705</b>	<b>n/a</b>						
Share of results in associates	26,883	14,392	12,491	87%						
Dividends received	430	-	430	n/a						
Interest income (expense), net	(2,045)	11,361	(13,406)	n/a						
Project costs written-off	(3,980)	(1,983)	(1,997)	101%						
Amortization of deferred credit	-	12,832	(12,832)	n/a						
Gains from sale of investments	4,625	7,328	(2,703)	-37%						
Other non-operating income or expense	610	1,118	(509)	-45%						
<b>Profit before tax &amp; min. interests</b>	<b>40,532</b>	<b>44,352</b>	<b>(3,820)</b>	<b>-9%</b>						
Income tax	(2,057)	(425)	(1,632)	384%						
Minority interests	(4,381)	(1,116)	(3,265)	293%						
<b>KHI Net Profit</b>	<b>34,093</b>	<b>42,810</b>	<b>(8,717)</b>	<b>-20%</b>						
<b>Avg. no. shares outstanding</b>	<b>174,732</b>	<b>163,660</b>	<b>11,072</b>	<b>7%</b>						
<b>Earnings Per Share</b>	<b>\$ 0.20</b>	<b>\$ 0.26</b>	<b>\$ (0.07)</b>	<b>-25%</b>						
<b>Before non-recurring items:</b>										
KHI Net Profit before non-recurring items	32,839	23,515	9,323	40%						
Earnings Per Share before non-recurring items	0.19	0.14	0.04	31%						
<b>Operating Hotels:</b>										
Consolidated hotel investments	17	13	4	31%		8	8			
Associated hotel investments	4	4	-	0%						
Total operating hotels	21	17	4	24%						
Consolidated hotel rooms	3,531	2,486	1,045	42%		1,444	1,444			
Associated hotel rooms	1,364	1,364	-	0%						
Total operational rooms	4,895	3,850	1,045	27%						

## Factors affecting results: Acquisition of ownership interests in operating hotels:

During 2006 and 2007, KHI acquired equity interests in the following operating properties:

	<u>Acquisition Date</u>	<u>Country</u>	<u>% Equity Acquired</u>	<u>No. of Rooms</u>	<u>In US\$ millions</u>	
					<u>Cash Invested</u>	<u>Property Debt</u>
Four Seasons George V Hotel, Paris	Jan 2006	France	25.0%	245	95.5	532.4
Mövenpick Resort & Spa, Mauritius	April 2006	Mauritius	100.0%	181	30.0	26.5
Mövenpick Resort & Spa, Karon Beach	May 2006	Thailand	100.0%	339	70.1	33.2
Mövenpick Resort El Quseir	July 2006	Egypt	87.3%	250	23.9	1.2
InterContinental Lusaka	Oct 2006	Zambia	100.0%	225	28.5	0.1
Four Seasons Langkawi	April 2007	Malaysia	90.0%	90	117.3	-
Swissotel Kunshan	May 2007	China	100.0%	387	43.7	20.0
Raffles Cambodia	July 2007	Cambodia	100.0%	295	35.9	-
Four Seasons Jakarta	September 2007	Indonesia	91% / 81.9%	320	48.2	-
<b>2006 &amp; 2007 Acquisitions (Consolidated)</b>				<b>2,332</b>	<b>493.1</b>	<b>613.5</b>

### Notes

- 1) KHI's equity ownership represents the Company's effective (ie. direct and indirect) ownership in each hotel as at December 31, 2007
- 2) Cost of investment includes acquisition price paid to the seller, acquisition costs (e.g. legal, due diligence, consultancy, etc) and shareholders advances
- 3) Property debt represents the value of term loans, overdrafts, finance leases and borrowings from non financial institutions as at December 31, 2007

The Company also concluded 3 step-up acquisitions and two new minority acquisition in 2006 and 2007:

**Four Seasons Hotel Cairo at Nile Plaza (Egypt)**. In January 2006 increased our effective equity ownership from 29.3 per cent to 38.4 per cent for US\$14.8 million. In July 2006 we acquired a 5.3 per cent additional ownership interest for US\$13.4 million.

**Fairmont Palm Hotel & Resort, Dubai (UAE)**. In January 2006 we increased our effective equity ownership in this hotel development from 14.3 per cent to 20.1 per cent. As of June 30, 2007 the total amount paid was US\$14.9 million.

**Four Seasons Hotel Damascus (Syria)**. In March 2006 we increased our effective equity ownership from 35.7 per cent to 49.4 per cent for the sum of US\$15.0 million, in July 2007 we completed the acquisition of a further 5.5 per cent for US\$ 8.0 million increasing our effective ownership to 54.9 per cent.

**Four Seasons Resort Sharm El-Sheikh (Egypt)**. In July 2006 we acquired an additional equity interest to increase our effective ownership to 39.3 per cent from 32.0 per cent for a total consideration of US\$10.5 million.

### **Gross Profit & Operating Profit:**

Management uses Gross Profit and Operating profit as well as other measures to report and manage the trading performance of its portfolio. In 2007 Consolidated Gross Profit of US\$34.7 million increased by US\$20.2 million or 139 per cent primarily due to:

- Hotel Performance:
  - Full year impacts of 2006 acquisitions contributed US\$8.0 million of the increase in gross profit. Partial year 2007 acquisitions added US\$3.7 million.
  - Comparable hotels gross profit expanded by 46 per cent and contributed almost 31 per cent of hotel gross profit growth, primarily from revenue and margin gains in Damascus and Dar Es Salam.
  - Beirut Mövenpick implemented aggressive cost containment initiatives and staff reductions.
- Ancillary Real Estate and other:
  - Real estate EBITDA was US\$5.3 million up US\$3.7 million from 2006, primarily driven from leasing in Damascus, short-term lease in Dubai and the seasonal cabana rentals in Beirut. Additionally KHI generates revenues from business development and asset management fees, and these were US\$1.2 million in 2007, compared to US\$1.6 million in 2006.

Operating profit of US\$14.0 million increased by US\$14.7 million. Selling, general and administrative costs increased by 30 per cent to US\$19.4 million mainly as KHI increased staffing and capability investments to support its expanded business agenda, and we expensed US\$0.8 million of marketing costs related to residential sales at Four Seasons Mauritius.

The following is a reconciliation of KHI Hotel Gross Profit for the year end December 31, 2007 and 2006

<i>(In US\$ 000's)</i>	Year ended Dec 31,			Year ended Dec 31,			Change 2007 vs 2006			
	2007			2006			In \$000's		% Change	
	Hotel EBITDA	Depreciation	Hotel Gross Profit	Hotel EBITDA	Depreciation	Hotel Gross Profit	Hotel EBITDA	Hotel Gross Profit	Hotel EBITDA	Hotel Gross Profit
<b>Comparable</b>										
Four Seasons Damascus	9,911	1,372	8,539	5,103	983	4,120	4,808	4,419	94%	107%
Mövenpick Hotel Bur Dubai	8,563	1,362	7,202	7,901	1,295	6,606	662	596	8%	9%
Fairmont Kenya (4 Properties)	2,431	1,371	1,060	2,335	1,288	1,047	97	13	4%	1%
Mövenpick Royal Palm, Dar Es Salam	2,326	1,458	868	1,104	1,208	(103)	1,222	972	111%	n/a
Mövenpick Beirut	1,809	2,710	(901)	2,669	2,858	(189)	(861)	(712)	-32%	377%
<b>Comparable hotels</b>	<b>25,041</b>	<b>8,273</b>	<b>16,767</b>	<b>19,113</b>	<b>7,633</b>	<b>11,480</b>	<b>5,928</b>	<b>5,287</b>	<b>31%</b>	<b>46%</b>
<b>Excluding Forex impact</b>									<b>30%</b>	<b>44%</b>
<b>Acquisition &amp; discontinued operations impacts</b>										
Mövenpick Resort & Spa, Karon Beach	5,599	3,700	1,899	543	2,008	(1,466)	5,056	3,364	n/a	n/a
Four Seasons Langkawi	5,289	2,756	2,534	-	-	-	5,289	2,534	n/a	n/a
Mövenpick Resort El Quseir	4,658	835	3,823	2,163	383	1,780	2,495	2,043	n/a	n/a
InterContinental Lusaka	2,649	696	1,952	543	194	349	2,105	1,603	n/a	n/a
Swissotel Kunshan	2,431	954	1,476	-	-	-	2,431	1,476	n/a	n/a
Raffles Cambodia	1,706	1,506	200	-	-	-	1,706	200	n/a	n/a
Mövenpick Resort & Spa, Mauritius	1,264	1,112	153	(285)	536	(820)	1,549	973	n/a	n/a
Four Seasons Jakarta	339	895	(556)	-	-	-	339	(556)	n/a	n/a
Aberdare Kenya (rooms discontinued)	-	-	-	(26)	-	(26)	26	26	n/a	n/a
<b>Acquisition impacts</b>	<b>23,935</b>	<b>12,455</b>	<b>11,480</b>	<b>2,938</b>	<b>3,121</b>	<b>(183)</b>	<b>20,996</b>	<b>11,663</b>	<b>n/a</b>	<b>n/a</b>
<b>KHI Consolidated Hotels</b>	<b>48,976</b>	<b>20,728</b>	<b>28,247</b>	<b>22,051</b>	<b>10,754</b>	<b>11,297</b>	<b>26,924</b>	<b>16,951</b>	<b>122%</b>	<b>150%</b>
<b>Excluding Forex impact</b>									<b>119%</b>	<b>142%</b>

**Comparable Hotel Performance by Region**

The following tables set forth performance of our comparable consolidated hotel investments in the four geographic regions for the years ended December 31, 2007 and 2006

	<b>2007</b>				
<i>(In US\$ 000's)</i>	<b>Middle East North Africa</b>	<b>Sub-Saharan Africa</b>	<b>Asia</b>	<b>Europe</b>	<b>Total Regions</b>
Hotel revenues	60,381	27,090	-	-	<b>87,471</b>
Hotel operating costs	<u>(40,098)</u>	<u>(22,333)</u>	<u>-</u>	<u>-</u>	<b><u>(62,431)</u></b>
Hotel EBITDA	20,283	4,757	-	-	<b>25,041</b>
Hotel depreciation	<u>(5,444)</u>	<u>(2,829)</u>	<u>-</u>	<u>-</u>	<b><u>(8,273)</u></b>
<b>Hotel Gross Profit</b>	<b>14,839</b>	<b>1,928</b>	<b>-</b>	<b>-</b>	<b>16,767</b>
<i>No. Hotels</i>	3	5	-	-	8
<i>No. Rooms</i>	821	623	-	-	1,444

	<b>2006</b>				
<i>(In US\$ 000's)</i>	<b>Middle East North Africa</b>	<b>Sub-Saharan Africa</b>	<b>Asia</b>	<b>Europe</b>	<b>Total Regions</b>
Hotel revenues	53,476	26,072	-	-	<b>79,549</b>
Hotel operating costs	<u>(37,802)</u>	<u>(22,634)</u>	<u>-</u>	<u>-</u>	<b><u>(60,436)</u></b>
Hotel EBITDA	15,674	3,439	-	-	<b>19,113</b>
Hotel depreciation	<u>(5,137)</u>	<u>(2,496)</u>	<u>-</u>	<u>-</u>	<b><u>(7,633)</u></b>
<b>Hotel Gross Profit</b>	<b>10,537</b>	<b>943</b>	<b>-</b>	<b>-</b>	<b>11,480</b>
<i>No. Hotels</i>	3	5	-	-	8
<i>No. Rooms</i>	821	623	-	-	1,444

	<b>Change 2007 vs. 2006</b>				
<i>(In US\$ 000's)</i>	<b>Middle East North Africa</b>	<b>Sub-Saharan Africa</b>	<b>Asia</b>	<b>Europe</b>	<b>Total Regions</b>
Hotel revenues	6,905	1,018	-	-	<b>7,923</b>
Hotel operating costs	<u>(2,295)</u>	<u>300</u>	<u>-</u>	<u>-</u>	<b><u>(1,995)</u></b>
Hotel EBITDA	4,610	1,318	-	-	<b>5,928</b>
Hotel depreciation	<u>(307)</u>	<u>(334)</u>	<u>-</u>	<u>-</u>	<b><u>(641)</u></b>
<b>Hotel Gross Profit</b>	<b>4,303</b>	<b>985</b>	<b>-</b>	<b>-</b>	<b>5,287</b>

**Ancillary Real Estate Business Results:**

This business segment comprises a diversified real estate portfolio of residential and commercial real estate properties that we lease or sell. These are either branded or unbranded real estate properties that are mostly attached to or are in the vicinity of our hotel properties. In addition to the existing inventory of ancillary real estate, KHI has a number of Greenfield hotel developments that are either under construction or in the design stages that will include significant ancillary real estate components.

KHI applies international accounting standard IAS18 for revenue recognition on pre-completion real estate sale agreements that relate to agreements with buyers to purchase specific unit(s) within a development once it has been built. To date, we have concluded pre-completion residential unit purchase agreements in our Four Seasons developments in Marrakech and Mauritius and have received partial payments for the units but have not recognized any revenues in the reporting period and do not expect to recognize any related revenues in the balance of 2007.

The table on the following page presents all ancillary real estate activities conducted by the Group's consolidated and unconsolidated entities, including activities during the reporting periods through December 31, 2007:

**(I) Sales & long-term leases**

Type	Units	Year ended Dec 31, 2007			Cumulative To Dec 31, 2007			
		Units Sold	Net Sales	Gross Profit	Units Sold	% Sold	Net Sales	
		(US\$ 000's)			(US\$ 000's)			
Mövenpick Resort & Spa Phuket	Residential apts.	30	13	4,837	922	13	43%	4,837
Four Seasons Nile Plaza Cairo*	Residential apts.	131	25	42,273	20,423	80	61%	122,809
	Office/ retail (m <sup>2</sup> )	6,096	-	-	-	5,096	84%	11,404
	Parking spaces	241	-	-	-	42	17%	2,120
Four Seasons Sharm El Sheikh*	Chalets	112	3	1,046	363	63	56%	17,118
	Villas	34	5	4,615	1,604	28	82%	20,868

**(II) Pre-completion sales activities**

Type	Units	Year ended Dec 31, 2007			Cumulative To Dec 31, 2007				
		Units Reserved	Sales Deposits	P&L impact	Units Reserved	% Sold	Sales Deposits	P&L impact	
		(US\$ 000's)			(US\$ 000's)				
Four Seasons Marrakech**	Villas	43	43	4,838	None	43	100%	9,434	None
Four Seasons Mauritius***	Villas	45	31	4,593	None	31	69%	4,593	None

**(III) Leases and other Real Estate Revenues**

Type	Units	Year ended Dec 31, 2007				Cumulative To Dec 31, 2007				
		Net Sales			Gross Profit			Units Leased	% Leased	
		2007	2006	\$ Change	2007	2006	\$ Change			
Four Seasons Damascus	Offices	13	337	128	209	307	28	279	13	100%
	Retail (m <sup>2</sup> )	2,507	1,167	361	806	1,114	188	926	2,507	100%
Mövenpick Beirut	Cabanas & other	75	1,932	1,431	501	1,589	1,278	311	-	-
	Marina mooring	25	147	119	27	87	40	47	-	-
	Retail (m <sup>2</sup> )	864	-	-	-	-	-	-	-	-
Mövenpick Bur Dubai/ Residences	Residential apts.	57	1,540	229	1,311	1,296	105	1,191	57	100%
	Retail (m <sup>2</sup> )	1,150	-	-	-	-	-	-	1,150	100%
Four Seasons Nile Plaza Cairo*	Retail (m <sup>2</sup> )	6,780	862	963	(100)	862	963	(100)	6,780	100%

\*KHI Associates, not consolidated in KHI Financials

\*\*All 43 buyers have signed sales agreements

\*\*\* 6 buyers have signed sales agreements and paid deposits of US\$ 4.6 million, and 22 have reserved villas and paid refundable deposits of \$3.1 million .

Our Mövenpick Resort & Spa Karon Beach Phuket apartments are being sold on a 30 year leasehold basis with an option to extend for an additional 30 to 60 years. Sales of the units are recognized as a capital lease with the cost basis adjusted to reflect the units' share of excess of purchase price paid over the book value of the assets. The associated land lease is accounted for as an operating lease with annual revenue of about US\$50,000.

The Bur Dubai Residences building was acquired in the second half 2006 with the objective of converting into hotel serviced apartments in 2008. Until then all apartments have been leased on short-term contracts at annualized rental income of US\$1.5 million. In addition, commercial space was also fully-leased in the first half of 2007 at an annualized revenue of US\$0.7 million.

Mövenpick Beirut includes cabanas, marina and retail areas are leased on short term and seasonal basis, primarily to local non-hotel guests in the summer. These are managed on our behalf by Mövenpick, the Beirut hotel operator.

In addition to the above mentioned existing ancillary real estate portfolio, the Company has announced 5 new developments that are in the early stages of development that are expected to include ancillary real estate sales or leasing. The following is a list of those developments.

	<b>Announced</b>	<b>Type</b>	<b>No. of units</b>
Mövenpick Ambassador Hotel, Accra (Ghana)	July 2005	N/A	N/A
Raffles Resort, Phang Nga (Thailand)	September 2006	N/A	N/A
Raffles Da Nang (Vietnam)	January 2007	Condos	45
Fairmont Makati Hotel and Raffles Suites and Residences, Makati City, Manila (Philippines)	March 2007	Apartments	226
Raffles Resort Seychelles, Praslin Island (Seychelles)	July 2007	Villas	23

### ***Profit before non-recurring items***

KHI's reported results include a number of one-time or extraordinary items that are non-recurring in nature (See subsequent sections for details)

The following table provides a reconciliation of net income and net income per share available to KHI shareholders excluding the effects of one-time items and extraordinary gains or losses:

	<u>Consolidated</u>				<u>Per Share</u>			
	<u>2007</u>	<u>Year ended Dec 31</u> <u>2006</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2007</u>	<u>Year ended Dec 31</u> <u>2006</u>	<u>\$ Change</u>	<u>% Change</u>
<b><u>Shares outstanding (in 000's)</u></b>								
<b>At Year end, Dec 31</b>	<b>174,589</b>	174,739	(150)	0%	<b>174,589</b>	174,739	(150)	0%
<b>Average for the year</b>	<b>174,732</b>	163,660	11,072	7%	<b>174,732</b>	163,660	11,072	7%
<i>(In US\$ 000's)</i>								
<b>KHI Net Profit</b>	<b>34,093</b>	42,810	(8,717)	-20%	<b>0.195</b>	0.262	(0.066)	-25%
<b><u>Non-recurring items:</u></b>								
Project costs written-off	3,980	1,983	1,997		0.023	0.012	0.011	
Gains from sale of investments	(4,625)	(7,328)	2,703		(0.026)	(0.045)	0.018	
Amortization of deferred credit	-	(12,832)	12,832		-	(0.078)	0.078	
Other non-operating income or expense	(610)	(1,118)	509		(0.003)	(0.007)	0.003	
<b>KHI Net Profit before non-recurring items</b>	<b>32,839</b>	23,515	9,323	40%	<b>0.188</b>	0.144	0.044	31%
<b><u>Real estate sales profit &amp; loss impacts:</u></b>								
Real estate sales and marketing	(850)	-	(850)		(0.005)	-	(0.005)	
Profit from real estate sales in subsidiaries	922	-	922		0.005	-	0.005	
Profit from real estate sales in associates	9,696	6,271	3,426		0.055	0.038	0.017	
<b>KHI Net Profit before non-recurring items &amp; real estate sales</b>	<b>23,070</b>	17,245	5,825	34%	<b>0.132</b>	0.105	0.027	25%

### ***Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)***

Net income before interest expense or income, income tax expense, and depreciation and amortization charges is a commonly used measure of performance in several industries. Management uses its own definition of EBITDA: "KHI EBITDA" and "Adjusted KHI EBITDA". These two definitions are used by management:

- As **operating performance measures** to compare operating performance and operation cash generation on a consistent basis, as they remove the impact of our asset base (depreciation and amortization) and items not directly resulting from the company's operations;
- For **planning purposes**, including the preparation of our internal annual operating budgets and forecasts;
- For **analysis of acquisitions and divestitures**; including the preparation of target acquisition plans and objectives;
- To **establish targets** for certain management performance and compensation;
- To **evaluate KHI's capacity to incur and service debt**, satisfy operating obligations, fund capital expenditures and reinvest in our business.

Both KHI EBITDA and Adjusted KHI EBITDA should be used by investors as important but supplemental measures of the Company's financial performance. KHI EBITDA and Adjusted KHI EBITDA may include funds that are not available for the discretionary use by management due to the need to satisfy contractual capital expenditures in our hotels, committed development and property acquisitions or other commitments and uncertainties. Furthermore EBITDA and Adjusted EBITDA as calculated by the Company are not necessarily comparable to similarly titled measures used by other companies and (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.

**KHI EBITDA:** We amended the definition of EBITDA (Net income before interest expense or income, income tax expense, and depreciation and amortization charges) to exclude non-recurring gains and losses and non-cash effects of equity investments and minority interests. Examples of non-recurring gains or losses are gains and losses on dispositions of assets or

investments, amortization of deferred gains, impairment losses and write-offs, foreign currency gains or losses and debt prepayment penalties.

**Adjusted KHI EBITDA:** We adjusted KHI EBITDA to account for the full impact of our share in the EBITDA of unconsolidated equity investments and the share of KHI minority partners in the EBITDA of our subsidiaries. The Adjusted KHI EBITDA measure does not include the effect of actual cash distributions from our equity investments or cash distributed to our minority shareholders.

<i>(In US\$ 000's)</i>	<b>Consolidated</b>				<b>Comparable Hotels</b>			
	<u>Year ended Dec 31</u>				<u>Year ended Dec 31</u>			
	<b>2007</b>	<b>2006</b>	<b>\$ Change</b>	<b>% Change</b>	<b>2007</b>	<b>2006</b>	<b>\$ Change</b>	<b>% Change</b>
Hotel revenues	<b>167,418</b>	95,216	72,203	76%	<b>87,471</b>	79,549	7,923	10%
Hotel operating costs	<b>(118,443)</b>	(73,164)	(45,278)	62%	<b>(62,431)</b>	(60,436)	(1,995)	3%
Hotel EBITDA	<b>48,976</b>	22,051	26,924	122%	<b>25,041</b>	19,113	5,928	31%
Other revenues	<b>11,137</b>	3,844	7,294	190%				
Other direct costs	<b>(4,644)</b>	(628)	(4,016)	639%				
Other EBITDA	<b>6,493</b>	3,215	3,278	102%				
Dividends received	<b>430</b>	-	430	n/a				
Sales, general & admin.	<b>(20,256)</b>	(14,971)	(5,285)	35%				
<b>KHI EBITDA</b>	<b>35,644</b>	10,296	25,348	246%				

The following tables provide a calculation of KHI EBITDA and Adjusted KHI EBITDA and a reconciliation to KHI EBITDA for consolidated and comparable hotels:

**KHI EBITDA and Adjusted KHI EBITDA - Reconciliation to Financials**

<i>(In US\$ 000's)</i>	<b>Consolidated</b>			
	<u>Year ended Dec 31</u>			
	<b>2007</b>	<b>2006</b>	<b>\$ Change</b>	<b>% Change</b>
<b>KHI Net Profit</b>	<b>34,093</b>	42,810	(8,717)	-20%
Depreciation*	<b>21,205</b>	10,991	10,213	93%
Project costs written-off	<b>3,980</b>	1,983	1,997	101%
Minority interests	<b>4,381</b>	1,116	3,265	293%
Income tax	<b>2,057</b>	425	1,632	384%
Share of results in associates	<b>(26,883)</b>	(14,392)	(12,491)	87%
Amortization of deferred credit	<b>-</b>	(12,832)	12,832	n/a
Interest expense (income), net	<b>2,045</b>	(11,361)	13,406	n/a
Gains from sale of investments	<b>(4,625)</b>	(7,328)	2,703	-37%
Other non-operating income or expense	<b>(610)</b>	(1,118)	509	-45%
<b>KHI EBITDA</b>	<b>35,644</b>	10,296	25,348	246%
Share of min. int. in subsidiaries net profit	<b>(4,381)</b>	(1,116)	(3,265)	293%
Share of min. int in subsidiaries depreciation	<b>(2,299)</b>	(1,743)	(556)	32%
Share of min. int in subsidiaries net finance cost	<b>(1,220)</b>	(1,586)	366	-23%
Share of min. int in other gains/ losses	<b>183</b>	44	139	312%
	<b>(7,718)</b>	(4,400)	(3,317)	75%
Share of associates hotel EBITDA (Excl. R/E Sales)	<b>29,940</b>	19,182	10,757	56%
Share of Real Estate sales in associates	<b>9,696</b>	6,271	3,426	55%
	<b>39,636</b>	25,453	14,183	56%
<b>Adjusted KHI EBITDA</b>	<b>67,562</b>	31,348	36,214	116%

\*Inclusive of depreciation at the hotel level and also the portion that forms part of Corporate G&A

### Revenues

All of KHI consolidated revenue is substantially derived from the operations of its 17 consolidated hotels, ancillary real estate activities and other revenues from business development and asset management of non-consolidated hotels. Only 8 of these 17 hotels were owned for the same twelve month period in 2006 and are therefore classified as comparable hotels.

Total KHI revenue for the year ended December 31, 2007 increased US\$ 79.5 million or 80 per cent to US\$178.6 million. This increase was mainly attributed to (i) the impact of hotels acquired in 2006 and 2007, as their revenue increased by US\$ 64.9 million (ii) an increase of US\$7.3 million, over 190 per cent, in non-hotel revenues primarily from leasing and real estate sales (iii) Comparable like-for-like hotel revenues grew by 10 per cent as occupancy rate increases at the Four Seasons Damascus, Mövenpick Royal Palm and Mövenpick Bur Dubai more-than-compensated declines in the rest of the comparable portfolio.

KHI's consolidated revenue for the year ended December 31, 2007 and 2006 was as follows:

	<u>Consolidated</u>			<u>Comparable</u>		
	<u>Year ended Dec 31</u>			<u>Year ended Dec 31</u>		
	<u>2007</u>	<u>2006</u>	<u>% Change</u>	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Occupancy %	<i>- not comparable -</i>			<b>58%</b>	60%	(2.0) pts
ADR (US\$)	<i>- not comparable -</i>			<b>\$161.1</b>	\$140.1	15%
RevPAR	<i>- not comparable -</i>			<b>\$93.9</b>	\$84.4	11%
	<i>(In US\$ 000's)</i>					
Rooms	<b>94,522</b>	52,577	80%	<b>49,494</b>	44,495	11%
Food and beverage	<b>56,504</b>	31,970	77%	<b>29,778</b>	26,482	12%
Other operating revenues	<b>16,392</b>	<u>10,668</u>	54%	<b>8,199</b>	<u>8,572</u>	-4%
<b>Total Hotel Revenue</b>	<b>167,418</b>	95,216	76%	<b>87,471</b>	79,549	10%
Other revenues	<b>11,137</b>	<u>3,844</u>	190%			
<b>Total revenues</b>	<b>178,556</b>	99,059	80%			
No. Consolidated Hotels	<b>17</b>	13	31%	<b>8</b>	8	
No. Consolidated Rooms	<b>3,531</b>	2,439	45%	<b>1,444</b>	1,444	

### Hotels' Comparable like-for-like revenue

RevPar for our 8 comparable hotels (the 4 Fairmont Kenya properties, Mövenpick Beirut, Mövenpick Bur Dubai, Mövenpick Dar Es Salam and Four Seasons Damascus) expanded by 11 per cent during 2007 (8 per cent before foreign exchange impacts). Growth was driven by: i) occupancy increases in Four Seasons Damascus as that leading hotel ramped up its occupancy; ii) post-renovation occupancy and price increases in Dar Es Salam as well as a reduced room supply in that market in the second half of the year; iii) pricing increase in Dubai while iv) strong pricing gains in Kenya were impacted by lower reduced rooms inventory due to renovation.

Total comparable hotel revenues increased 10 per cent to US\$87.5 million (8 per cent before foreign exchange impacts) as renovation in Kenya and Dar Es Salam affected non- room revenues during the year. In Beirut, the political situation continued to dampen trading.

Comparable hotel revenues were as follows:

	Year ended					Year ended				% Change	
	No. of Rooms	December 31, 2007				December 31, 2006				RevPAR Revenue	
		ADR US\$	Avg Occupancy	RevPAR US\$	Hotel Revenue*	ADR US\$	Avg Occupancy	RevPAR US\$	Hotel Revenue*	RevPAR	Revenue
Four Seasons Damascus	297	\$201	67%	\$134	24,099	\$198	47%	\$93	17,104	45%	41%
Mövenpick Hotel Bur Dubai	232	\$195	80%	\$156	19,271	\$161	88%	\$142	17,416	10%	11%
Mövenpick Beirut	292	\$154	46%	\$70	17,011	\$166	54%	\$90	18,957	-22%	-10%
Fairmont Kenya (4 Properties)	393	\$136	43%	\$58	17,342	\$96	60%	\$57	18,221	1%	-5%
Mövenpick Royal Palm, Dar Es Salam	230	\$103	68%	\$70	9,748	\$94	58%	\$55	7,851	27%	24%
<b>Comparable Hotel Revenue</b>	<b>1,444</b>	<b>\$161</b>	<b>58%</b>	<b>\$94</b>	<b>87,471</b>	<b>\$140</b>	<b>60%</b>	<b>\$84</b>	<b>79,549</b>	<b>11%</b>	<b>10%</b>
<b>Excluding Forex impact</b>										<b>10%</b>	<b>8%</b>

\*In US\$000's and includes rooms, food and beverage and other departmental revenues

Note: KHI discontinued the 47 rooms business of the Aberdare hotel in Kenya, but maintains food and beverage outlets at that site.

### **Hotel acquisitions & discontinued operations impacts on revenues**

KHI acquired 5 operating hotels in Asia during 2007 (1,092 rooms) and our reported results in 2007 reflect the partial year impacts of our ownership in these acquisitions, which was US\$ 37.5 million. Our results also include the full year impacts of 4 acquired hotels in 2006 of US\$ 42.4 million. These new non-comparable hotels added US\$ 64.9 million to KHI revenues in 2007. Amongst 2006 acquisitions, performance improved as (i) occupancy and rate at the Mövenpick Karon Beach Resort in Phuket significantly increased through re-branding and revenue management activities, (ii) occupancy and rates improved in Mauritius as a result of revenue management, new market penetration and lapping of Chikengunya fever effects, (iii) El Quseir benefited from a return of favorable trading conditions to the Red Sea market and (iv) InterContinental Lusaka increased RevPAR despite renovations.

Hotel revenue impacts from 2006 and 2007 consolidated acquisitions and discontinued operations were as follows:

(In US\$ 000's)	Acquired	No. of Rooms	Year ended		
			December 31		
			2007	2006	\$ Change
Mövenpick Resort & Spa, Mauritius	April 2006	181	8,650	3,748	4,902
Mövenpick Resort & Spa, Karon Beach	May 2006	339	14,832	5,042	9,790
Mövenpick Resort El Quseir	July 2006	250	9,688	3,970	5,718
InterContinental Lusaka	Oct 2006	225	9,255	2,261	6,994
Four Seasons Langkawi	April 2007	90	15,221	0	15,221
Swissotel Kunshan	May 2007	387	8,376	0	8,376
Raffles Cambodia	July 2007	295	8,517	0	8,517
Four Seasons Jakarta	September 2007	320	5,409	0	5,409
<b>Hotel revenue - acquisition impacts</b>		<b>2,087</b>	<b>79,947</b>	<b>15,021</b>	<b>64,926</b>
<b>Discontinued: Aberdare hotel, Kenya*</b>		<b>47</b>	<b>0</b>	<b>646</b>	<b>(646)</b>

\* KHI discontinued the 47 rooms business of the Aberdare hotel in Kenya, but maintains food and beverage outlets at that site.

### Operating Costs and Expenses

Total cost of sales represents the costs to operate KHI consolidated hotels as well as the costs associated with real estate activities. Total costs for 2007 increased 70 per cent to US\$ 143.8 million. Hotel operating costs include both fixed and variable costs that are affected by changes in occupancy, inflation and business and geography mix. The 2006 and 2007 acquired hotels also accounted for almost all increase in total Hotel operating costs. Hotel costs of sales, which include depreciation charges, were US\$ 139.2 million, two-thirds of which are acquisition related.

For the years ended December 31, 2007 and 2006 these were as follows:

<i>(In US\$ 000's)</i>	<u>Consolidated</u>			<u>Comparable</u>		
	<u>Year ended Dec 31</u>			<u>Year ended Dec 31</u>		
	<u>2007</u>	<u>2006</u>	<u>% Change</u>	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Rooms	15,003	8,447	78%	7,711	7,635	1%
Food and beverage	35,454	17,976	97%	19,289	15,311	26%
Other Departments	54,246	36,354	49%	28,030	30,459	-8%
Management fees	9,067	7,977	14%	4,984	5,970	-17%
Other expenses	4,673	2,410	94%	2,416	1,061	128%
<b>Hotel operating costs</b>	<b>118,443</b>	<b>73,164</b>	<b>62%</b>	<b>62,431</b>	<b>60,436</b>	<b>3%</b>
Depreciation	20,728	10,754	93%	8,273	7,633	8%
<b>Hotel cost of sales</b>	<b>139,171</b>	<b>83,919</b>	<b>66%</b>	<b>70,704</b>	<b>68,069</b>	<b>4%</b>
Real estate/ Other op. costs	4,644	628	639%	729	628	16%
Real estate depreciation	0	0	n/a	0	0	n/a
<b>Real Estate/ Other cost of sales</b>	<b>4,644</b>	<b>628</b>	<b>639%</b>	<b>729</b>	<b>628</b>	<b>16%</b>
<b>Total cost of sales</b>	<b>143,815</b>	<b>84,547</b>	<b>70%</b>	<b>71,433</b>	<b>68,697</b>	<b>4%</b>
No. Consolidated Hotels	17	13	31%	8	8	
No. Consolidated Rooms	3,531	2,439	45%	1,444	1,444	

### Hotels' comparable, like-for-like operating costs

Comparable hotel operating costs increased by 3 per cent from 2006, reflecting efficiency gains in Damascus and Dar Es Salam as well as margin protection initiatives in Kenya. Inflation impacts continued in Dubai. In Beirut, we implemented an aggressive profit protection plan to offset softer trading conditions in that market.

<i>(In US\$ 000's)</i>	<u>Hotel Direct Costs</u>			<u>Operating Costs as % Revenue</u>		
	<u>Year ended December 31</u>			<u>Year ended December 31</u>		
	<u>2007</u>	<u>2006</u>	<u>% Change</u>	<u>2007</u>	<u>2006</u>	<u>Change Pts.</u>
Fairmont Kenya (4 Properties)	14,911	15,887	-6%	86%	87%	(1.2)
Mövenpick Beirut	15,202	16,287	-7%	89%	86%	3.4
Four Seasons Damascus	14,188	12,000	18%	59%	70%	(11.3)
Mövenpick Hotel Bur Dubai	10,708	9,515	13%	56%	55%	0.9
Mövenpick Royal Palm, Dar Es Salam	7,422	6,747	10%	76%	86%	(9.8)
<b>Comparable Hotel operating costs</b>	<b>62,431</b>	<b>60,436</b>	<b>3%</b>	<b>71%</b>	<b>76%</b>	<b>(4.6)</b>

**Hotel acquisitions & discontinued operations' impacts on direct costs**

(In US\$ 000's)	Acquired	No. of Rooms	Year ended December 31		
			2007	2006	\$ Change
Mövenpick Resort & Spa, Mauritius	April 2006	181	7,386	4,033	3,353
Mövenpick Resort & Spa, Karon Beach	May 2006	339	9,233	4,499	4,734
Mövenpick Resort El Quseir	July 2006	250	5,030	1,807	3,223
InterContinental Lusaka	Oct 2006	225	6,606	1,717	4,889
Four Seasons Langkawi	April 2007	90	9,931	0	9,931
Swissotel Kunshan	May 2007	387	5,945	0	5,945
Raffles Cambodia	July 2007	295	6,811	0	6,811
Four Seasons Jakarta	September 2007	320	5,069	0	5,069
<b>Hotel op. costs- acquisition impacts</b>		<b>2,087</b>	<b>56,012</b>	<b>12,057</b>	<b>43,955</b>

**Discontinued: Aberdare hotel, Kenya** 47 0 672 (672)

Note: KHI discontinued the 47 rooms business of the Aberdare hotel in Kenya, but maintains food and beverage outlets at that site.

**Hotel depreciation**

Depreciation expense increased US\$ 10.0 million to US\$ 20.7 million primarily due to the acquisition of new hotels.

**Non-hotel business operations (Other revenues and expenses)**

These comprise other operating activities such as ancillary real estate sales and leasing, business development and asset management fees. Other revenues grew by US\$ 7.3 million to reach US\$ 11.1 million, principally due to new lease revenues from the completion of leasing in Damascus, short-leasing of the Dubai apartment building and the sale of 13 apartments at the Mövenpick Karon Beach Resort in Phuket.

**Other revenues P&L**

(In US\$ 000's)	Year ended December 31		
	2007	2006	\$ Change
<b><u>Other revenues</u></b>			
Real estate sales	4,837	0	4,837
Real estate leases/ other	5,122	2,268	2,854
Bus. Development, asset mgmt	1,178	1,576	(397)
<b>Total Other revenues</b>	<b>11,137</b>	<b>3,844</b>	<b>7,294</b>
<b><u>Other costs</u></b>			
Real estate inventory	(3,915)	0	(3,915)
Real Estate other costs	(729)	(628)	(101)
Real estate depreciation	0	0	0
<b>Total Other expenses</b>	<b>(4,644)</b>	<b>(628)</b>	<b>(4,016)</b>
<b>Total Other gross profit</b>	<b>6,493</b>	<b>3,215</b>	<b>3,278</b>

## Share of results of associates

These include KHI share in the net income of associate investments, accounted for under the equity method, details of the associates performance are shown below:

Associates Net Income																								
(In US\$ 000's)	Hotel EBITDA				Real Estate Sales EBITDA				G&A / Other Income				Depreciation				Net Interest				Net Income			
	Year ended December 31				Year ended December 31				Year ended December 31				Year ended December 31				Year ended December 31				Year ended December 31			
	2007	2006	\$ vs PY	% vs PY	2007	2006	\$ vs PY	% vs PY	2007	2006	\$ vs PY	% vs PY	2007	2006	\$ vs PY	% vs PY	2007	2006	\$ vs PY	% vs PY	2007	2006	\$ vs PY	% vs PY
Four Seasons George V Hotel, Paris	48,137	32,002	16,135	50%	-	-	-	n/c	(6,949)	(8,529)	1,579	-19%	(8,264)	(6,165)	(2,100)	34%	(23,853)	(13,308)	(10,545)	79%	9,070	4,001	5,070	127%
Four Seasons Nile Plaza, Cairo	29,943	20,165	9,778	48%	20,423	13,691	6,733	49%	948	651	297	46%	(4,185)	(3,753)	(433)	12%	(3,004)	(5,406)	2,402	-44%	44,125	25,349	18,776	74%
Mövenpick Resort & Spa El Gouna	11,087	8,049	3,038	38%	-	-	-	n/c	(2,036)	(1,449)	(586)	40%	(912)	(1,021)	109	-11%	(274)	(617)	344	-56%	7,866	4,962	2,904	59%
Four Seasons Resort Sharm El Sheikh	10,650	6,866	3,784	55%	1,967	735	1,232	168%	(690)	(1,265)	575	-45%	(2,004)	(1,777)	(226)	13%	(1,448)	(2,578)	1,130	-44%	8,476	1,982	6,494	328%
Fairmont Zanzibar	(803)	-	(803)	n/c	-	-	-	n/c	(100)	-	(100)	n/c	-	-	-	n/c	-	-	-	n/c	(903)	-	(903)	n/c
Fairmont Palm Hotel & Resort	-	-	-	n/c	-	-	-	n/c	(737)	-	(737)	n/c	-	-	-	n/c	610	-	610	n/c	(126)	-	(126)	n/c
Mövenpick Resort El Quseir*	-	-	-	n/c	-	-	-	n/c	-	280	(280)	n/c	-	-	-	n/c	-	-	-	n/c	-	280	(280)	n/c
<b>Total</b>	<b>99,014</b>	<b>67,082</b>	<b>31,932</b>	<b>48%</b>	<b>22,391</b>	<b>14,426</b>	<b>7,965</b>	<b>55%</b>	<b>(9,564)</b>	<b>(10,312)</b>	<b>748</b>	<b>-7%</b>	<b>(15,365)</b>	<b>(12,715)</b>	<b>(2,650)</b>	<b>21%</b>	<b>(27,968)</b>	<b>(21,908)</b>	<b>(6,060)</b>	<b>28%</b>	<b>68,508</b>	<b>36,573</b>	<b>31,935</b>	<b>87%</b>
Shares of Associates																								
	% Equity ownership																Net Income -- KHI Share							
	Year ended December 31																Year ended December 31							
	2007	2006	\$ vs PY	% vs PY													2007	2006	\$ vs PY	% vs PY				
Four Seasons George V Hotel, Paris	25.0%																2,267	1,000	1,266	127%				
Four Seasons Nile Plaza, Cairo	43.7%																19,278	11,075	8,203	74%				
Mövenpick Resort & Spa El Gouna	29.3%																2,303	1,453	850	59%				
Four Seasons Resort Sharm El Sheikh	39.3%																3,332	779	2,553	328%				
Fairmont Zanzibar	30.0%																(271)	-	(271)	n/c				
Fairmont Palm Hotel & Resort	20.1%																(25)	-	(25)	n/c				
Mövenpick Resort El Quseir*	30.5%																-	85	(85)	n/c				
<b>Total</b>																	<b>26,883</b>	<b>14,392</b>	<b>12,491</b>	<b>87%</b>				
Associates Share of EBITDA																								
	% Equity ownership				Hotel EBITDA				Real Estate Sales EBITDA				G&A / Other Income				EBITDA -- KHI Share				EBITDA -- KHI Share (Exc R/E Sales)			
	Year ended December 31				Year ended December 31				Year ended December 31				Year ended December 31				Year ended December 31				Year ended December 31			
	2007	2006	\$ vs PY	% vs PY	2007	2006	\$ vs PY	% vs PY	2007	2006	\$ vs PY	% vs PY	2007	2006	\$ vs PY	% vs PY	2007	2006	\$ vs PY	% vs PY	2007	2006	\$ vs PY	% vs PY
Four Seasons George V Hotel, Paris	25.0%	12,034	8,000	4,034	50%	-	-	-	n/c	(1,737)	(2,132)	395	-19%	10,297	5,868	4,429	75%	10,297	5,868	4,429	75%			
Four Seasons Nile Plaza, Cairo	43.7%	13,082	8,810	4,272	48%	8,923	5,982	2,941	49%	414	284	130	46%	22,419	15,076	7,343	49%	13,496	9,095	4,402	48%			
Mövenpick Resort & Spa El Gouna	29.3%	3,246	2,357	890	38%	-	-	-	n/c	(596)	(424)	(172)	40%	2,650	1,932	718	37%	2,650	1,932	718	37%			
Four Seasons Resort Sharm El Sheikh	39.3%	4,187	2,699	1,487	55%	773	289	484	168%	(271)	(497)	226	-45%	4,689	2,491	2,198	88%	3,915	2,202	1,713	78%			
Fairmont Zanzibar	30.0%	(241)	-	(241)	n/c	-	-	-	n/c	(30)	-	(30)	n/c	(271)	-	(271)	n/c	(271)	-	(271)	n/c			
Fairmont Palm Hotel & Resort	20.1%	-	-	-	n/c	-	-	-	n/c	(148)	-	(148)	n/c	(148)	-	(148)	n/c	(148)	-	(148)	n/c			
Mövenpick Resort El Quseir*	30.5%	-	-	-	n/c	-	-	-	n/c	-	85	(85)	n/c	-	85	(85)	n/c	-	85	(85)	n/c			
<b>Total</b>		<b>32,308</b>	<b>21,866</b>	<b>10,442</b>	<b>48%</b>	<b>9,696</b>	<b>6,271</b>	<b>3,426</b>	<b>55%</b>	<b>(2,369)</b>	<b>(2,684)</b>	<b>315</b>	<b>-12%</b>	<b>39,636</b>	<b>25,453</b>	<b>14,183</b>	<b>56%</b>	<b>29,940</b>	<b>19,182</b>	<b>10,757</b>	<b>56%</b>			

\*Accounting treatment of the investment changed from associate to a subsidiary in 2007.

### ***Dividend Income***

This represents our share of dividend income declared by the Owning Company of Four Seasons Amman.

### ***Selling, general & administrative expenses***

These include our corporate level expenses such as payroll and related costs, share-based employee compensation plan expense, legal and professional fees, travel expenses and office rent. G&A expenses increased by US\$5.5 million from 2006 to US\$ 20.7 million primarily due to:

- Increase in employee's salaries and benefits by US\$ 3.7 million as a result of the increase in headcount to support growth and implementation of our LTIP plan.
- Sales and marketing expenses of US\$ 0.9 million relating to the launch of Mauritius real estate sales.
- Annual impact of office lease which was leased in July 2006 of US\$ 0.7 million increase in rent expenses and a US\$ 0.2 million in depreciation expenses..

### ***Projects written-off***

KHI capitalizes certain project related expenses and conducts a regular impairment exercise on all its balance sheet investments. During the year ended December 31, 2007 we wrote-off US\$ 4.0 million of investments and capitalized expenses related to projects and development costs, primarily related to Gaza (US\$ 0.5 million), Libya and other developments (US\$3.5 million).

### ***Deferred Credit (2006)***

We realized a one-time gain of US\$12.8 million in the first half of 2006 that related to deferred income arising from the excess value arising from sale of shares that allowed for an indefinite use of cabanas and shops in Beirut, the amount 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 2006. There were no such gains in the first half of 2007 and we do not expect to realize additional related gains from this property in the future.

### ***Interest Income and Expense, net.***

Total interest expense was US\$ 13.6 million and total interest income was US\$ 11.5 million for the year ended December 31, 2007 as compared to US\$ 11.2 million and US\$ 22.6 million respectively for year ended December 31, 2006. We reported a net interest expense balance of US\$ 2.1 million for the year ending December 31, 2007 as compared to a net interest income of US\$ 11.4 million for the year ended December 31, 2006 primarily due to the following:

- Decrease in interest income by US\$ 11.1 million to US\$ 11.5 due to utilization of cash in 2007.
- Full year impact of interest expense of US\$ 1.5 million in Phuket (hotel acquired in May 2006).
- Interest expense of US\$ 0.8 million relating to a US\$ 31.8 million shareholder loan from our associate hotel in Paris in the last quarter of 2007.
- Interest expense of US\$ 0.8 million relating to assumed debt in Kunshan (Hotel acquired in May 2007) partially offset by other lower interest costs of US\$ 0.7 million.

### ***Gain on sale of investments***

Gain from sale of investments relates to the disposal of KHI's remaining equity interest in Four Seasons Hotels & Resorts, Inc. (proceeds of US\$14.7 million for realized gain of US\$2.7 million) in April 2007 and the Fairmont Raffles Holdings International share buyback (proceeds of US\$ 3.0 million for realized gains of US\$1.9 million) in December 2007.

### ***Income Taxes***

The Company is subject to income taxes in several of its operating jurisdictions but has tax exempt status in the Cayman Islands and enjoys a number of tax exemptions on its properties. Income tax for the year ended December 31, 2007 was US\$ 2.1 million, mainly relating to deferred tax liabilities in Mövenpick El-Quseir, Lusaka Zambia, Fairmont Kenya and Mövenpick Mauritius.

### ***Minority Interest***

KHI records minority interest profits or losses based on the percentage of subsidiaries it does not own. Minority interests in the profit for the year ended December 31, 2007 was US\$ 4.4 million against a share of profit of US\$ 1.1 million for the year ended December 31, 2006. This was primarily driven by the improvement in profitability at Four Seasons Damascus from a loss in 2006.

### **Liquidity and Capital Resources**

#### **Cash**

We satisfy our short-term cash requirements such as property maintenance expenditures as well as debt and interest payments through existing working capital and cash provided by operations, and believe these sources will continue to meet our short term operating liquidity requirements over the next 6-12 months.

KHI has been using internal cash balances and excess funds from operations to fund operating acquisitions, development projects, renovations and other capital expenditures. We have also depended on IPO proceeds to fund these requirements in the past 12 months and we intend to use the remaining cash balances for the same purposes in the future. We will likely require external sources of cash, primarily corporate level and subsidiary level debt to meet these demands over the next 12 months.

Cash and short term deposits of US\$ 180.6 million decreased by US\$ 250.2 million over the period from the US\$ 430.8 million balance at December 31, 2006. The decrease was primarily due to the acquisition of operating hotels as well as outflows on development projects.

Net Debt (Interest-bearing loans and borrowings less the cash and short term deposits) was US\$ 134.3 million as at December 31, 2007, a US\$ 373.6 million decline from the net cash position of US\$ 239.3 million in December 31, 2006 as proceeds from IPO, sales of investments and operating cash flows were primarily deployed to fund investments in acquisitions, associates and construction projects.

We acquired five properties during the year for approximately US\$ 225.2 million: Four Seasons Langkawi, Malaysia; Swissôtel Kunshan, China; Four Seasons Jakarta Indonesia and the Raffles Grand Hotel d'Angkor in Siem Reap and the Raffles Hotel Le Royal in Phnom Penh, both in Cambodia. In addition, we paid approximately US\$ 19.0 million for additional shares and share rights in the Four Seasons Damascus, Syria. We acquired land use rights and/or land in four locations, for the following developments: Raffles Da Nang, Vietnam, Raffles Phang Nga, Thailand, Raffles/Fairmont Manila, Philippines and the Mövenpick Kampala, Uganda for approximately US\$ 55.7 million. We also paid US\$ 6.3 million representing our share of Fairmont Palm (an associate). Capital expenditures were US\$ 139 million for the year. We expect to expend additional cash on new acquisitions and construction projects in the coming year.

With the establishment of an Employee Benefit Trust we purchased treasury shares amounting to US\$ 1.2 million in 2007.

We disposed of all our shares in Four Seasons Hotel & Resorts in April 2007 for a total cash consideration of US\$ 14.7 million and we also received US\$ 3.0 million relating to Fairmont Raffles' partial repurchase of its shares.

#### **Loans and Borrowings**

Interest-bearing loans and borrowings including bank overdraft increased from US\$191.5 million as of December 31, 2006 to US\$ 314.9 million as of December 31, 2007 representing an increase of US\$ 123.4 million or 64 per cent.

During the year, we assumed debt of US\$ 20.0 million in Kunshan and have drawn on development credit facilities in Mauritius (US\$ 18.4 million), Marrakech (US\$ 19.8 million), Beirut (US\$ 14.4 million), as well as existing assets in Dubai (US\$ 27 million), Beirut (US\$ 2.7 million).

Additionally we settled US\$ 15.2 million of installments that were due during the period and prepaid US\$ 2.2 million to settle a finance lease in Mauritius. The strengthened Thai Baht increased our reported Phuket debt by US\$ 3.3 million.

Details of our loans portfolio are as follows:

(Loan amounts in US\$ 000's)

	<u>Currency</u>		<u>Maturity</u> <u>Date</u>	<u>Loan</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	
<u>Middle East North Africa</u>						
Mövenpick Beirut	US Dollar	Variable, US\$ LIBOR basis	07/ 2014	44,600	7.0%	Property mortgage debt (non-recourse)
Four Seasons Damascus	US Dollar	Variable, US\$ LIBOR basis	06/ 2011	17,866	10.7%	Property mortgage debt
Mövenpick Hotel Bur Dubai	UAE Dirham	Variable, AED EIBOR basis	07/ 2011	12,253	7.2%	Property mortgage debt (non-recourse)
	US Dollar	Variable, US\$ LIBOR basis	06/ 2015	17,600	6.9%	Property mortgage debt (non-recourse)
Mövenpick Resort El Quseir	US Dollar	Variable, US\$ LIBOR basis	05/ 2017	27,000	6.7%	
	US Dollar	Variable, US\$ LIBOR basis	12/ 2008	1,187	9.4%	Property mortgage debt (non-recourse)
<b>Sub-total loans, Wtd avg. interest rate</b>				<b>120,506</b>	<b>7.5%</b>	
<u>Sub Sahara Africa</u>						
Mövenpick Resort & Spa Mauritius	US Dollar	Variable, US\$ LIBOR basis	11/ 2014	26,500	6.0%	Property mortgage debt (non-recourse)
Fairmont Kenya (4 Properties)	US Dollar		05/ 2020	5,000	0.0%	
Mövenpick Royal Palm, Dar Es Salam	US Dollar	Variable, US\$ LIBOR basis	03/ 2015	1,400	10.4%	Property mortgage debt (non-recourse)
Mövenpick Royal Palm, Dar Es Salam	Tanzania Schilling	Fixed	01/ 2013	5,643	13.0%	Property mortgage debt (non-recourse)
InterContinental Lusaka	US Dollar		10/ 2009	276	0.0%	
<b>Sub-total loans, Wtd avg. interest rate</b>				<b>38,819</b>	<b>6.4%</b>	
<u>Asia</u>						
Mövenpick Phuket	Thai Baht	Variable, Minimum Lending Rate	11/ 2011	33,241	6.6%	Property mortgage debt (non-recourse)
Swissotel Kunshan	China Renminbi	Variable, RMB Basic Rate	04/ 2016	19,995	5.9%	Property mortgage debt (non-recourse)
<b>Sub-total loans, Wtd avg. interest rate</b>				<b>53,236</b>	<b>6.3%</b>	
<u>Europe</u>						
Four Seasons George V	Euro	Fixed	09/ 2012	31,837	6.8%	Property mortgage debt
<b>Sub-total loans, Wtd avg. interest rate</b>				<b>31,837</b>	<b>6.8%</b>	
<u>Development projects</u>						
Four Seasons Beirut	US Dollar	Variable, US\$ LIBOR basis	12/ 2014	21,549	8.5%	Property mortgage debt (non-recourse)
Four Seasons Marrakech	Morocco Dirham	Variable, Moroccan Treasury Rate basis	03/ 2009	21,958	6.3%	Property mortgage debt (non-recourse)
Four Seasons Anahita, Mauritius	US Dollar	Variable, US\$ LIBOR basis	07/ 2008	9,046	6.2%	Property mortgage debt (non-recourse)
	Euro	Variable, EUROBOR basis	07/ 2008	9,046	6.2%	Property mortgage debt (non-recourse)
	Mauritius Rupee	Variable, US\$ LIBOR basis	07/ 2008	7,754	12.0%	Property mortgage debt (non-recourse)
<b>Sub-total loans, Wtd avg. interest rate</b>				<b>69,353</b>	<b>7.6%</b>	
<b>KHI total loans, Wtd avg. interest rate</b>				<b>313,751</b>	<b>7.1%</b>	
<u>Scheduled Debt repayments</u>						
2008				47,240		
2009				47,342		
2010				28,471		
2011				40,755		
2012 & Beyond				149,943		
<b>Total</b>				<b>313,751</b>		

\* Amount excludes balance over draft of US\$ 1.1 million

The table below presents our cash flows for the year ended December 31, 2007 and 2006:

<b>Year ended December 31,</b>	<b>2007</b>	<b>2006</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>
Net cash from (used in) operating activities	<b>32,965</b>	(1,919)
Net cash used in investing activities	<b>(383,367)</b>	(222,375)
Net cash (used in) provided from financing activities	<b>96,817</b>	416,568
<b>Cash and cash equivalents</b>		
Beginning cash and cash equivalents	<b>420,296</b>	227,599
Ending cash and cash equivalents	<b><u>166,851</u></b>	<u>420,296</u>
<b>Net increase in cash and cash equivalents</b>	<b><u>(253,585)</u></b>	<u>192,697</u>
<b>Net foreign exchange difference</b>	<b>140</b>	423

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

<b>Year ended December 31,</b>	<b>2007</b>	<b>2006</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>
Cash at bank and in hand	<b>85,756</b>	26,038
Short term deposits	<b>82,243</b>	404,353
Restricted cash	<b><u>12,565</u></b>	<u>397</u>
<b>Cash and short term deposits</b>	<b>180,564</b>	430,788
Restricted cash	<b>(12,565)</b>	(397)
Bank overdrafts	<b><u>(1,148)</u></b>	<u>(10,095)</u>
<b>Cash and cash equivalents</b>	<b>166,851</b>	420,296

For the year ending December 31, 2007, net cash and cash equivalents for cash flow purposes were US\$ 166.9 million, as compared to US\$ 420.3 million, as at year ended December 31, 2006 reflecting a decrease of 60 per cent.

### **Operating activities**

Net cash inflow from operating activities for the year ended December 31, 2007 was US\$ 33 million, as compared to a cash out flow of US\$ 1.9 million for the year ended December 31, 2006. This change was principally due to the following:

- i) Increase in the operating profit before working capital adjustment (KHI EBITDA for the most part) to US\$ 31.8 million for the year ended December 31, 2007.
- ii) Favorable working capital adjustments of US\$ 15.6 million.
- iii) Cash interest expense of US\$ 12.4 million and taxes of US\$ 2.0 million.

### **Investing activities**

Net cash outflow from investing activities for the year ending December 31, 2007 was US\$ 383.4 million, as compared to US\$ 222.4 million for the year ending December 31, 2006. Investing activities in 2007 were as follows:

- i) Increase in cash expended on acquisition of subsidiaries and associates (net of cash acquired) and minority purchases. During the year ended December 31, 2007, we paid US\$ 273.9 million for acquisitions of the Four Seasons Langkawi in Malaysia (US\$ 102.5 million), Swissôtel Kunshan in China (US\$ 40.8 million), Fairmont Da Nang in Vietnam (US\$ 6.1 million), Raffles/Fairmont Manila (US\$ 25.7 million), Four Seasons Jakarta (US\$ 45.7 million), the Raffles Royal Phnom Penh and the Raffles Grand Siem Reap Cambodia (combined cost of US\$ 34.1 million) and additional interest and share rights in the Four Seasons Damascus, Syria (US\$ 19.0 million).

- ii) Cash outflow relating to property and equipment as well as construction-in-progress for the year ended December 31, 2007 was US\$ 130.5 million, (Four Seasons Beirut, Four Seasons Mauritius, Four Seasons Marrakech), the renovation projects (Fairmont Kenya, Bur Dubai Residence) and the purchase of land in Phang Nga, Thailand.
- iii) Payment of US\$ 2.3 million towards the purchase of land rights in Uganda.
- iv) Payment of US\$ 6.2 million for a capital call of Fairmont Palm Hotel (an associate).

The above factors were partially offset by the following:

- v) Cash inflow from the proceeds of the disposal of the Four Seasons Hotels and Resorts shares of US\$ 14.7 million.
- vi) Cash inflow of US\$ 3.0 million from the proceeds of Fairmont Raffles' partial repurchase of its shares owned by KHI.
- vii) Interest income of US\$ 11.6 million.
- viii) Dividend income of US\$ 0.4 million.

### **Financing activities**

Net cash inflow from financing activities for the year ended December 31, 2007 was US\$ 96.8 million:

- i) The net increase in net borrowings of US\$ 110.2 million for the year ended December 31, 2007.
- ii) Restricted cash for the year ended December 31, 2007 increased by US\$ 12.2 million relating to (a) the additional cash restricted in the Four Seasons Marrakech of US\$ 6.8 million representing the cash proceeds from the sale of Villas for the year (as per the signed loan agreement proceeds of sales of villas up to US\$ 17 million will only be released once Villas are complete and handed over to buyers) (b) cash restricted against the payment of loan installments in Mövenpick Karon Beach Phuket, Swissôtel Kunshan and Mövenpick Beirut total balance restricted during the year is US\$ 3.7 million. c) Payment of US\$ 1.7 million in respect of the Raffles Seychelles project which completed on January 8, 2008.
- iii) The purchase of Treasury shares for the Employee Benefit Trust of US\$ 1.2 million.

## Capital expenditures and development projects

KHI has revisited its disclosure guidelines concerning new development projects and capital expenditures. Going forward, the Company intends to disclose related project details such as expected development cost, completion dates, number of hotel rooms, ancillary real estate and hotel operator only after its has principally concluded the scoping and design phase of the development, unless it has otherwise contractually committed to certain project parameters to a seller or government, or it believes investors and shareholders will benefit from such material disclosure.

This change is in order to reflect our capital allocation process and changes that normally occur to scope, design, completion dates and budgets during the phase of development that in some cases exceeds 12 months from the date of announcement, and the possibility that KHI may decide to fundamentally alter the new development scope from what was previously announced as a result of additional opportunities or exit fully or partially as a result of changes in risks, financial returns, capital allocation strategy or strategic direction.

KHI announced its intention to invest into about US\$ 1.3 billion of projects across four categories of capital spend:

CATEGORY	NUMBER OF PROJECTS	TOTAL PROJECT COST (US\$ MILLION)	KHI SHARE OF TOTAL PROJECT COST (US\$ MILLION)
Development	9	1,119 Estimate	834 Estimate
Renovation*	4	47	37
Capacity Expansion	2	95	86
FF&E	N/A	N/A	N/A
<b>TOTAL</b>	<b>15</b>	<b>1,261 Estimate</b>	<b>957 Estimate</b>

\*includes Fairmont Mara Safari Club in Kenya which was completed in Q4 2007

We have provided below detailed schedules to the composition of this capital allocation by category and stage of the construction. The majority of KHI's capital expenditure program is allocated to new developments (Greenfield) projects. KHI's share of these projects is about US\$ 834 million. Each project is expected to be financed through debt and equity. Sale of ancillary real estate is typically targeted to occur following the completion of a project and during the first three years of operations. Both debt and ancillary real estate sales are expected to reduce KHI's net equity invested / committed into these projects as they progress along their various stages of construction or post opening operations.

There are 4 categories of capital spending at KHI:

1. **New developments.** These are effectively new Greenfield developments. They include all amounts expended on new or partially completed developments that have been approved by KHI's Board of Directors and announced publicly. Amounts expended and capitalized include land acquisition costs, registration and legal fees, design and supervision costs, site preparation and capitalized interest and other project related expenses. (Description of the development process at KHI follows).

The following is a schedule of our New Developments:

### Early stage developments (scoping & design phase):

( in US\$ 000's)

	Announced	Ownership	Spent through to December 31, 2007			
			Land	Others	Total	KHI Share
Mövenpick Ambassador in Accra (Ghana)	July 2005	100%	-	5.4	5.4	5.4
Mövenpick Kampala (Uganda)	June 2006	100%	2.0	0.3	2.3	2.3
Raffles Phang Nga (Thailand)	Sept 2006	80%	<u>20.5</u>	<u>7.1</u>	<u>27.6</u>	<u>22.1</u>
			<b>22.5</b>	<b>12.8</b>	<b>35.3</b>	<b>29.8</b>

*Committed/ late stage developments (tendering or construction phases):*

	<u>Expected completion</u>
Four Seasons Beirut	Second half 2008
Four Seasons Mauritius	Second half 2008
Four Seasons Marrakech	Second half 2009
Raffles Da Nang (Vietnam)	Second half 2010
Fairmont Makati hotel and Raffles Suites and Residences Makati City, Manila (Philippines)	Second half 2010
Raffles Praslin Island, Seychelles	Second half 2010

In addition to KHI-controlled new developments described above, we are a minority partner in one associate development: we own a 20 per cent stake in the Fairmont Palm Hotel & Resort in Dubai which is under construction. The Fairmont Zanzibar, our 30 per cent-owned associate in Tanzania, was completed and opened in November 2007.

2. **Renovation.** These are projects intended to renovate a hotel with a view to enhance or protect its value. Works include conducting exterior or interior structures or refurbish, replace or overhaul furniture, fixtures and equipment in our hotels for the purpose of re-branding or market repositioning our properties, and these projects typically follows a similar implementation process to our new development projects. We also include compliance projects in this category which have the objective of meeting local laws, standards, codes and regulations. KHI is currently implementing renovation projects in our hotel in Lusaka, Zambia and in our two remaining Kenya hotels. KHI's equity share of the renovation budget is about US\$ 37.0 million (of which US\$ 15.3 million has been spent so far, mainly in Kenya). Renovation of the 225-room hotel in Lusaka is expected to be complete in the first half of 2008, while the expected completion of the 167-room Norfolk hotel and 116-room Mount Kenya Safari Club has been delayed to the second half of 2008 due to the political turmoil.

During the first half of 2007, KHI concluded the renovation of the 50 permanent tents at the Mara Safari Club in Kenya, the 230 room Mövenpick Royal Palm in Dar Es Salam and public area of the Mövenpick Resort & Spa in Mauritius.

3. **Capacity expansion.** These are projects intended to add revenue generating capacity to existing key counts, food and beverage outlets or ancillary real estate at existing KHI properties. We are currently implementing related projects at our Dubai and Langkawi consolidated hotels with KHI's equity share of budget of about US\$86 million. These project comprise (1) the addition of 26 new rooms at the Mövenpick Bur Dubai hotel, (2) integration of the adjacent residences building (57 apartments) that was acquired last year into that hotel, with both expected to be completed in the first quarter of 2008, and (3) the addition of an estimated 14 villas to the existing hotel key count and 20 villas for sale at the Four Seasons Langkawi during the second half of 2010.
4. **Renewal and replacement FF&E expenditure.** These include utilizing reserve funds for periodic replacement or refurbishment of furniture, fixtures and equipment (FF&E) that are pursuant to management agreements with our operators that specify related reserve funds ranging between 3 per cent and 5 per cent of hotel revenues to be set aside for this purpose. As of December 31, 2007 the related unspent FF&E reserve was US\$ 2.3 million. We expect to maintain the timing difference between actual and contractual FF&E replacement spending and to spend the full annual contractual FF&E amounts. Related capital expenditures are capitalized as incurred and depreciated upon placement of the assets in service.

## New development projects

KHI has announced its intention to invest about US\$ 834 million in 9 new developments with an estimated total project cost of US\$ 1,119 million, of which US\$ 569 million is in the advanced stages of development.

The following summary outlines capital allocation on capital expenditure pertaining to projects that are classified as developments:

CATEGORY	NUMBER OF PROJECTS	TOTAL PROJECT COST (US\$ MILLION)	KHI SHARE OF TOTAL PROJECT COST (US\$ MILLION)
<b>Design</b>	3	286 Estimate	265 Estimate
<b>Tender</b>	3	372	314
<b>Construction</b>	3	461	255
<b>Post Construction</b>	-	-	-
<b>TOTAL</b>	<b>9</b>	<b>1,119 Estimate</b>	<b>834 Estimate</b>

We classify our development projects into 4 phases of execution: Scoping and Design Phase, Tendering and Negotiation, Phase, Construction Phase, Post-Construction/ Pre-Operating Phase. The following is a description of each phase:

- a. **Scoping and Design:** This phase begins immediately subsequent to the signature of memorandum of understanding with the sellers of a target site and continues past internal approvals and external announcements. The primary activities are establishment of design briefs and space programs; selection and negotiation with Design Consultants, Operators and Project Managers; periodical monitoring of all design activities in the interests of controlling time, cost and quality, participation in multi-disciplinary value engineering exercises; follow up on local administrative procedures and securing necessary development permits; review of feasibility of construction techniques, alternative materials and cost savings; and active update and monitoring of development budgets. Expected completion of this phase is between 9-12 months during which minimal amounts are expended on the projects, pending final approvals on committing to a project budget. As of December 31, 2007 we had three projects that were in various stages in this phase of development. Design of the Mövenpick Kampala is in process, and we expect tender documents to be issued for bidding in the first half of 2008.
- b. **Tender and Negotiation:** This phase begins immediately subsequent to formal approval of the scope and project design by KHI management and involves all stages of bid preparation, contractor selection and bid negotiation. The primary activities are setting procurement strategy; prequalification, selection and negotiations of construction contracts with contractors. Expected completion of this phase is between 3-6 months.

Tender documents for Raffles Da Nang and for the enabling works of the Raffles Seychelles and Raffles/Fairmont Manila have been issued.

- c. **Construction:** This phase begins immediately after the preparation of full-scope construction budgets and execution of construction agreements and involves all stages of site preparation, civil works, construction and completion. The primary activities are management of construction activities until handover; monitoring progress of work and budgets; authorization of payment certificates; production of periodic management reports; and resolution of differences with project participants. Expected completion of this phase is between 24-36 months. We have three consolidated developments that are under construction, the Four Seasons Beirut, Four Seasons Mauritius and the Four Seasons Marrakech.

The Four Seasons Beirut is in the process of completing of concrete structure, installation of electro-mechanical systems and ongoing finishing works. In the second half of this year we plan to negotiate and award the furniture and equipment packages. The total project budget of this hotel is now US\$130 million, an increase of US\$ 20 million from the previously disclosed figure (KHI's 38 per cent equity share increased US\$ 8 million to US\$ 49 million) as a result of delays caused by the summer 2006 war, continued political instability affecting availability of labor and materials and the impact of the introduction of VAT on construction.

The Four Seasons Mauritius hotel is at an advanced stage of construction with several areas ready for contractor hand-over and commencement of furniture procurement. Operator handover and training is currently scheduled for Q1 2008. For the ancillary real estate component (villas), a re-scoping of some of its ancillary real estate designs due to market demands of particular unit configurations is underway, and is scheduled to be finalized and awarded to the contractor in the second half of 2008. The total project budget of this hotel remains at EUR 129.2 million (US Dollar equivalent increased to US\$ 187 million), with KHI's 50 per cent equity share at EUR 64.5 million (US Dollar equivalent increased to US\$ 93.5 million).

The Four Seasons Marrakech is being built in two construction packages for both the hotel and real estate (Villas). Works in all trades are in progress for the villas and completion of construction is expected in Q4 2008. Meanwhile, the core and shell of the Hotel contract has been awarded and mobilization is underway. The finishing and MEP trades will be awarded in March 2009 with a completion date for the hotel expected in the second half of 2009. The total project budget of US\$ 144 million is higher by US\$28 million from the previously disclosed figure as a result of increased hotel functional space. KHI's share of construction costs increased by US\$ 22 million to US\$ 112 million.

- d. **Post-Construction/ Pre-Completion.** This phase begins immediately after the handover of the project by the contractor to the owner involves all stages of pre-opening and branding considerations to prepare the hotel and ancillary real estate for operation. The primary activities are resolution of snags and defects; completion of furniture, fixtures and equipment inventory; final handover to Asset Management & Operator; and conducting periodic visits to inspect the completion of the snag items as well as inspecting for defects and implementing remedies with the contractor ahead of completion certification. Expected completion of this phase is between 1-6 months.

		Project Budgets Estimates (Total Value)					Project Budgets & Estimates (KHI Share )				
		New Development*	Renovation/rebranding	Capacity expansion	Renewal FF&E	Total Projects	New Development*	Renovation/rebranding	Capacity expansion	Renewal FF&E	Total Projects
<i>(In US\$ millions)</i>											
<b><i>Middle East North Africa</i></b>											
Four Seasons Marrakech, Morocco <sup>(b)</sup>	78%	144.0	-	-	-	144.0	112.3	-	-	-	112.3
Four Seasons Beirut, Lebanon <sup>(a)</sup>	38%	130.0	-	-	-	130.0	49.1	-	-	-	49.1
Mövenpick Hotel Bur Dubai, UAE	100%	-	-	8.9	-	8.9	-	-	8.9	-	8.9
Other (FF&E reserve)		-	-	-	3.1	3.1	-	-	-	3.1	3.1
<b>Region sub-total</b>		<b>274.0</b>	<b>-</b>	<b>8.9</b>	<b>3.1</b>	<b>286.0</b>	<b>161.5</b>	<b>-</b>	<b>8.9</b>	<b>3.1</b>	<b>173.5</b>
<b>Spent through December 31, 2007</b>		<b>(123.5)</b>	<b>-</b>	<b>(1.9)</b>	<b>(1.6)</b>	<b>(127.0)</b>	<b>(60.0)</b>	<b>-</b>	<b>(1.9)</b>	<b>(1.6)</b>	<b>(63.5)</b>
<b>Region balance remaining</b>		<b>150.5</b>	<b>-</b>	<b>7.0</b>	<b>1.5</b>	<b>159.0</b>	<b>101.5</b>	<b>-</b>	<b>7.0</b>	<b>1.5</b>	<b>110.0</b>
<b><i>SubSahara Africa</i></b>											
Four Seasons Mauritius, Mauritius <sup>(a)</sup>	50%	187.0	-	-	-	187.0	93.5	-	-	-	93.5
Raffles Praslin Island, Seychelles	91%	144.0	-	-	-	144.0	131.3	-	-	-	131.3
Fairmont Kenya (Mara, Norfolk, Mt. Kenya)	70%	-	35.0	-	-	35.0	-	24.5	-	-	24.5
InterContinental Lusaka	100%	-	12.0	-	-	12.0	-	12.0	-	-	12.0
Developments at scope / design phase. Estimate	-	-	-	-	-	-	-	-	-	-	-
Other (FF&E reserve)		-	-	-	0.6	0.6	-	-	-	0.6	0.6
<b>Region sub-total</b>		<b>331.0</b>	<b>47.0</b>	<b>-</b>	<b>0.6</b>	<b>378.6</b>	<b>224.8</b>	<b>36.5</b>	<b>-</b>	<b>0.6</b>	<b>261.9</b>
<b>Spent through December 31, 2007</b>		<b>(93.9)</b>	<b>(18.3)</b>	<b>-</b>	<b>(0.3)</b>	<b>(112.5)</b>	<b>(52.2)</b>	<b>(15.3)</b>	<b>-</b>	<b>(0.3)</b>	<b>(67.8)</b>
<b>Region balance remaining</b>		<b>237.1</b>	<b>28.7</b>	<b>-</b>	<b>0.3</b>	<b>266.1</b>	<b>172.6</b>	<b>21.2</b>	<b>-</b>	<b>0.3</b>	<b>194.1</b>
<b><i>Asia</i></b>											
Fairmont & Raffles Res. Makati, Philippines	80%	153.0	-	-	-	153.0	122.4	-	-	-	122.4
Raffles Da Nang, Vietnam	80%	74.5	-	-	-	74.5	59.6	-	-	-	59.6
Four Seasons Langkawi, Malaysia	90%	-	-	85.5	-	85.5	-	-	77.0	-	77.0
Developments at scope / design phase. Estimate	-	-	-	-	-	-	-	-	-	-	-
Other (FF&E reserve)		-	-	-	3.1	3.1	-	-	-	2.9	2.9
<b>Region sub-total</b>		<b>227.5</b>	<b>-</b>	<b>85.5</b>	<b>3.1</b>	<b>316.1</b>	<b>182.0</b>	<b>-</b>	<b>77.0</b>	<b>2.9</b>	<b>261.9</b>
<b>Spent through December 31, 2007</b>		<b>(54.2)</b>	<b>-</b>	<b>(2.7)</b>	<b>(2.4)</b>	<b>(59.3)</b>	<b>(43.4)</b>	<b>-</b>	<b>(2.4)</b>	<b>(2.4)</b>	<b>(48.2)</b>
<b>Region balance remaining</b>		<b>173.3</b>	<b>-</b>	<b>82.8</b>	<b>0.7</b>	<b>256.8</b>	<b>138.6</b>	<b>-</b>	<b>74.5</b>	<b>0.5</b>	<b>213.7</b>
<b>KHI projects excluding new developments in scope &amp; desing phase</b>		<b>832.5</b>	<b>47.0</b>	<b>94.4</b>	<b>6.8</b>	<b>980.7</b>	<b>568.3</b>	<b>36.5</b>	<b>85.9</b>	<b>6.6</b>	<b>697.2</b>
<b>Spent through December 31, 2007</b>		<b>(271.6)</b>	<b>(18.3)</b>	<b>(4.6)</b>	<b>(4.3)</b>	<b>(298.8)</b>	<b>(155.6)</b>	<b>(15.3)</b>	<b>(4.3)</b>	<b>(4.3)</b>	<b>(179.5)</b>
<b>Budget estimate beyond December 31, 2007</b>		<b>560.9</b>	<b>28.7</b>	<b>89.8</b>	<b>2.5</b>	<b>681.9</b>	<b>412.7</b>	<b>21.2</b>	<b>81.5</b>	<b>2.3</b>	<b>517.7</b>

\* Includes only new development that are in latter stages of scope and design phase or in tender and negotiation phase

<sup>(a)</sup> Mostly in construction phase, some elements of FS Mauritius being re-scoped

<sup>(b)</sup> FS Marrakech construction stage

The following is a schedule summarizing all of KHI's committed capital expenditure cost budgets and amounts spent through December 31, 2007 (excluding the 3 early stage new development projects):

<b>Latest Budgets &amp; Estimates</b>						
	<u>KHI</u>		<u>No.</u>	<u>Ancillary real estate</u>	<u>Project Cost (\$</u>	
	<u>Equity %</u>	<u>Type</u>	<u>rooms</u>	<u>sales</u>	<u>millions)*</u>	<u>Opening</u>
<b><u>Scoping &amp; design stage</u></b>						
Raffles Phang Nga, Thailand	80%	Resort				
Mövenpick Accra, Ghana: Phase I II, III	100%	City				
Mövenpick Kampala, Uganda**	100%	City				
					286 Estimate	2010 +
<i>KHI share of project cost</i>					265 Estimate	
<b><u>Tender &amp; negotiation stage</u></b>						
Fairmont & Raffles Res. Makati, Philippines	80%	City	330	226 apartments	153.0	H2/2010
Raffles Praslin Island, Seychelles	91%	Resort	90	23 villas	144.0	H2/2010
Raffles Da Nang, Vietnam	80%	Resort	<u>140</u>	<u>45 condos</u>	<u>75.0</u>	<u>H2/2010</u>
			560	294	372	
<i>KHI share of project cost</i>					314	
<b><u>Construction stage</u></b>						
Four Seasons Mauritius, Mauritius ***	50%	Resort	90	45 villas	187	H2/ 2008
Four Seasons Beirut, Lebanon	38%	City	230	n/a	130	H2/ 2008
Four Seasons Marrakech, Morocco	78%	City	<u>140</u>	<u>43 villas</u>	<u>144</u>	<u>H2/ 2009</u>
			460		461	
<i>KHI share of project cost</i>					255	
<b>Total KHI consolidated developments</b>					<b>1,119 Estimate</b>	
<i>KHI share of project cost</i>					<b>834 estimate</b>	

\* Before real estate sales proceeds or debt financing, project costs of developments in the scoping & design phase represents an estimated range. Other developments are budgeted amounts

\*\* Management decided to execute phases I/II/ III in the same time against the initial plan of a sequential completion

\*\*\* Expected final cost remains EUR 129.2 million, the increase in US dollar value shown is due to change in exchange rate from 1.31 US\$/EUR to 1.45 US\$/EUR

## Commitments and future capital expenditures

KHI generates aggregate estimates for future capital expenditures based on a combination of estimates for projects that are in the design and construction phases, budgets for projects that have been tendered for construction as well active construction projects that are in the implementation phase. Investors and shareholders should be aware that these estimates are subject to constant change depending on changed market conditions, regulations, zoning, scope and design, budgets, contractor performance, commodity and material prices, foreign exchange and other relevant variables.

We expect remaining total project costs for the 6 new development projects, renovation and capacity expansions to be US\$ 681 million and KHI's equity share to be US\$ 517 million before proceeds from debt financing proceeds or real estate sales. Our project cost estimates for the remaining three new early stage development projects are US\$ 286 million before proceeds from debt financing proceeds or real estate sales and KHI's equity share of US\$ 265 million.

As of December 31, 2007 KHI had a total of US\$196.9 million of commitments with third parties related to these capital expenditure projects. Of this total 76 per cent related to the 6 new developments currently in the tendering and construction phases (see above), 21 per cent related to renovation and capacity expansion, and the remaining 3 per cent on the three new developments that are still in the scoping and design stage.

The following is the estimated timing of cash disbursements (before proceeds from debt financing and real estate sales) for the Four Seasons Mauritius, Four Seasons Beirut, Four Seasons Marrakech, Fairmont Makati, Raffles Da Nang and Raffles Seychelles resort developments as well as all its renovation and capacity expansion projects:

<i>(In US\$ 000 's)</i>	<b>As of December 31, 2007</b>	
	<u>Total Project</u>	<u>KHI Share</u>
2008	276	185
2009	201	157
2010	139	119
2011	<u>64</u>	<u>55</u>
<b>Total</b>	<b>679</b>	<b>515</b>

The following is the range of estimated costs and timing of cash disbursements (before proceeds from debt financing and real estate sales) for the three new hotel developments that are in the scoping and design phase:

<i>(In US\$ 000 's)</i>	<b>As of December 31, 2007</b>	
	<u>Total Project</u>	<u>KHI Share</u>
2008	44	43
2009	142	128
2010	57	57
2011	<u>8</u>	<u>7</u>
<b>Total</b>	<b>251</b>	<b>235</b>

## Capital Commitments and material Contingent Liabilities

### Capital commitments

At 31 December 2007, the Group had capital commitments of US\$ 196.9 million (2006: US\$ 281 million) in respect of construction work.

#### Kingdom Langkawi B.V. - Four Seasons Langkawi

As part of the acquisition of the Four Seasons Langkawi, Kingdom Langkawi B.V. - the acquiring company - agreed to pay a sum equal to RM35 million (approximately US\$10 million) to the seller for land adjoining the property. The purchase of this additional land is contingent upon the satisfactory settlement by the seller of a current legal dispute over the land with a third-party.

### Contingent liabilities

#### Merryland Pour les Projets Touristiques (MPPT):

The hotel owning company was subject to an audit by the Income Tax authorities for fiscal year 2002 and was subsequently charged, additional taxes and fines in the amount of US\$ 1.1 million. The company has provided for an amount of US\$ 0.4 million as of December 31, 2007 (2006: US\$ 0.3 million) which the company believes will be ultimately payable following an appeal against the assessment. In addition, the company was subject to an audit by the Income Tax authorities for fiscal years 2003-2004 and was subsequently assessed additional taxes and fines in the amount of US\$1.1 million. The company has provided for an amount of US\$ 0.37 million as of December 31, 2007 which management believes will be ultimately payable.

The company was subject to an audit by the Department of Value Added Tax for the period to 31 December 2002 was subsequently charged, additional taxes and fines in the amount of US\$ 19.7 million. The company has provided for an amount of US\$ 0.4 million as of 31 December 2007 (2006: US\$ 0.3 million) which management believe will be ultimately payable following appeal against the assessment.

## RELATED PARTY TRANSACTIONS

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

### Transactions

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

		<i>Business development income US\$'000</i>	<i>Management and incentive fees expense US\$'000</i>	<i>Asset Management fee income US\$'000</i>	<i>Loans advanced to (from) related parties US\$'000</i>	<i>Interest Expense US\$'000</i>
Other related parties	<b>2007</b>	<b>772</b>	<b>(9,067)</b>	<b>406</b>	<b>(32,337)</b>	<b>(783)</b>
	2006	731	(5,552)	845	(500)	-

Other related parties are hotel operators which are associated with KHI's majority shareholder.

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

### Compensation of key management personnel

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

	<i>2007</i> <i>US\$'000</i>	<i>2006</i> <i>US\$'000</i>
Short-term employee benefits	<b>3,828</b>	3,796
Bonus paid in respect of IPO	-	5,400
End-of-service benefits	<b>92</b>	86
Retention bonus	<b>795</b>	277
	<u><b>4,715</b></u>	<u>9,559</u>

	<i>2007</i> <i>US\$'000</i>	<i>2006</i> <i>US\$'000</i>
<b>Balances due from (to) related parties</b>		
Due to Four Seasons Hotels Inc.	<b>(610)</b>	(113)
Due to Fairmont Hotels and Resorts Inc.	<b>(2,117)</b>	(76)
Due to / from DBRC Anahita	<b>(1,963)</b>	5,326
	<u><b>(4,690)</b></u>	<u>5,137</u>

Due from Mövenpick Hotels and Resort AG	<b>16</b>	286
Due from Kingdom Holding Company (ultimate parent company)	-	416
Due from Anahita Golf Limited	<b>3,006</b>	875
	<u><b>3,022</b></u>	<u>1,577</u>

	<i>2007</i> <i>US\$'000</i>	<i>2006</i> <i>US\$'000</i>
Short term loans from		
Mövenpick Hotels and Resort AG	<b>500</b>	500
Long term loans from		
Kingdom KR-35 Ltd.	<b>31,837</b>	-

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

## 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).

**“Hotel EBITDA, Net Operating Income or NOI”** is Income before Fixed Charges less other expenses like lease costs, insurance, real estate taxes etc before deduction of FF&E reserve.

**“Hotel EBITDA POST FF&E”** is Hotel EBITDA less FF&E reserves (Furniture, Fixtures and Equipment Reserves are contractual deductions as a percentage of revenues that are set aside to accumulate funds required for future replacements of furniture, fixtures and equipment)