Kingdom Hotel Investments
Annual Report and Accounts 2008

Four Seasons Resort Mauritius at Anahita

Who we are

Kingdom Hotel Investments (KHI) is a leading publicly listed international hotel and resort real estate investment company that is focused on emerging markets. KHI has a balanced portfolio of hospitality assets in upscale, upper-upscale and luxury market segments.

What we do

We build shareholder value by acquiring, developing, actively asset managing and financial structuring of high-quality hospitality real estate properties that are leaders within their competitive market sets.

Our performance

Revenue growth

05 *53%*
06 *69%*
07 *83%*
08 *54%*

KHI EBITDA growth

05 *11%*
06 *47%*
07 *246%*
08 *44%*

Adjusted KHI EBITDA growth

05 *104%*
06 *64%*
07 *116%*
08 *39%*

Financial highlights

(US$ million)	*2004*	*2005*	*2006*	*2007*	*2008*
Profit and loss					
Revenue	38.4	58.8	99.1	180.9	278.7
Operating profit	6.3	0.6	(0.7)	13.5	22.5
KHI EBITDA	6.3	7.0	10.3	35.6	51.4
Adjusted KHI EBITDA	9.4	19.1	31.3	67.6	94.1
Net profit (reported)	4.4	12.3	42.8	42.3	17.1
Net profit (excluding non-recurring items)	2.1	13.7	23.5	32.1	43.1
Balance sheet					
Total assets	497.5	795.3	1,492.0	1,765.1	1,893.9
Shareholders' equity before minorities	321.7	536.1	1,108.3	1,172.5	1,154.3
Debt	76.3	83.8	191.5	314.9	405.5
Cash	40.5	229.6	430.8	180.6	256.4
Net cash (debt)	(35.8)	145.8	239.3	(134.3)	(149.1)

Net profit (excluding non-recurring items) growth

05 *541%*
06 *71%*
07 *36%*
08 *34%*

Operating highlights

- *Very strong first half System performance*
- *Slowdown in second half System performance driven by global macro-economic events and partially mitigated by our diversified portfolio*
- *Completed renovation and capacity expansion in Kenya, Lusaka and Dubai*
- *Rationalized development and expansion projects (Langkawi, Da Nang, Phang Nga, Kampala)*
- *Advanced construction activities of the Four Seasons Beirut, Four Seasons Marrakech, Fairmont Raffles Makati, Raffles Seychelles and Mövenpick Accra*

KHI at a glance

We have established strategic partnerships with associated world-class hotel brand operators spanning the upscale to luxury hotel segments and leverage these relationships in most of our properties: Four Seasons Hotels and Resorts, Fairmont Raffles Hotel International, Mövenpick Hotels and Resorts. We use these strategic operator-owner relationships to execute our business model in the areas of asset management, origination, disposals and capital recycling.

Our Strategic Partners

Luxury

Four Seasons Hotels and Resorts *is an acknowledged leader in the hospitality industry, renowned for making business and leisure travel easier, more rewarding and glamorous. Our partnership with this operator spans seven operating hotels and two developments.*

31%
of KHI System rooms

Raffles Hotels & Resorts *is a worldwide collection of luxury hotels and resorts, which are distinguished by their elegance and residential charm. Each hotel is a landmark in its respective city, positioned at the top of its local market and rated among the very best in the world. Our partnership with this operator spans two operating hotels and two developments.*

6%
of KHI System rooms

Upper upscale

Fairmont Hotels & Resorts*' global portfolio includes elegant landmark hotels, expansive resorts and iconic modern city-centre properties. All its operations worldwide present a unique combination of elegance and flair. Our partnership with this operator spans four operating hotels and one development.*

8%
of KHI System rooms

InterContinental Hotels & Resorts *is InterContinental Hotel Group's most prestigious hotel brand, located in major cities in over 60 countries worldwide. InterContinental Hotels offer business and leisure travellers the highest level of service and facilities. There is currently one KHI-owned InterContinental Hotel.*

4%
of KHI System rooms

Upscale

Mövenpick Hotels & Resorts *is active in the upscale segment with holiday resort as well as business and conference hotels. Its core markets are Europe, Africa, the Middle East and Asia. Our partnership with this operator spans seven operating hotels and one development.*

43%
of KHI System rooms

Swissôtel Hotels & Resorts *has a premier portfolio of hotels and resorts in major business and leisure locations. Each Swissôtel captures modern and functional design, with local character and renowned standards of Swiss hospitality, service efficiency and product quality. There is currently one KHI-owned Swissôtel.*

8%
of KHI System rooms

Our key regions

Sub-Saharan Africa

- *Non-Kenya hotels posted strong results*
- *Renovation of the Fairmont Hotels in Kenya was completed*
- *System RevPAR +3%, System EBITDA -20%*

Middle East & North Africa

- *Robust growth in Damascus and performance recovery in Beirut*
- *Margin expansion in Beirut, Damascus and Sharm El Sheikh*
- *System RevPAR +19%, System EBITDA +25%*

Asia

- *Occupancy declines and limited rate growth across the portfolio except for the Four Seasons Jakarta and Raffles Phnom Penh*
- *System RevPAR +7%, System EBITDA +1%*

France (Four Seasons George V, Paris)

- *Performance enhanced through added focus on revenue management*
- *System RevPAR +11%, System EBITDA +17%*

Where we are

- Operating hotel
- Development

Chairman's letter

Our priorities remain on growth, value-creation, diversification and rationalization.

I am pleased to announce another successful year for KHI in 2008 with strong revenue growth and a robust performance of the portfolio in an increasingly challenging market environment. The Company concentrated on integrating its recently acquired hotels through active asset management as well as rationalizing its portfolio and directing capital towards existing opportunities.

Value delivered

The year saw the opening of the Four Seasons Mauritius, accompanied by sustained real estate profits at the Four Seasons properties in Egypt and Mauritius. There was also a successful pre-sales launch of the Raffles Residences Manila. The Middle East North Africa and Sub Sahara Africa hotels also delivered strong profit performance.

We completed the renovation of the Fairmont Norfolk, the Fairmont Mount Kenya, the InterContinental Lusaka, and Bur Dubai Residences, as well as the capacity expansion work at the Mövenpick Bur Dubai.

Navigating the downturn

As global economic conditions worsened, we acted swiftly to protect our margins. Some of our early development and expansion projects were either cancelled or put on hold as these and other measures were taken to release capital and safeguard the balance sheet. We remain suitably vigilant with our investments and mindful of new consolidation or disposal opportunities should these arise.

People

I would like to thank all our excellent people for their hard work during another year of strong performance. Limited visibility in the current market brings to the fore the skills, experience and commitment of our management and business teams that will enable the Company to deliver more value-enhancing initiatives in 2009 and beyond as we implement our proven investment strategy.

Outlook

I am confident that the underlying trends in our markets continue to offer excellent growth opportunities and the strength of the Company's balance sheet allows it to be well positioned to benefit from any recovery. As we move forward, our priorities remain on growth, value-creation, diversification and rationalization.

HRH Prince Alwaleed Bin Talal
Bin Abdulaziz Alsaud

Chief Executive's review

KHI delivered strong results in 2008 and is very well positioned and capitalized in times of global economic challenges.

KHI delivered strong results in 2008 despite the global economic challenges. We continued to implement our value-enhancing and diversification strategies to deliver financial and operational growth across the group.

Consolidated hotel revenues were up 36% to US$230.9 million while adjusted EBITDA increased 39% to US$94.1 million. We saw robust profit performance from most Middle East North Africa and Sub-Saharan African hotels despite a significant slowdown in the second half of the year. We are proud to have delivered the Four Seasons Mauritius during the year, one of the most exciting additions to our portfolio.

Our ancillary real estate business had another significant year and met its ambitious objectives. We delivered 32 villas at the Four Seasons Mauritius whilst the Four Seasons Nile Plaza and Sharm El Sheikh had consistent residential sales. In Manila, we had a very successful first phase launch in which we sold 111 Raffles Residences (47% of units).

Portfolio rationalization and capital allocation strategy

We pursued our portfolio rationalization strategy by disposing of minority interests in development projects in Dubai and Zanzibar whilst increasing control of our operating hotels in Kenya and Egypt. Secondly, we put on hold or canceled four early stage development projects and reduced our capital requirements by US$300 million.

We have an active capital allocation strategy to safeguard our balance sheet and position KHI as one of the better capitalized players in the sector.

Developments

Following the rationalization exercise, our development pipeline comprises five subsidiary investments that have advanced during the year and are largely funded. We started construction on the Mövenpick Accra, Fairmont and Raffles hotels in Accra as well as the Raffles resort in the Seychelles. We advanced construction at the Four Seasons Beirut and Marrakech.

Well capitalized

I have great confidence in the financial stability of KHI. The Company has a US$256 million cash reserve and has had access to debt funding throughout the year. In addition to the project finance obtained for the Accra, Manila and Seychelles developments, KHI also raised US$158 million in debt commitment at the asset and corporate level, of which US$94 million was drawn down. Despite our confidence, we will not be complacent and are fully aware of the challenges that await us in 2009.

Outlook

The crisis in the credit markets, which unfolded in the summer of 2007, has led to a global economic slowdown. The current climate has reduced visibility on hotel trading and we do not foresee any change in 2009. As companies have increased their focus on cash and profit protection, we are partnering with our strategic operators to execute a series of profit protection plans. At KHI, we took decisive and early actions to conserve cash and reallocate capital with a view to maintain a strong balance sheet. We have minimized discretionary capital expenditures at all properties as well as real estate sales and marketing spend. Lastly, we have restructured the Company's cost base to a more affordable level whilst we continue to strengthen our capabilities and invest in systems.

Construction of our hotels in Marrakech, Seychelles, Accra and Manila is advancing in earnest. In 2009, we look forward to the opening of the Four Seasons Beirut and remain on track to complete the Four Seasons Private Residences in Mauritius and Marrakech.

Sarmad N. Zok
Chief Executive Officer

Our business

A hospitality real estate investment company focused on emerging markets

KHI is a leading publicly listed hospitality real estate investment company focused on emerging markets. It went public in March 2006 and is presently listed on NASDAQ Dubai (formerly the Dubai International Financial Exchange) and on the London Stock Exchange.

The Company was founded in 2000 by His Royal Highness Prince Alwaleed bin Talal bin Abdulaziz Alsaud, who remains the Company's Chairman and majority shareholder through his ownership of Kingdom Holding Company.

KHI has accumulated a portfolio of high quality assets managed by leading international hotel operators in distinctive and strategic emerging market locations within Asia, Africa and the Middle East. We use a combination of acquisitions, partnerships and greenfield developments to grow this unique portfolio and diversify the asset base.

KHI is a bridge between emerging markets, hospitality assets and capital markets

Emerging markets offer the best combination of medium- and long-term property gains and capital markets exposure.

Our objective as a professionally managed property investment company is to act as a bridge between sector real estate and emerging markets investors seeking managed exposure to this rewarding asset class. We target an unleveraged Return on Capital Employed in excess of 10% to 15% on a stabilised basis.

We utilise our collective experience, diversity, relationships, capital markets discipline and highly-focused mandate to enhance investment returns and manage risk. Our business model is based on the principles of a successful real estate investor as well as disciplined capital allocation, diversification and financial and fiscal management parameters that, in combination, drive value to our shareholders.

Hospitality real estate in emerging markets

We focus on emerging markets due to their superior growth characteristics and long-term potential. These markets are attractive to sector real estate investors due to their strong, sustainable growth drivers of returns such as above-average GDP growth rates and tourism arrivals, typified by attractive profit margins, favourable fiscal and regulatory environments, deregulation of the travel industry and increased tourism distribution channels.

We seek to maintain a balance in our capital commitments between existing hotels and new developments, ensuring steady cash flows while building the pipeline for future growth. Our property portfolio is diversified geographically and benefits from a healthy mix of new developments and operating assets as well as city and resort hotels that span several product segments. In addition, our growing ancillary business encompasses residential and commercial properties for lease or sale that are typically adjacent or within our branded hotel properties.

Our positioning within the emerging markets real estate sector is a unique and favourable one. Economic fundamentals, secular trends and accelerated reforms all underpin the key drivers to our investment case and enhance the value of our property assets. Increased capital flows into and within emerging market regions and their rapid integration with the global economy is being driven by increased trade, globalization, technology, political and economic reforms, land ownership reforms, improvements in infrastructure such as new and larger airports, and an overall reduction in travel barriers.

These drivers are promoting strong economic growth potential, most notably in the Asian economies. A rising middle class now enjoys new levels of disposable income and a growing demand for both inbound and outbound travel and tourism. We believe this trend is set to continue over the longer term despite the short and medium term challenges caused by the economic downturn.

In 2007, tourism proved to be resilient against the commencement of financial market turbulence, increasing interest rates, tighter credit conditions, rising fuel prices and security and health issues. International tourist arrivals increased that year by 7% to reach 908 million travellers. Hotel trading was exceptional. Most regions experienced double-digit RevPAR growth due to sustained economic growth as well as increases in leisure and business tourism. RevPAR growth was largely driven by room rate increases.

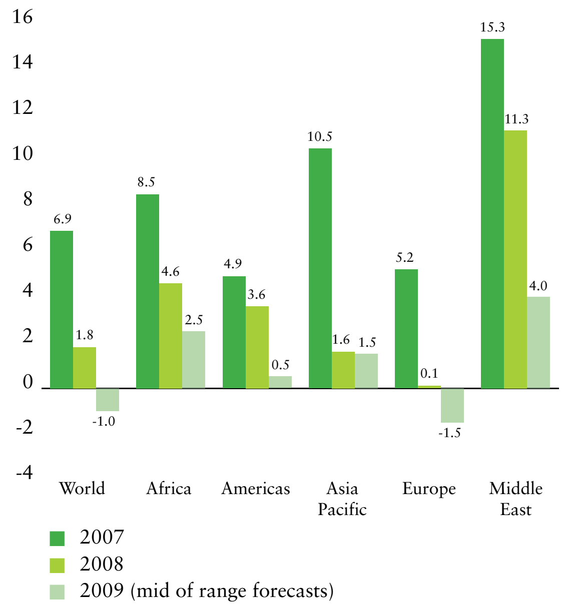
However, growth in tourist arrivals decelerated in 2008 and even more dramatically in Asia Pacific and Europe. The slowdown was more pronounced in the latter part of the year. In the second half of 2008, Europe and Asia experienced a 3% drop, growth in the Americas was flat (+1%) while growth in Africa and the Middle East tapered to 4% and 5% respectively. This does not affect KHI's long-term view or commitment to emerging markets.

Hotel global performance

	Occupancy (%)			ADR US$			RevPAR (US$)		
	2007	2008	% Change	2007	2008	% Change	2007	2008	% Change
North East Asia	69.7	62.4	-10.4	120	32	10.0	84	82	-1.5
South East Asia	70.2	67.4	-4.0	106	122	15.3	75	83	10.7
North America	63.1	60.6	-4.0	105	108	2.5	66	65	-1.6
South America	64.4	65.5	1.7	101	115	13.8	65	75	15.7
Eastern Europe	64.5	60.4	-6.4	147	169	15.3	95	102	7.9
Western Europe	67.5	66.0	-2.3	147	165	12.0	99	109	9.5
Middle East	68.1	68.8	1.2	184	215	17.0	125	148	18.3
Northern Africa	71.7	74.9	4.3	72	87	21.4	52	65	26.7
Southern Africa	70.5	67.8	-3.9	117	120	2.1	83	81	-1.9

Source: STR Global

% growth in International Tourist Arrivals



Source: United Nations World Tourism Organization

Forecast of growth in international tourist arrivals

	2009
World	Between -2% and 0%
Europe	Between -3% and 0%
Asia Pacific	Between 0% and 3%
Americas	Between -1% and 2%
Africa	Between 1% and 4%
Middle East	Between 2% and 6%

Source: United Nations World Tourism Organization

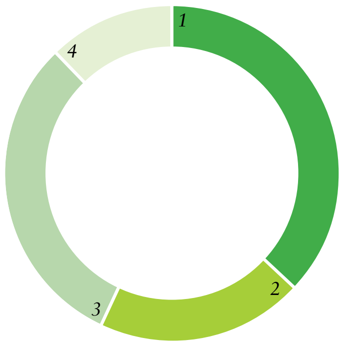
Tourist arrivals in South East Asia, where KHI Asian investments are concentrated, grew 3.6% in 2008, a far cry from the 12.3% growth achieved in the previous year. RevPAR grew 10.7% to US$83. Civil and political unrest in Thailand, which led to the temporary closure of Bangkok Suvarnabhumi International Airport in November, severely impacted the tourism trade. Phuket experienced a RevPAR decline of 11.1%, entirely driven by a drop in occupancy. Cambodia was equally impacted as many visitors come through Thailand. Economic growth in Indonesia sustained the growth in tourist arrival (+17%) through the last quarter of 2008.

According to UNWTO statistics, the Middle East was again the fastest growing tourism destination (+11.3%) in 2008. Hotels in the region enjoyed a fifth consecutive year of double-digit RevPAR growth to US$148 (+18.3%). In Egypt, Red Sea resorts continued to offer visitors value for money. Cairo hotels grew RevPAR 15.6% through pricing despite softness in the last quarter. RevPAR in Dubai was flat at US$237 due to a 5.2 percentage points drop in occupancy to 78.9%. Beirut's RevPAR leaped 102.2% to US$95 – the highest growth rate in 2008. The Doha Agreement of 21 May 2008 ended Lebanon's political stalemate and fuelled the influx of tourists (GCC travellers and Lebanese expatriates alike) in the summer months.

In 2009, the UNWTO is forecasting growth in global international tourist arrivals to range between a 2% decline and flat. International tourist arrivals in emerging markets are expected to grow modestly while developed markets are expected to stagnate. However, the UNWTO stresses its forecasts are subject to a high degree of uncertainty due to evolving economic conditions. We expect this uncertainty to impact the visibility on hotel trading performance.

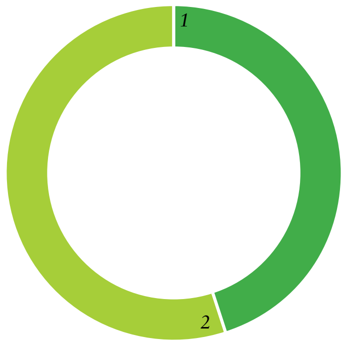
Our business
continued

Invested capital by region



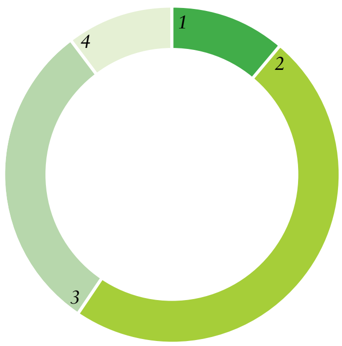
1	MENA	37%
2	Africa	20%
3	Asia	31%
4	France	12%

Invested capital by hotel type



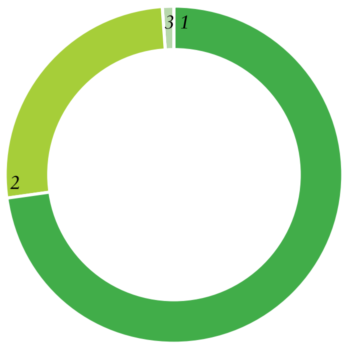
1	Resort	45%
2	City	55%

Invested capital by hotel operator



1	Fairmont/Raffles	11%
2	Four Seasons	48%
3	Mövenpick	30%
4	Other	10%

Invested capital by investment type



1	Consolidated	73%
2	Associates	26%
3	Affiliates	1%

Our objectives and strategy

Our objective is to create and realise shareholder value through the acquisition, development and management of high-quality urban and resort hotel assets within global emerging markets. We diversify business and development risks through geographic spread, property type and customer base and manage our current business through geographic focus on three principal regions: Asia, Middle East North Africa (MENA) and Sub-Saharan Africa (SSA) and have business operations in 20 countries.

Our strategy consists of:

- Acquiring and developing urban and resort hotel properties with superior growth potential within emerging markets, where there are attractive growth prospects and a strong potential to achieve above-average risk adjusted returns;
- Enhancing property asset values through active asset management and adding value to developments through ancillary real estate pre-sales ahead of construction;
- Achieving stabilised annual capital returns in excess of our cost of capital (we currently target returns of between 10% and 15% before gearing), and realising cash returns through refinancings, monetisation and disposals with a view to recycling our capital;
- Recruiting, developing, aligning and compensating our people within an entrepreneurial but structured operating environment.

Our business
continued

Acquisitions

We acquire assets and invest in operating assets within prime or leading sites in urban or resort destinations. Our goal is to deliver significant capital appreciation and incremental returns on our cost of capital during a defined holding period. We do this through a combination of value and yield enhancement actions.

Our investment discipline factors in property cycles, market supply and demand characteristics, the location of the property, its positioning and management, physical condition, as well as overall political and economic trends within that asset's market.

We source investment opportunities through dedicated teams located in Dubai and Singapore that rely on direct prospecting, referrals, operator and industry relationships as well as industry brokers.

To date most of our investments have been made in off-market transactions and our strong balance sheet and liquidity has allowed us to act quickly on opportunities and rapidly execute our capital deployment strategy.

The focus of our acquisitions team in 2008 was on the execution of KHI's portfolio rationalization strategy.

- In June 2008, we sold our equity interest in the Dubai Pearl development for US$8.2 million and a US$4.5 million gain (realized equity IRR of approximately 25%).
- In July 2008, we increased our equity interest in Mövenpick El Quseir to 94.6% by acquiring an additional 7.3% equity interest in a step-up acquisition for US$2.0 million.
- In October 2008, we concluded a swap transaction with IFA Hotels & Resorts pursuant to which the Company sold its minority interest in the Fairmont Palm Dubai development and the Fairmont Zanzibar in return for a step-up of our effective ownership in the Kenya hotels from about 70% to 94% and cash receipts of US$5.3 million, with a realized net loss of US$0.3 million.
- In November 2008, KHI sold the land of its Phang Nga development project for US$23.9 million recouping 87% of its initial investment.
- In a subsequent event, the Company sold its minority interest in the Fairmont Nile City (Cairo) development in February 2009 for US$11.5 million and realized a US$1.3 million gain.

Developments

As part of our growth strategy, we acquire and structure greenfield developments, partially completed developments or reposition existing assets through renovation or capacity expansion.

We currently have five hotels under construction with a total development budget of about US$711 million, with our share at US$543 million.

Development	Expected completion
Four Seasons Beirut, Lebanon	H2 2009
Four Seasons Marrakech, Morocco	H2 2010
Mövenpick Accra, Ghana	H2 2010
Raffles Praslin Island, Seychelles	H1 2011
Fairmont & Raffles Makati Manila, Philippines	H2 2011

As at year end, US$261 million of the total budget has been spent. Our development business involves unique risk reward characteristics and entails an underwriting of project valuation and risk that is based on market-specific and property-specific factors. This includes expected demand and supply, project use and construction risk.

Most of our development projects are focused on single hotel projects, encompassing ancillary real estate for lease or sale that benefits from hotel branding and positioning. Our underwriting discipline and objectives rely on underlying hotel property as the primary driver of value with ancillary real estate acting as a catalyst to core property returns. Our development activities also include pre-sales or pre-leases of ancillary real estate, typically as a prelude to commencement of construction.

In 2008, we opened the Four Season Mauritius and handed over 32 Private Residences to their owners. In 2009, we expect to complete the remaining 13 Four Seasons Private Residences in Mauritius, a significant number of the Four Seasons Private Residences in Marrakech as well as open the Four Seasons Hotel Beirut.

Our operating acquisitions and developments are subject to a rigorous and structured underwriting process, designed to manage risks, maximise flexibility, tax options, define governance rights and define an asset exit strategy. Transaction structures, typically multi-tiered and tax-optimised, are devised to allow us to achieve significant direct or indirect control for minimal investment.

Asset management

When assets are acquired or new developments launched, we ensure they are funded and managed in the most effective way to maximise market positioning, revenue growth, profitability, cash generation and the contribution to KHI EBITDA and overall cash flow. We work in close partnership with our operator partners to build aggressive asset plans and support their delivery by aligning our teams and objectives on initiatives such as property repositioning, re-branding, renovation, adding or amending capacity configuration.

We actively manage our property operators through benchmarking and monitoring of trading results to deliver on annual plans and budgets. The focus is to proactively enhance revenues and control costs in order to increase profits and operating leverage. This can be seen in revenue yield and mix management, new marketing opportunities, operating and staffing efficiencies, purchasing policies and other cost-control measures. We assess incremental capital expenditure opportunities or capital redeployment initiatives within our acquired properties to generate incremental returns on capital, and we put in place tax structures and optimise each property's capital structure with a view to reduce financing costs and manage risk. The Mövenpick Beirut is a prime illustration of our asset management initiatives. Our yield management initiatives increased RevPAR 88% in conjunction with the operating efficiencies measures implemented in the previous year afforded the operating leverage that saw hotel EBITDA triple to US$4.7 million. At the Four Seasons Damascus, margins continued to improve through room rate increases.

During 2008, the System RevPAR increase of 12% (10% on a currency neutral basis) was driven by overall rate growth in Middle East North Africa hotels amid flat occupancy. The slowdown from the previously announced first half growth of 23% (16% on a currency neutral basis) was driven by occupancy declines and slower rate growth in the latter part of 2008 in our resort properties, Cairo, Paris and Dubai hotels. System EBITDA growth slowed to 16% in 2008 (14% on a currency neutral basis) because of the impacts of cost inflation in selective hotels and lower RevPAR growth in the second half.

Asset financing, monetisation and recycling

We intend to use a combination of operating cash flow, non-recourse and parent level bank lending, debt capital markets instruments and share capital to fund our growth. Our current loan-to-value targets for operating assets and developments is between 40% and 60%, utilising non-recourse debt whenever possible.

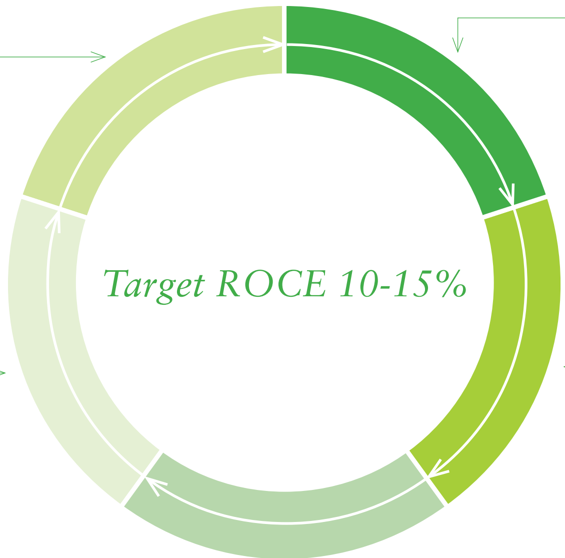
At year end 2008, we had a conservatively funded balance sheet with a net debt-to-equity ratio of 13%, a cash position of US$256 million and a net debt position of US$149 million. We were able to draw down on our corporate facility and the Langkawi facility and secured financing for all of our development projects. In addition, we see financing opportunities for under-leveraged and strongly performing properties despite challenging market conditions.

As properties ramp up profitability and cash flow performance, our objective is to realise cash returns through refinancing events and/or the sale of minority stakes to monetise gains. As assets approach maturity, or if there are other market changes or capital deployment considerations, we would seek to sell and recycle capital through asset disposals.

Business model
Value creation

Our successful business model relies on driving growth and value through acquisitions and active asset management. Our track record, experience, industry focus, regional expertise and conservative leverage, ensure we are all able to execute each stage successfully.

Business Model



Acquisitions
- *Existing hotels*
- *Prime sites*
- *Market potential*
- *Turnaround potential*

Developments
- *Prime site selection*
- *Greenfield/brownfield*
- *Construction management*
- *Ancillary real estate*
- *Focus on pre-sales*
- *Strategic partnerships*

Value Enhancement
- *Re-positioning/Re-branding*
- *Active P&L management*
- *Redeploy, renovate, expand*
- *Real estate leasing and sales*

Refinancing/ Monetisation
- *Debt refinancing*
- *Sale to minorities*

Recycling
- *Sell mature assets*
- *Re-invest capital*
- *Return to shareholders*

At KHI we seek to create value derived from both secular and value-enhancement initiatives with a view to generating unleveraged return on capital employed of between 10% and 15%. We have dedicated ourselves to acquiring assets at the right time, in the right place, for the right price and with the right turnaround strategy.

Portfolio review

Operating hotels

	Opened/ Acquired	*Country*	*% Equity Owned*	*No. of Rooms*	*Current Investment US$m*	*Property Debt[1] US$m*
Mövenpick Resort & Spa El Gouna	1996/2002	Egypt	29.3%	554	6.4	0.1
Four Seasons Nile Plaza, Cairo	2004	Egypt	43.7%	378	73.2	0.1
Four Seasons Damascus	2005	Syria	55.0%	297	63.5	13.9
Mövenpick Beirut	2002	Lebanon	81.2%	292	63.1	42.1
Mövenpick Resort El Quseir[2]	1995/2002	Egypt	94.6%	250	25.0	0.0
Mövenpick Hotel Bur Dubai	2001/2003	UAE	100.0%	312	–	25.9
Bur Dubai Residences	2006	UAE	100.0%	–	25.5	26.6
Four Seasons Resort Sharm El Sheikh	2002	Egypt	39.3%	200	28.4	0.0
Middle East/North Africa				**2,283**	**284.9**	**108.7**
Fairmont Kenya (four properties)[3]	Various/2005	Kenya	94.0%	396	56.6	5.0
Mövenpick Royal Palm, Dar es Salaam	1995/2004	Tanzania	96.0%	230	16.8	5.4
InterContinental Lusaka	1970/2006	Zambia	100.0%	225	37.9	0.1
Mövenpick Resort & Spa, Mauritius	2005/2006	Mauritius	100.0%	181	29.6	23.5
Four Seasons Mauritius	2008/2006	Mauritius	50.0%	90	12.3	30.4
Fairmont Zanzibar	2007/2006	Tanzania	30.0%	109	–	–
Sub-Saharan Africa				**1,231**	**153.2**	**64.4**
Swissôtel Kunshan	2005/2007	China	100.0%	387	41.1	20.5
Four Seasons Jakarta	1995/2007	Indonesia	81.9%	320	48.6	–
Mövenpick Resort & Spa, Karon Beach	2006	Thailand	100.0%	351	71.2	26.8
Raffles Le Royal, Phnom Penh	1929/2007	Cambodia	100.0%	170	22.7	–
Raffles Grand Hotel d'Angkor Siem Reap	1932/2007	Cambodia	100.0%	125	10.7	–
Four Seasons Langkawi	2005/2007	Malaysia	90.0%	90	47.7	50.0
Asia				**1,443**	**242.0**	**97.3**
Four Seasons George V Hotel, Paris[4]	1999/2006	France	25.0%	245	95.5	503.9
KHI Total Operating Investments				**5,202**	**775.6**	**774.3**

1. *Property debt represents 100% of the debt at each property as at 31 December 2008.*
2. *KHI acquired an additional 7.3% equity interest in El Quseir as step-up acquisition in July 2008.*
3. *KHI acquired an additional 24% equity interest in Kenya properties as step-up acquisition in October 2008.*
4. *KHI realized cash proceeds of US$31.1 million through two subordinated and shareholder guaranteed loans in late 2007.*

Notes
- KHI's equity ownership represents the Company's effective ownership interest as at 31 December 2008.
- Cost of investment includes acquisition and transaction costs as well as shareholders' loans and advances less returned capital.
- Property debt, overdrafts, finance leases and other non-shareholder borrowings as at 31 December 2008.
- KHI receives a 92% economic interest in the profits of Beirut Mövenpick despite its 81% equity interest.

Developments under construction

	KHI Shareholding	*Total project costs (US$ million)*	*Total spend to date (US$ million)*
Four Seasons Beirut, Lebanon	38%	142	107
Four Seasons Marrakech, Morocco	78%	147	56
Raffles Praslin Island, Seychelles	91%	151	31
Fairmont & Raffles Makati, Manila Philippines	80%	171	49
Mövenpick Accra, Ghana	100%	100	18

Financial review

The financial information contained in this review is extracted or calculated from the income statement, balance sheet, cash flow statement, other statements and notes to the account.

Asset growth

Group consolidated net assets per share in the year was US$7.39, a 2% decrease from the 2007 year-end book value of US$7.54. Net assets after minority interests decreased 1.6% to US$6.60 per share at 31 December 2008. The Group's total net assets were US$1,292 million on 31 December 2008 as compared with US$1,317 million for the same period in 2007. The Group does not revalue its operating asset portfolio and long-term asset values represent consolidated historical build cost or acquisition cost.

There was progress in KHI's portfolio rationalization strategy despite a challenging environment. In June, KHI sold its equity interest in the Dubai Pearl development for US$8.2 million. In July, KHI increased its equity interest in Mövenpick El Quseir to 94.6% by acquiring an additional 7.3% equity interest in a step-up acquisition for US$2.0 million. Finally, in October, KHI concluded a swap transaction with IFA Hotels & Resorts by which the Company sold its minority interest in the Fairmont Palm Dubai development and the Fairmont Zanzibar in return for a step-up of its effective ownership in the Kenya hotels from about 70% to 94% and cash receipts of US$5.3 million.

Financial resources and capital structure

Group net investment in development projects after disposal proceeds, interest income and dividends, drove cash utilisation of US$97.7 million during 2008. This was funded by a combination of net cash inflows from financing activities of US$84.1 million and cash from operations of US$92.1 million. Total loans and borrowing were US$405.5 million as at 31 December 2008. The US$90.6 million increase was primarily from the drawdown on a new loan for the Four Seasons Langkawi and a new corporate facility. Net debt was US$149.1 million as at 31 December 2008 as compared with a net debt position of US$134.3 million in the same period last year. Cash balances increased to US$256.4 million from US$180.6 million.

Restricted cash was made up primarily of FF&E reserves and cash deposits from real estate sales held in escrow, and we purchased US$0.4 million of treasury shares for the Employee Benefit Trust. The Group's balance sheet remains conservatively leveraged at 10% gearing on a net debt basis with about 44% of its total debt payments, or US$182.0 million, scheduled to mature in 2013 or beyond. KHI has US$71.2 million of debt maturing in 2009, US$48.4 million of which are specific to two loans for which the Company has contractual clauses to extend the maturities. KHI has US$270 million of undrawn debt capacity for its development project as well as US$56 million of headroom with the corporate facility.

Managing the Group's cost and structure of borrowing is a key objective. We target conservative debt funding levels of between 40-60% loan-to-value on a stabilised basis at the asset level, and most of our outstanding borrowings are non-recourse and floating-rate, primarily refinanced to US$ LIBOR. During 2008, Group weighted average cost of debt was 6.1%, representing a spread of approximately 340 basis points above the average 90-day US$ LIBOR rates for the year.

Capital expenditures and developments

Consolidated Group capital expenditures excluding contractual FF&E replacements are expected to be US$474 million over the next three years, representing spending on our development pipeline of five properties. As of 31 December 2008 about US$420 million, or 47% of the total, had been spent primarily on projects scheduled for completion in 2009-10 (remaining Private Residences at the Four Seasons Mauritius, Four Seasons Beirut, Four Seasons Marrakech).

All properties under construction are expected to be operating between 2009 and 2011. The Mauritius, Marrakech, Manila and Seychelles developments include luxury branded residential real estate for sale which will bring an estimated total revenue of US$340 million of which US$135 million has been collected as at year-end. Most of the ancillary residential real estate inventory being built in Marrakech has been sold or reserved through off-plan sales and marketing activities. In Manila, the marketing programme for the Raffles Residences development was successful: 111 units or 47% of inventory were pre-sold in July and August.

Financial review
continued

System portfolio performance

KHI's System hotel portfolio reported Revenue per Available Room (RevPAR) growth of 12% (10% on a currency neutral basis) in 2008, reflecting overall rate growth in Middle East North Africa hotels amid flat occupancy. Slowdown from the previously announced first half growth of 23% (16% on a currency neutral basis) was driven by occupancy declines and slower rate growth in the latter part of 2008 in our resort properties, Cairo, Paris and Dubai hotels.

System EBITDA increased 16% in 2008 (14% on a currency neutral basis). Profit growth was impacted by cost inflation in selective hotels and lower RevPAR growth in the second half.

Income statement and earnings per share

Reported net profit attributable to shareholders decreased by 60% to US$17.1 million in 2008 with the comparable decline primarily due to US$25.9 million development write-offs and provisions. Net profit before non-recurring items increased by 34% in 2008 to US$43.1 million and EPS before non-recurring items increased 34% to US$0.25. Average shares outstanding were 174.7 million in 2007 and 2008.

Group net revenues increased 54% to US$278.7 million. Consolidated hotel revenues increased by 36% to US$230.9 million. Other revenues quadrupled to US$47.8 million. The main drivers of the US$97.8 million increase in Group revenues were:

- The combined effect of growth and acquisition timing of five Asian hotels acquired during 2007 which contributed US$39.2 million of revenue growth;
- 17% revenue growth at KHI's 12 comparable hotels that contributed US$21.9 million to total Group revenue growth. Very strong growth in Damascus, Beirut and Dar es Salaam more than offset significant declines in Kenya and flat performance in Dubai and Phuket;
- Revenue recognition of 32 villas in Four Seasons Mauritius which contributed revenues of US$37.2 million, representing KHI's 50% consolidated share of that asset.

Group operating profit, defined as consolidated hotel and real estate gross profits after sales, general and administrative costs, was US$22.5 million in 2008 as compared with US$13.5 million in the previous year, as:

- KHI's 2008 Group gross profits of US$53.9 million increased by US$19.6 million or 57% from last year. About two-thirds of this increase was from the 12 comparable hotels and the rest from timing and growth of the five Asian hotels acquired in 2007. Non-hotel profits from ancillary real estate sales and leases as well as other revenues increased by US$9.3 million to US$15.8 million due to revenue and profit recognition of 32 villas at the Four Seasons Mauritius with a gross profit of US$8.7 million, as well as increased leasing profits.
- Selling, general and administrative costs of US$31.5 million increased by 50% mainly due to increased staffing, as well as US$6.4 million of expensed residential marketing costs.

Future hotel opening costs (see development pipeline discussion) and real estate pre-sales and marketing activities have been expensed. These include pre-operative expenses of new hotels and non-deferred marketing expenses related to the launch of residential real estate sales programs ahead of completion of construction and delivery to buyers.

Underlying net profits from our equity share in six associated and joint venture investments were US$40.4 million in 2008, an increase of 50% from the previous year. These were driven by strong hotel EBITDA expansion in Paris, Sharm El Sheikh and El Gouna properties. KHI's share of real estate sales profits at the Cairo and Sharm El Sheikh Four Seasons hotels grew 41% from the previous year to US$13.6 million in 2008 with the sale of 26 apartments in Cairo and 12 chalets in Sharm El Sheikh.

During 2008, we sold the Phang Nga development land and disposed of our minority investments in the Dubai Pearl, Fairmont Zanzibar as well as the Fairmont Palm Dubai for a net gain of US$0.7 million. We wrote off US$25.9 million of project costs on developments that were either cancelled or put on hold. We utilized cash balances and added debt to fund developments which resulted in a net interest expense of US$13.3 million against a US$2.0 million net interest expense in 2007 (cash balances increased by US$75 million to US$256 million while interest-bearing debt increased by US$91 million to US$405 million).

Financial review
continued

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

KHI EBITDA in 2008 was US$51.4 million, up 44% from the previous year or by an incremental US$15.7 million. The principal drivers of this increase were:

- The Four Seasons Damascus continued its ramp-up as the leading hotel in that city through rate increases and delivered 32% RevPAR growth which in turn drove a hotel revenue increase of 36% to US$35.8 million and translated into EBITDA growth of US$5.6 million with a margin improvement of 5.9 points;
- Revenues in Mövenpick Beirut increased 56% as the Doha Agreement of 21 May 2008 ended the country's political stalemate with the resulting influx of tourists making a strong summer season. Hotel revenues increased by 56% to US$56.6 million. EBITDA tripled to US$5.9 million as margins expanded by 10.6 points from last year;
- US$8.7 million of gross profit from the revenue recognition of 32 villas at the Four Seasons Mauritius.

KHI Adjusted EBITDA, which includes KHI's share in hotel and real estate EBITDA of its non-consolidated equity investments and excludes minority interests in its EBITDA, increased by 39% or US$26.5 million for the year, to US$94.1 million in 2008. This increase was due to KHI EBITDA expansion as above, and:

- US$5.9 million increase in the share of associates' EBITDA before real estate sales;
- US$3.9 million increase in the share of gains on real estate sales in Egypt associates.

Outlook

Our focus for 2009 is on cash preservation and prudent balance sheet management. KHI's strong cash (US$256 million) and consolidated net debt position (US$149 million) leaves the Company with a 13% net-debt-to-equity ratio. Discretionary capital expenditures at all properties have been minimized. KHI will draw on committed loan facilities to fund existing developments and selectively add debt where it sees recapitalization opportunities and access to credit.

Given the dislocation in capital markets and global liquidity issues, we expect the current standstill in real estate transactions to continue. KHI does not foresee any significant resumption of its acquisition activities in 2009, although it will continue to take advantage of any portfolio rationalization opportunities.

The remaining 13 villas in the Four Seasons Mauritius development will be completed in the first half of the year. We expect to open the Four Seasons Beirut in the second half of the year. Construction will also continue to advance on our other development projects in Morocco, Seychelles, Manila and Ghana.

Our business model and the steps we have taken to rationalize our portfolio mean that KHI is well positioned to emerge from these challenging conditions on a strong footing. In 2009 and beyond we will continue to deliver savings and efficiencies to offset our operating risks and create shareholder value.

Supplementary operating and financial information

Our business

Total KHI Portfolio

	No. of Hotels	No. of Rooms	% Total Rooms
Operating Hotel Portfolio (System)	21	5,003	81%
Non-System Additions (Four Season Mauritius)	1	90	1%
New Hotel Developments	5	1,049	17%
Total KHI Portfolio	**27**	**6,142**	**100%**

Operating Hotels

	Country	Type	% Equity ownership	No. of Rooms	% Total Rooms
Mövenpick Resort & Spa El Gouna	Egypt	Resort	29%	554	9%
Four Seasons Nile Plaza, Cairo	Egypt	City	44%	378	6%
Four Seasons Damascus	Syria	City	55%	297	5%
Mövenpick Beirut	Lebanon	City	81%	292	5%
Mövenpick Resort El-Quseir	Egypt	Resort	95%	250	4%
Mövenpick Hotel & Residence Bur Dubai	UAE	City	100%	312	5%
Four Seasons Resort Sharm El Sheikh	Egypt	Resort	39%	200	3%
Middle East/North Africa				**2,283**	**37%**
Fairmont Kenya (four Properties)	Kenya	Resort	94%	396	6%
Mövenpick Royal Palm, Dar es Salaam	Tanzania	City	96%	230	4%
InterContinental Lusaka	Zambia	City	100%	225	4%
Mövenpick Resort & Spa Mauritius	Mauritius	Resort	100%	181	3%
Four Seasons Mauritius	Mauritius	Resort	50%	90	1%
Sub-Saharan Africa				**1,122**	**18%**
Swissôtel Kunshan	China	City	100%	387	6%
Four Seasons Jakarta	Indonesia	City	82%	320	5%
Mövenpick Resort & Spa, Karon Beach	Thailand	Resort	100%	351	6%
Raffles Le Royal, Phnom Penh	Cambodia	City	100%	170	3%
Raffles Grand Hotel d'Angkor Siem Reap	Cambodia	Resort	100%	125	2%
Four Seasons Langkawi	Malaysia	Resort	90%	90	1%
Asia				**1,443**	**23%**
Four Seasons George V Hotel, Paris	France	City	25%	245	4%
Operating Hotel				**5,093**	**83%**

Notes
- The table above includes subsidiaries and associates but excludes the Four Seasons Amman, an affiliated operating hotel.
- During 2008, KHI cancelled or put on hold its development projects in Phang Nga (Thailand), Da Nang (Vietnam), Kampala (Uganda) and the capacity expansion and ancillary real estate development in Langkawi (Malaysia).

Supplementary operating and financial information
continued

Developments & Capacity Expansion

	Country	Type	% Equity ownership	No. of Rooms	% Total Rooms
Four Seasons Beirut	Lebanon	City	38%	230	4%
Four Seasons Marrakech	Morrocco	City	78%	140	2%
Middle East/North Africa				**370**	**6%**
Mövenpick Ambassador Hotel, Accra	Ghana	City	100%	259	4%
Raffles Seychelles Resort	Seychelles	Resort	91%	90	1%
Sub-Saharan Africa				**349**	**6%**
Fairmont Makati Hotel & Raffles Hotel	Philippines	City	80%	330	5%
Asia					**5%**
Hotel Developments & Capacity Expansion				**1,049**	**17%**

Notes
- The table above includes subsidiaries and associates but excludes the Four Seasons Amman, an affiliated operating hotel.
- During 2008, KHI cancelled or put on hold its development projects in Phang Nga (Thailand), Da Nang (Vietnam), Kampala (Uganda) and the capacity expansion and ancillary real estate development in Langkawi (Malaysia).

Supplementary operating and financial information
continued

KHI System Performance

	Occupancy %			Average Rate (In US$)					RevPAR (In US$)				
				Reported			Excl. F/X		Reported			Excl. F/X	
(31 December year-end)	2008	2007	% Change	2008	2007	% Change	2008	% Change	2008	2007	% Change	2008	% Change
Mövenpick Resort & Spa El Gouna	86.4	83.5	2.9	US$92.4	US$75.8	22%	US$93.3	23%	US$79.8	US$63.3	26%	US$80.6	27%
Four Seasons Nile Plaza, Cairo	65.5	73.0	(7.5)	US$406.0	US$367.9	10%	US$411.2	12%	US$266.1	US$268.5	(1%)	US$269.5	0%
Four Seasons Damascus	68.6	66.8	1.7	US$291.2	US$221.2	32%	US$284.3	29%	US$199.7	US$147.8	35%	US$194.9	32%
Mövenpick Beirut	57.3	45.6	11.7	US$230.8	US$154.5	49%	US$230.8	49%	US$132.3	US$70.4	88%	US$132.3	88%
Mövenpick Resort El Quseir	77.2	73.6	3.6	US$78.3	US$67.3	16%	US$77.2	15%	US$60.4	US$49.6	22%	US$59.6	20%
Mövenpick Hotel Bur Dubai	74.7	80.0	(5.3)	US$213.0	US$195.2	9%	US$213.0	9%	US$159.2	US$156.2	2%	US$159.2	2%
Four Seasons Resort Sharm El Sheikh	68.4	66.9	1.5	US$401.0	US$345.6	16%	US$406.0	17%	US$274.2	US$231.3	19%	US$277.6	20%
Middle East/North Africa	**72.7**	**71.4**	**1.2**	**US$218.3**	**US$186.9**	**17%**	**US$218.8**	**17%**	**US$158.6**	**US$133.5**	**19%**	**US$159.0**	**19%**
Fairmont Kenya (four Hotels)	20.6	42.8	(22.2)	US$145.9	US$135.5	8%	US$150.6	11%	US$30.1	US$58.0	(48%)	US$31.0	(46%)
Mövenpick Royal Palm, Dar es Salaam	78.7	67.9	10.8	US$130.4	US$103.1	27%	US$127.2	23%	US$102.6	US$70.0	47%	US$100.1	43%
InterContinental Lusaka	56.7	55.1	1.6	US$128.6	US$117.8	9%	US$124.6	6%	US$73.0	US$64.9	12%	US$70.7	9%
Mövenpick Resort & Spa, Mauritius	66.8	56.1	10.6	US$136.9	US$123.9	10%	US$137.8	11%	US$91.4	US$69.5	31%	US$92.0	32%
Sub-Saharan Africa	**49.5**	**53.5**	**(3.9)**	**US$134.0**	**US$120.2**	**11%**	**US$132.8**	**11%**	**US$66.4**	**US$64.2**	**3%**	**US$65.8**	**2%**
Swissôtel Kunshan	54.3	56.6	(2.3)	US$103.2	US$88.0	17%	US$93.9	7%	US$56.1	US$49.8	13%	US$51.0	2%
Four Seasons Jakarta	61.0	55.4	5.6	US$106.7	US$92.8	15%	US$104.9	13%	US$65.2	US$51.5	27%	US$64.0	24%
Mövenpick Resort & Spa, Karon Beach	52.4	61.2	(8.8)	US$146.6	US$133.0	10%	US$147.2	11%	US$76.8	US$81.4	(6%)	US$77.2	(5%)
Raffles Phnom Penh	63.7	56.0	7.7	US$124.4	US$109.9	13%	US$124.4	13%	US$79.2	US$61.6	29%	US$79.2	29%
Raffles Siem Reap	53.6	56.7	(3.1)	US$187.4	US$180.0	4%	US$187.4	4%	US$100.5	US$102.1	(2%)	US$100.5	(2%)
Four Seasons Langkawi	60.3	63.8	(3.5)	US$682.5	US$635.7	7%	US$688.1	8%	US$411.5	US$405.6	1%	US$414.9	2%
Asia	**56.8**	**57.8**	**(1.1)**	**US$161.9**	**US$148.7**	**9%**	**US$159.5**	**7%**	**US$91.9**	**US$86.0**	**7%**	**US$90.6**	**5%**
Europe:													
Four Seasons George V Hotel, Paris	81.2	83.2	(2.0)	US$1,342.9	US$1,183.9	13%	US$1,248.5	5%	US$1,090.1	US$985.1	11%	US$1,013.5	3%
Total KHI System	**63.6**	**64.3**	**(0.7)**	**US$261.1**	**US$229.8**	**14%**	**US$254.6**	**11%**	**US$166.1**	**US$147.7**	**12%**	**US$161.9**	**10%**
Subsidiaries	58.4	58.9	(0.5)	US$170.0	US$145.4	17%	US$168.0	16%	US$99.2	US$85.6	16%	US$98.1	15%
Associates	77.1	78.2	(1.1)	US$439.5	US$394.4	11%	US$424.1	8%	US$339.0	US$308.4	10%	US$327.1	6%
Total KHI System	**63.6**	**64.3**	**(0.7)**	**US$261.1**	**US$229.8**	**14%**	**US$254.6**	**11%**	**US$166.1**	**US$147.7**	**12%**	**US$161.9**	**10%**

Supplementary operating and financial information

continued

The following table summarizes KHI's System performance for the year ended 31 December 2008 and 2007.

	Hotel Rooms (2008)				RevPAR (In US$)			Total RevPAR (In US$)			Hotel Revenue (In US$000's)				Hotel EBITDA (In US$000's)				
(31 December year-end)	Rooms No.	Rooms % Total	Rooms Revenue US$000's	Rooms Revenue % Total	2008	2007	% Change	2008	2007	% Change	2008	2007	US$ Change	% Change	% Total	2008	2007	US$ Change	% Change
Mövenpick Resort & Spa El Gouna	554	11%	16,181	5%	US$79.8	US$63.3	26%	US$128.8	US$108.5	19%	26,117	21,937	4,180	19%	7%	13,177	11,087	2,090	19%
Four Seasons Nile Plaza, Cairo	378	8%	36,637	12%	US$266.1	US$268.5	(1%)	US$483.5	US$452.0	7%	66,580	60,215	6,365	11%	18%	33,218	29,943	3,275	11%
Four Seasons Damascus	297	6%	21,702	7%	US$199.7	US$147.8	35%	US$329.8	US$244.0	35%	35,847	26,453	9,395	36%	9%	15,557	9,911	5,646	57%
Mövenpick Beirut	292	6%	14,141	5%	US$132.3	US$70.4	88%	US$249.2	US$159.6	56%	26,628	17,011	9,617	57%	3%	5,933	1,809	4,125	228%
Mövenpick Resort El Quseir	250	5%	5,529	2%	US$60.4	US$49.6	22%	US$124.4	US$106.2	17%	11,384	9,688	1,697	18%	3%	5,294	4,658	636	14%
Mövenpick Hotel Bur Dubai	312	6%	14,348	5%	US$159.2	US$156.2	2%	US$234.9	US$227.6	3%	21,178	19,271	1,907	10%	5%	8,766	8,563	203	2%
Four Seasons Resort Sharm El Sheikh	200	4%	20,071	7%	US$274.2	US$231.3	19%	US$471.2	US$402.3	17%	34,491	29,367	5,124	17%	8%	13,805	10,650	3,155	30%
Middle East/North Africa	**2,283**	**46%**	**128,610**	**43%**	**US$158.6**	**US$133.5**	**19%**	**US$274.1**	**US$230.1**	**19%**	**222,226**	**183,942**	**38,285**	**21%**	**53%**	**95,751**	**76,621**	**19,129**	**25%**
Fairmont Kenya (four Hotels)	396	8%	4,359	1%	US$30.1	US$58.0	(48%)	US$62.0	US$120.9	(49%)	8,989	17,342	(8,353)	(48%)	-1%	(2,137)	2,431	(4,569)	(188%)
Mövenpick Royal Palm, Dar es Salaam	230	5%	8,641	3%	US$102.6	US$70.0	47%	US$160.8	US$116.1	38%	13,537	9,748	3,789	39%	2%	3,753	2,326	1,427	61%
InterContinental Lusaka	225	4%	5,984	2%	US$73.0	US$64.9	12%	US$138.7	US$112.7	23%	11,374	9,255	2,119	23%	2%	3,534	2,648	886	33%
Mövenpick Resort & Spa, Mauritius	181	4%	6,054	2%	US$91.4	US$69.5	31%	US$162.0	US$130.9	24%	10,730	8,650	2,080	24%	1%	1,819	1,264	555	44%
Sub-Saharan Africa	**1,032**	**21%**	**25,037**	**8%**	**US$66.4**	**US$64.2**	**3%**	**US$118.3**	**US$119.8**	**(1%)**	**44,630**	**44,996**	**(365)**	**(1%)**	**4%**	**6,969**	**8,670**	**(1,701)**	**(20%)**
Swissôtel Kunshan	387	8%	7,941	3%	US$56.1	US$49.8	13%	US$93.6	US$84.9	10%	13,255	11,989	1,266	11%	2%	3,678	3,682	(4)	(0%)
Four Seasons Jakarta	320	6%	7,631	3%	US$65.2	US$51.5	27%	US$171.3	US$147.8	16%	20,057	17,269	2,789	16%	1%	2,561	2,110	451	21%
Mövenpick Resort & Spa, Karon Beach	351	7%	9,872	3%	US$76.8	US$81.4	(6%)	US$113.0	US$119.9	(6%)	14,519	14,832	(313)	(2%)	3%	5,219	5,599	(380)	(7%)
Raffles Phnom Penh	170	3%	4,930	2%	US$79.2	US$61.6	29%	US$155.3	US$125.0	24%	9,664	7,758	1,906	25%	1%	1,860	1,222	638	52%
Raffles Siem Reap	125	2%	4,597	2%	US$100.5	US$102.1	(2%)	US$195.6	US$204.3	(4%)	8,950	9,322	(372)	(4%)	1%	1,979	2,261	(281)	(12%)
Four Seasons Langkawi	90	2%	13,556	5%	US$411.5	US$405.6	1%	US$659.9	US$647.1	2%	21,737	21,258	480	2%	4%	7,589	7,893	(304)	(4%)
Asia	**1,443**	**29%**	**48,528**	**16%**	**US$91.9**	**US$86.0**	**7%**	**US$167.0**	**US$157.8**	**6%**	**88,183**	**82,428**	**5,755**	**7%**	**13%**	**22,886**	**22,767**	**119**	**1%**
Four Seasons George V Hotel, Paris	245	5%	97,748	33%	US$1,090.1	US$985.1	11%	US$1,752.1	US$1,570.8	12%	157,114	140,465	16,649	12%	31%	56,100	48,137	7,962	17%
Total KHI System	**5,003**	**100%**	**299,923**	**100%**	**US$166.1**	**US$147.7**	**12%**	**US$283.6**	**US$252.9**	**12%**	**512,153**	**451,831**	**60,323**	**13%**	**100%**	**181,706**	**156,196**	**25,510**	**16%**
Excluding Forex impact	*10%*	*9%*	*10%*	*14%*															
Subsidiaries	3,568	72%	129,286	43%	US$99.2	US$85.6	16%	US$174.9	US$155.1	13%	227,851	199,846	28,005	14%	36%	65,406	56,378	9,028	16%
Associates	1,373	28%	170,637	57%	US$339.0	US$308.4	10%	US$564.8	US$506.1	12%	284,303	251,985	32,318	13%	64%	116,300	99,818	16,482	17%
Total KHI System	**4,941**	**100%**	**299,923**	**100%**	**US$166.1**	**US$147.7**	**12%**	**US$283.6**	**US$252.9**	**12%**	**512,153**	**451,831**	**60,323**	**13%**	**100%**	**181,706**	**156,196**	**25,510**	**16%**

Supplementary operating and financial information
continued

Our business

The following table reconciles KHI's System performance to its reported financials for the years ended 31 December 2008 and 2007.

2008

	Hotel Revenues				Hotel EBITDA			
(31 December year-end, US$ million)	System	% Total	Reported	% Total	System	% Total	Reported	% Total
Mövenpick Resort & Spa El Gouna	26.1	5%	–	–	13.2	7%	–	–
Four Seasons Nile Plaza, Cairo	66.6	13%	–	–	33.2	18%	–	–
Four Seasons Damascus	35.8	7%	35.8	16%	15.6	9%	15.6	24%
Mövenpick Beirut	26.6	5%	26.6	12%	5.9	3%	5.9	9%
Mövenpick Resort El Quseir	11.4	2%	11.4	5%	5.3	3%	5.3	8%
Mövenpick Hotel Bur Dubai	21.2	4%	21.2	9%	8.8	5%	8.8	13%
Four Seasons Resort Sharm El Sheikh	34.5	7%	–	–	13.8	8%	–	–
Middle East/North Africa	**222.2**	**43%**	**95.0**	**41%**	**95.8**	**53%**	**35.6**	**54%**
Fairmont Kenya	9.0	2%	9.0	4%	(2.1)	(1%)	(2.1)	(3%)
Mövenpick Royal Palm, Dar es Salaam	13.5	3%	13.5	6%	3.8	2%	3.8	6%
InterContinental Lusaka	11.4	2%	11.4	5%	3.5	2%	3.5	5%
Four Seasons Mövenpick, Mauritius	–	0%	3.1	1%	–	0%	0.5	1%
Mövenpick Resort & Spa, Mauritius	10.7	2%	10.7	5%	1.8	1%	1.8	3%
Sub-Saharan Africa	**44.6**	**9%**	**47.7**	**21%**	**7.0**	**4%**	**7.4**	**11%**
Swissôtel Kunshan	13.3	3%	13.3	6%	3.7	2%	3.7	6%
Four Seasons Jakarta	20.1	4%	20.1	9%	2.6	1%	2.6	4%
Mövenpick Resort & Spa, Karon Beach	14.5	3%	14.5	6%	5.2	3%	5.2	8%
Raffles Cambodia	18.6	4%	18.6	8%	3.8	2%	3.8	6%
Four Seasons Langkawi	21.7	4%	21.7	9%	7.6	4%	7.6	12%
Asia	**88.2**	**17%**	**88.2**	**38%**	**22.9**	**13%**	**22.9**	**35%**
Four Seasons George V Hotel, Paris	157.1	31%	–	–	56.1	31%	–	–
Operating Hotel Portfolio	**512.2**	**100%**	**230.9**	**100%**	**181.7**	**100%**	**65.9**	**100%**
Subsidiaries	227.9	44%	230.9	100%	65.4	36%	65.9	100%
Associates	284.3	56%	–	0%	116.3	64%	–	0%
Operating Hotel Portfolio	512.2	100%	230.9	100%	181.7	100%	65.9	100%
No. of hotels	*21*		*18*		*21*		*18*	
No. of rooms	*5,003*		*3,716*		*5,003*		*3,716*	

2007

	Hotel Revenues				Hotel EBITDA			
(31 December year-end, US$ million)	System	% Total	Reported	% Total	System	% Total	Reported	% Total
Mövenpick Resort & Spa El Gouna	21.9	5%	–	–	11.1	7%	–	–
Four Seasons Nile Plaza, Cairo	60.2	13%	–	–	29.9	19%	–	–
Four Seasons Damascus	26.5	6%	26.5	16%	9.9	6%	9.9	20%
Mövenpick Beirut	17.0	4%	17.0	10%	1.8	1%	1.8	4%
Mövenpick Resort El Quseir	9.7	2%	9.7	6%	4.7	3%	4.7	10%
Mövenpick Hotel Bur Dubai	19.3	4%	19.3	11%	8.6	5%	8.6	17%
Four Seasons Resort Sharm El Sheikh	29.4	6%	–	–	10.6	7%	–	–
Middle East/North Africa	**183.9**	**41%**	**72.4**	**43%**	**76.6**	**49%**	**24.9**	**51%**
Fairmont Kenya	17.3	4%	17.3	10%	2.4	2%	2.4	5%
Mövenpick Royal Palm, Dar es Salaam	9.7	2%	9.7	6%	2.3	1%	2.3	5%
InterContinental Lusaka	9.3	2%	9.3	5%	2.6	2%	2.6	5%
Four Seasons Mövenpick, Mauritius	–	0%	–	0%	–	0%	–	0%
Mövenpick Resort & Spa, Mauritius	8.7	2%	8.7	5%	1.3	1%	1.3	3%
Sub-Saharan Africa	**45.0**	**10%**	**45.0**	**27%**	**8.7**	**6%**	**8.7**	**18%**
Swissôtel Kunshan	12.0	3%	8.4	5%	3.7	2%	2.4	5%
Four Seasons Jakarta	17.3	4%	5.4	–	2.1	1%	0.3	–
Mövenpick Resort & Spa, Karon Beach	14.8	3%	14.8	9%	5.6	4%	5.6	11%
Raffles Cambodia	17.1	4%	8.5	–	3.5	2%	1.7	–
Four Seasons Langkawi	21.3	5%	15.2	9%	7.9	5%	5.3	11%
Asia	**82.4**	**18%**	**52.4**	**23%**	**22.8**	**15%**	**15.4**	**27%**
Four Seasons George V Hotel, Paris	140.5	31%	–	–	48.1	31%	–	–
Operating Hotel Portfolio	**451.8**	**100%**	**169.8**	**92%**	**156.2**	**100%**	**49.0**	**96%**
Subsidiaries	199.8	44%	169.8	100%	56.4	36%	49.0	100%
Associates	252.0	56%	–	0%	99.8	64%	–	0%
Operating Hotel Portfolio	451.8	100%	169.8	206%	156.2	100%	49.0	100%
No. of hotels	*21*		*17*		*21*		*17*	
No. of rooms	*5,003*		*3,626*		*5,003*		*3,626*	

Supplementary operating and financial information
continued

The following table sets forth KHI performance for the year-ended 31 December 2008 including the nominal and percentage change for our consolidated results as reported, and our comparable, like-for-like results as defined previously:

	Consolidated					
(31 December year-end, US$ 000)	2008	2007 (Restated)	2007 (Reported)	US$ Change	% Change	Excl. Forex
Rooms revenue	130,740	95,979	94,522	34,761	36%	
F&B revenue	77,973	57,265	56,504	20,708	36%	
Other revenue	22,234	16,528	16,392	5,706	35%	
Hotel revenues	*230,948*	*169,772*	*167,418*	*61,176*	*36%*	*33%*
Real estate sales	39,861	4,837	4,837	35,024	724%	
Real estate leases/other	6,039	5,122	5,122	917	18%	
Bus. development, asset mgmt fees	1,877	1,178	1,178	699	59%	
Other revenues	*47,777*	*11,137*	*11,137*	*36,640*	*329%*	
Total revenues	**278,725**	**180,909**	**178,556**	**97,816**	**54%**	
Rooms cost	(21,558)	(15,803)	(15,003)	(5,755)	(36%)	
F&B cost	(49,683)	(36,495)	(35,454)	(13,188)	(36%)	
Other departmental costs	(75,506)	(54,758)	(54,246)	(20,747)	(38%)	
Management fees	(12,131)	(9,067)	(9,067)	(3,065)	(34%)	
Other expenses	(6,197)	(4,673)	(4,673)	(1,523)	(33%)	
Hotel operating costs	**(165,074)**	**(120,796)**	**(118,443)**	**(44,279)**	**(37%)**	**(33%)**
Real estate sales cost	(30,517)	(3,915)	(3,915)	(26,602)	(680%)	
Real estate leasing costs	(1,510)	(729)	(729)	(781)	(107%)	
Other direct costs	**(32,027)**	**(4,644)**	**(4,644)**	**(27,383)**	**(590%)**	
Hotel EBITDA	65,872	48,976	48,976	16,897	35%	32%
Hotel depreciation	(27,716)	(21,115)	(20,728)	(6,601)	(31%)	
Hotel Gross Profit	*38,156*	*27,861*	*28,247*	*10,296*	*37%*	*0%*
Real estate sales EBITDA	9,345	922	922	8,422	913%	
Real estate leasing EBITDA	4,529	4,393	4,393	137	3%	
Bus. development, asset mgmt fees	1,877	1,178	1,178	699	59%	
Other gross profit	*15,751*	*6,493*	*6,493*	*9,258*	*143%*	
Total gross profit	**53,908**	**34,355**	**34,741**	**19,553**	**57%**	**0%**
Corporate G&A	(22,621)	(19,406)	(19,406)	(3,215)	(17%)	
Corporate depreciation	(693)	(636)	(476)	(57)	(9%)	
Pre-opening expenses	(1,730)	–	–	(1,730)	0%	
Sales and marketing	(6,403)	(850)	(850)	(5,553)	(653%)	
Operating profit	**22,461**	**13,464**	**14,009**	**8,998**	**67%**	
Share of results in associates	40,425	26,883	26,883	13,541	50%	
Dividends received	495	430	430	65	15%	
Interest income (expense), net	(13,291)	(2,045)	(2,045)	(11,246)	(550%)	
Project costs written-off	(26,417)	(3,980)	(3,980)	(22,437)	(564%)	
Provision for doubtful debt	–	–	–	–	n/a	
Gains from sale of investments	720	4,625	4,625	(3,905)	(84%)	
Other non-operating income or expense*	628	9,624	610	(8,742)	(93%)	
Profit before tax & min. interests	**25,021**	**48,746**	**40,532**	**(23,725)**	**(49%)**	
Income tax	(4,295)	(2,057)	(2,057)	(2,237)	(109%)	
Minority interests*	(3,585)	(4,609)	(4,381)	1,024	18%	
Net profit	**17,141**	**42,335**	**34,093**	**(25,194)**	**(60%)**	
Net profit before non-recurring items	*43,060*	*32,065*	*32,839*	*10,995*	*34%*	
Avg. no. shares outstanding	174,607	174,732	174,732	(125)	(0%)	
EPS	US$0.10	US$0.24	US$0.20	US$(0.14)	(59%)	
EPS before non-recurring items	*US$0.25*	*US$0.18*	*US$0.19*	*US$0.06*	*34%*	

* These figures differ from the financial statements as they include KHI's share of gain on a bargain purchase of a subsidiary amounting to US$2.3 million as well as the minority's share amounting to US$0.3 million.

Supplementary operating and financial information
continued

(31 December year-end, US$ 000)	2008	2007 (Restated)	2007 (Reported)	US$ Change	% Change	Excl. Forex
			Consolidated (continued)			
Operating Hotels						
Consolidated hotel investments	18	17	17	1	6%	
Associated hotel investments	4	4	4	–	0%	
Total operating hotels	**22**	**21**	**21**	**1**	**5%**	
Consolidated hotel rooms	3,716	3,576	3,576	140	4%	
Associated hotel rooms	1,377	1,364	1,364	13	1%	
Total operational rooms	**5,093**	**4,940**	**4,940**	**153**	**3%**	

(31 December year-end, US$ 000)	2008	2007 (Restated)	2007 (Reported)	US$ Change	% Change	Excl. Forex
			Comparable			
Rooms revenue	90,631	75,479	74,022	15,152	20%	
F&B revenue	50,782	44,758	43,997	6,024	13%	
Other revenue	12,775	12,013	11,878	762	6%	
Hotel revenues	*154,187*	*132,250*	*129,897*	*21,937*	*17%*	*15%*
Rooms cost	(14,109)	(12,112)	(11,313)	(1,997)	(16%)	
F&B cost	(33,021)	(28,698)	(27,657)	(4,323)	(15%)	
Other departmental costs	(47,695)	(41,719)	(41,207)	(5,976)	(14%)	
Management fees	(8,540)	(7,423)	(7,423)	(1,117)	(15%)	
Other expenses	(3,083)	(3,086)	(3,086)	4	0%	
Hotel operating costs	**(106,448)**	**(93,040)**	**(90,686)**	**(13,409)**	**(14%)**	**(13%)**
Hotel EBITDA	47,739	39,210	39,210	8,529	22%	21%
Hotel depreciation	(16,188)	(14,617)	(14,617)	(1,571)	(11%)	
Hotel gross profit	*31,551*	*24,594*	*24,594*	*6,957*	*28%*	*0%*
Operating Hotels						
Consolidated hotel investments	12	12				
Consolidated hotel rooms	2,534	2,496				

Supplementary operating and financial information
continued

The following table summarises gross profit by hotel for the years ended 31 December 2008 and 2007:

	2008			2007			US$ change		% change	
(31 December year-end, US$ 000)	Hotel EBITDA	Hotel Depreciation	Hotel Gross Profit	Hotel EBITDA	Hotel Depreciation	Hotel Gross Profit	Hotel EBITDA	Hotel Gross Profit	EBITDA	Gross Profit
Comparable										
Four Seasons Damascus	15,557	1,568	13,990	9,911	1,372	8,539	5,646	5,451	57%	64%
Mövenpick Hotel Bur Dubai	8,766	1,442	7,324	8,563	1,362	7,202	203	122	2%	2%
Mövenpick Resort & Spa, Karon Beach	5,219	3,303	1,916	5,599	3,700	1,899	(380)	17	(7%)	1%
Mövenpick Royal Palm, Dar es Salaam	3,753	1,640	2,112	2,326	1,458	868	1,427	1,244	61%	143%
Mövenpick Resort & Spa, Mauritius	1,819	1,356	463	1,264	1,112	153	555	310	44%	203%
Mövenpick Resort El Quseir	5,294	792	4,502	4,658	835	3,823	636	679	14%	18%
InterContinental Lusaka	3,534	1,274	2,260	2,649	696	1,952	886	308	33%	16%
Mövenpick Beirut	5,933	2,802	3,131	1,809	2,710	(901)	4,125	4,033	228%	447%
Fairmont Kenya	(2,137)	2,010	(4,147)	2,431	1,371	1,060	(4,569)	(5,207)	(188%)	(491%)
Comparable hotels	**47,739**	**16,188**	**31,551**	**39,210**	**14,617**	**24,594**	**8,529**	**6,957**	**22%**	**28%**
Excluding Forex impact									**(29%)**	**(50%)**
Comparable excluding Kenya	*49,876*	*14,178*	*35,698*	*36,779*	*13,245*	*23,534*	*13,097*	*12,165*	*36%*	*52%*
Comparable excluding Kenya & forex									*31%*	*20%*
Acquisition, new operations & discontinued operations impacts										
Four Seasons Langkawi	7,589	4,667	2,922	5,289	2,977	2,313	2,300	609	n/a	n/a
Raffles Cambodia	3,840	2,389	1,451	1,706	1,201	505	2,134	946	n/a	n/a
Swissôtel Kunshan	3,678	2,004	1,674	2,431	1,398	1,032	1,247	642	n/a	n/a
Four Seasons Jakarta	2,561	1,451	1,110	339	922	(583)	2,221	1,692	n/a	n/a
Four Seasons Mövenpick, Mauritius	466	1,017	(551)	–	–	–	466	(551)	n/a	n/a
Acquisition and new operations impacts	**18,133**	**11,528**	**6,605**	**9,765**	**6,498**	**3,267**	**8,368**	**3,339**	**n/a**	**n/a**
KHI Consolidated Hotels	**65,872**	**27,716**	**38,156**	**48,976**	**21,115**	**27,860**	**16,897**	**10,296**	**35%**	**37%**
Excluding Forex impact									**23%**	**8%**
Total excluding Kenya	*68,009*	*25,706*	*42,304*	*46,544*	*19,744*	*26,800*	*21,465*	*15,503*	*46%*	*58%*
Total excluding Kenya & forex									*29%*	*16%*

Supplementary operating and financial information
continued

Non-hotel operations

Non-hotel operations comprise other operating activities such as ancillary real estate sales and leasing, business development and asset management fees. The ancillary real estate business 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 hotel developments under construction that include significant ancillary real estate components.

Non-hotel revenues increased by US$36.6 million to US$47.7 million while gross profits from non-hotel operations were US$15.8 million, a US$9.3 million increase on the previous year. This growth was primarily driven by the revenue recognition of 32 villas in Four Seasons Mauritius which contributed gross profit of US$8.7 million, representing KHI's 50% consolidated share of that asset.

Other revenues P&L

(31 December year-end, US$ 000)	2008	2007	US$ Change
Real estate sales	39,861	4,837	35,024
Real estate leases/other	6,039	5,122	917
Business development, asset management fees	1,877	1,178	699
Other revenues	**47,777**	**11,137**	**36,640**
Real estate cost of sale	(30,517)	(3,915)	(26,602)
Real estate leasing costs	(1,510)	(729)	(780)
Other expenses	**(32,026)**	**(4,644)**	**(27,382)**
Other gross profit	**15,751**	**6,493**	**9,258**

Supplementary operating and financial information
continued

Ancillary Real Estate Sales

We seek to reduce commercial risk on ancillary real estate developments by conducting marketing and pre-sales programmes to obtain reservations or deposit-based sales agreements from interested buyers, and apply 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. We typically receive partial payments on development pre-sales but do not recognize any revenues until completion. KHI may reassess its revenue recognition policy for real estate based on IFRC 15.

Real estate sales/pre-sales

		Units		Revenue				Gross profit			
						Change				Change	
(31 December year-end, US$ 000)	Type	2008	2007	2008	2007	US$	%	2008	2007	US$	%
Mövenpick Resort & Spa Phuket	Residential apts.	7	13	2,668	4,837	(2,169)	(45%)	625	922	(297)	(32%)
Four Seasons Mauritius[1]	Vilas	32	–	37,193	–	37,193	n/a	8,719	–	8,719	n/a
Consolidated		**39**	**13**	**39,861**	**4,837**	**35,024**	**724%**	**9,345**	**922**	**8,422**	**913%**
Four Seasons Nile Plaza Cairo[2]	Residential apts.	26	25	55,364	42,273	13,091	31%	27,441	20,423	7,018	34%
Four Seasons Sharm El Sheikh[2]	Chalets & Villas	12	8	9,556	5,661	3,895	69%	4,186	1,967	2,219	113%
Associates		**38**	**33**	**64,920**	**47,934**	**16,986**	**35%**	**31,627**	**22,391**	**9,237**	**41%**
KHI Equity Share in Associates								*13,635*	*9,696*	*3,938*	*41%*

1. Revenue and gross profit relate to KHI's 50% equity share in the hotel. Out of 40 units being presold as at 31 December 2008, 32 buyers have taken delivery of units and paid US$70 million. Eight buyers have signed sales agreements with deposits of US$24.4 million and delivery of units to them is expected in 2009. There are five further units available for sale.
2. KHI associates are not consolidated in reported financials (accounted for as KHI equity share of total associate net income).

Ancillary real estate sales contributed revenues of US$39.9 million and gross profits of US$9.3 million. This growth was primarily driven by the revenue recognition of 32 villas in Four Seasons Mauritius which contributed gross profit of US$8.7 million, representing KHI's 50% consolidated share of that asset. As of year-end there were 8 Residences that were nearing completion and five Residences unsold.

Our inventory of apartments at the Mövenpick Resort & Spa Karon Beach Phuket is 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. Sales pace slowed down in 2008 as the sales of 7 apartments (2007: 13 units) generated revenues of US$2.7 million and gross profits of US$0.6 million. As at 31 December 2008, 10 apartments remained for sale.

Our associated Four Seasons properties in Cairo and Sharm El Sheikh include ancillary real estate for sale. In Sharm El Sheikh where 43 units remain for sale (primarily chalets), KHI's share of the profit is US$1.6 million (2007: US$0.7 million). In Cairo, 26 of 42 remaining apartments were sold. KHI's share of the profit share is US$12.0 million (2007: US$8.9 million).

Ancillary Real Estate Leasing

Profits from ancillary real estate leasing were US$4.5 million, about the same as 2007. A decline in leasing revenues at the Bur Dubai apartment was offset by increased leasing profits in the Damascus Boulevard.

Our Four Seasons Damascus hotel includes an adjacent shopping centre (Damascus Boulevard) that is fully leased with 2008 revenues of US$2.8 million (an 86% increase from previous year) and leasing profits of US$2.3 million (63% increase). This performance was attributable to the leasing of all remaining vacant spaces, expiration of rent free periods and the conversion of office space to commercial space with higher rental yields.

The Mövenpick Beirut includes cabanas, marina and retail areas which are leased on a short-term and seasonal basis, primarily to local non-hotel guests in the summer months. These are managed on our behalf by the hotel operator and generated profits of US$1.7 million, the same as 2007.

The Bur Dubai residence building was acquired in 2006 with the objective of converting it into hotel serviced apartments. In 2007, all apartments were leased on short-term contracts ahead of a planned integration in 2008. As a result a select number of apartments were leased on short-term contracts in 2008 with lower leasing profits of US$0.5 million as compared with US$1.3 million in 2007.

Supplementary operating and financial information
continued

Leasing/other real estate revenue

	Revenue				Gross profit			
			Change				Change	
(31 December year-end, US$ 000)	2008	2007	US$	%	2008	2007	US$	%
Four Seasons Damascus	2,799	1,504	1,295	86%	2,311	1,421	890	63%
Mövenpick Beirut	2,095	2,078	16	1%	1,678	1,676	2	0%
Bur Dubai residences	1,145	1,540	(395)	(26%)	541	1,296	(755)	(58%)
Total leasing/other real estate	**6,039**	**5,122**	**917**	**18%**	**4,529**	**4,393**	**137**	**3%**

Sales and Marketing Expenses

During this year we launched a marketing campaign to pre-sell ancillary residential real estate mainly at our Manila and Da Nang developments. Total related marketing expenses were US$6.4 million for the year ended 31 December 2008 (2007: US$0.8 million). The Da Nang development was put on hold due to increased macro-economic risks and a shift in demand for residential real estate. As a result, KHI cancelled the marketing campaign.

Developments reservation/sales

				Sales				Deposits			
		Units				Change				Change	
(31 December year-end, US$ 000)	Type	2008	2007	2008	2007	US$	%	2008	2007	US$	%
Four Seasons Marrakech[1]	Villas	3	2	6,540	1,901	4,639	244%	25,287	4,838	20,449	423%
Raffles Manila[2]	Residential apts.	111	–	36,037	–	36,037	n/a	7,613	–	7,613	n/a
Total Developments		**114**	**2**	**42,577**	**1,901**	**40,676**	**2139%**	**32,900**	**4,838**	**28,062**	**n/a**

1. 41 buyers have signed sales agreements. US$33.1 million (net of VAT) have been collected so far, out of the budgeted US$56.8 million (net of VAT). The budgeted exchange rate of MAD/US$ is 8.5.
2. 111 buyers have signed sales agreements. Total cash collected for sales value of US$36.0 million (excluding VAT) amounts to US$7.6 million of which 50% is refundable. The sales contract values are in Philippine Peso and for Peso/$ conversion, the budgeted exchange rate of 50 has been used.

Ancillary Real Estate Leasing (continued)

As previously disclosed, KHI has concluded pre-completion residential unit purchase agreements at the Four Seasons Marrakech for all 43 villas. By year-end, two buyers have expressed their intention not to proceed with the sales transaction despite non-refundable deposit payments as per their binding agreement. KHI is sourcing new buyers for those villas while maintaining its legal contractual rights as per the purchase agreements.

In July 2008, we successfully launched the Raffles Suites and Residences Makati in Manila and pre-sold 111 out of 236 apartments. The selection event achieved record volumes and pricing in that market.

The Raffles Seychelles project includes 23 villas that we don't expect to launch any marketing initiatives until the project nears completion.

Supplementary operating and financial information
continued

Income from Associates

KHI does not consolidate results from associates and reports its share of net income in the period.

Associates Net Income

	Hotel EBITDA				Real Estate Sales EBITDA				G&A/Tax/Other				Depreciation				Net Interest				Net Income			
(31 December year-end, US$ 000)	2008	2007	US$ Change	% Change	2008	2007	US$ Change	% Change	2008	2007	US$ Change	% Change	2008	2007	US$ Change	% Change	2008	2007	US$ Change	% Change	2008	2007	US$ Change	% Change
Four Seasons George V Hotel, Paris	56,100	48,137	7,962	17%	–	–	–	n/c	(8,105)	(6,949)	(1,156)	(17%)	(9,134)	(8,264)	(870)	(11%)	(18,742)	(23,853)	5,111	21%	20,118	9,071	11,047	122%
Four Seasons Nile Plaza, Cairo	33,218	29,943	3,275	11%	27,441	20,423	7,018	34%	247	2,076	(1,828)	(88%)	(4,520)	(5,308)	787	15%	1,105	(3,010)	4,115	137%	57,491	44,124	13,367	30%
Mövenpick Resort & Spa El Gouna	13,177	11,087	2,090	19%	–	–	–	n/c	(3,259)	(2,036)	(1,223)	(60%)	(879)	(912)	33	4%	(55)	(274)	219	80%	8,985	7,866	1,118	14%
Four Seasons Resort Sharm El Sheikh	13,805	10,650	3,155	30%	4,186	1,967	2,219	113%	408	(690)	1,098	159%	(2,146)	(2,004)	(142)	(7%)	80	(1,448)	1,528	106%	16,333	8,476	7,857	93%
Fairmont Zanzibar	(606)	(803)	197	n/c	–	–	–	n/c	–	(100)	100	n/c	–	–	–	n/c	–	–	–	n/c	(606)	(903)	297	n/c
Fairmont Palm Hotel & Resort	–	–	–	n/c	–	–	–	n/c	(323)	(737)	413	n/c	–	–	–	n/c	–	610	(610)	n/c	(323)	(126)	(197)	n/c
	115,694	99,015	16,679	17%	31,627	22,391	9,237	41%	(11,033)	(8,436)	(2,596)	(31%)	(16,679)	(16,487)	(192)	(1%)	(17,612)	(27,974)	10,363	37%	101,997	68,508	33,489	49%

Shares of Associates

		Net Income – KHI Share			
(31 December year-end, US$ 000)	% Equity ownership	2008	2007	US$ Change	% Change
Four Seasons George V Hotel, Paris	25.0%	5,030	2,268	2,762	122%
Four Seasons Nile Plaza, Cairo	43.7%	25,118	19,278	5,840	30%
Mövenpick Resort & Spa El Gouna	29.3%	4,104	2,303	1,800	78%
Four Seasons Resort Sharm El Sheikh	39.3%	6,420	3,332	3,089	93%
Fairmont Zanzibar	30.0%	(182)	(271)	89	n/c
Fairmont Palm Hotel & Resort	20.1%	(65)	(25)	(40)	n/c
		40,424	26,884	13,540	50%

Associates Share of EBITDA

		Hotel EBITDA				Real Estate Sales EBITDA				G&A/Tax/Other				EBITDA – KHI Share				EBITDA – KHI Share (Exc R/E Sales)			
(31 December year-end, US$ 000)	% Equity ownership	2008	2007	US$ Change	% Change	2008	2007	US$ Change	% Change	2008	2007	US$ Change	% Change	2008	2007	US$ Change	% Change	2008	2007	US$ Change	% Change
Four Seasons George V Hotel, Paris	25.0%	14,025	12,034	1,991	17%	–	–	–	n/c	(2,026)	(1,737)	(289)	(17%)	11,999	10,297	1,702	17%	11,999	10,297	1,702	17%
Four Seasons Nile Plaza, Cairo	43.7%	14,513	13,082	1,431	11%	11,989	8,923	3,066	34%	108	907	(799)	(88%)	26,610	22,912	3,698	16%	14,621	13,989	632	5%
Mövenpick Resort & Spa El Gouna	29.3%	3,858	3,246	612	19%	–	–	–	n/c	519	(596)	1,115	187%	4,377	2,650	1,727	65%	4,377	2,650	1,727	65%
Four Seasons Resort Sharm El Sheikh	39.3%	5,427	4,187	1,240	30%	1,646	773	872	113%	160	(271)	432	159%	7,233	4,689	2,544	54%	5,587	3,915	1,672	43%
Fairmont Zanzibar	30.0%	(182)	(241)	59	n/c	–	–	–	n/c	–	(30)	30	n/c	(182)	(271)	89	n/c	(182)	(271)	89	n/c
Fairmont Palm Hotel & Resort	20.1%	–	–	–	n/c	–	–	–	n/c	(65)	(148)	83	n/c	(65)	(148)	83	n/c	(65)	(148)	83	n/c
		37,641	32,308	5,333	17%	13,635	9,696	3,938	41%	(1,304)	(1,876)	571	30%	49,971	40,129	9,842	25%	36,337	30,433	5,904	19%

Supplementary operating and financial information
continued

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 KHI 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.

	KHI EBITDA Including Real Estate Sales				KHI EBITDA Excluding Real Estate Sales			
(31 December year-end, US$ 000)	2008	2007 (Restated)	US$ Change	% Change	2008	2007 (Restated)	US$ Change	% Change
Hotel revenues	230,948	169,772	61,176	36%	230,948	169,772	61,176	36%
Hotel operating costs	(165,074)	(120,796)	(44,278)	(37%)	(165,074)	(120,796)	(44,279)	(37%)
Hotel EBITDA	**65,874**	**48,976**	**16,898**	**35%**	**65,874**	**48,976**	**16,897**	**35%**
Real estate sales	39,861	4,837	35,024	724%	–	–	–	n/a
Real estate leases/other	6,039	5,122	917	18%	6,039	5,122	917	18%
Business development, asset management fees	1,877	1,178	699	59%	1,877	1,178	699	59%
Other revenues	**47,777**	**11,137**	**36,640**	**329%**	**7,916**	**6,300**	**1,616**	**26%**
Real estate cost of sale	(30,517)	(3,915)	(26,602)	(680%)	–	–	–	n/a
Real estate leasing costs	(1,510)	(729)	(781)	(107%)	(1,510)	(729)	(781)	(107%)
Other expenses	**(32,027)**	**(4,644)**	**(27,383)**	**(590%)**	**(1,510)**	**(729)**	**(781)**	**(107%)**
Other EBITDA	**15,750**	**6,493**	**9,257**	**143%**	**6,406**	**5,571**	**835**	**15%**
Dividends received	495	430	65	15%	495	430	65	15%
Pre-opening expenses	(1,730)	–	(1,730)	n/a	(1,730)	–	(1,730)	n/a
Sales and marketing	(6,403)	(850)	(5,553)	653%	(6,403)	(850)	(5,553)	653%
Corporate general & admin.	(22,621)	(19,406)	(3,215)	(17%)	(22,621)	(19,406)	(3,215)	(17%)
KHI EBITDA	**51,365**	**35,643**	**15,722**	**44%**	**42,021**	**34,721**	**7,300**	**21%**

Supplementary operating and financial information
continued

Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) (continued)

KHI EBITDA and Adjusted KHI EBITDA – Reconciliation to Financials

	Adj. KHI EBITDA Including Real Estate Sales				Adj KHI EBITDA Excluding Real Estate Sales			
(31 December year-end, US$ 000)	2008	2007 (Restated)	US$ Change	% Change	2008	2007 (Restated)	US$ Change	% Change
Net Profit	**17,141**	**42,335**	**(25,194)**	**(60%)**	**7,797**	**41,413**	**(33,616)**	**(81%)**
Depreciation*	28,409	21,749	6,660	31%	28,409	21,749	6,660	31%
Project costs written-off	26,417	3,980	22,437	564%	26,417	3,980	22,437	564%
Minority interests**	3,585	4,609	(1,024)	(22%)	3,585	4,609	(1,024)	(22%)
Income tax	4,295	2,057	2,238	109%	4,295	2,057	2,238	109%
Share of results in associates	(40,425)	(26,883)	(13,542)	(50%)	(40,425)	(26,883)	(13,542)	(50%)
Interest expense (income), net	13,291	2,046	11,245	550%	13,291	2,046	11,245	550%
Gains from sale of investments	(720)	(4,625)	3,905	84%	(720)	(4,625)	3,905	84%
Other non-operating income or expense***	(628)	(9,624)	8,996	93%	(628)	(9,624)	8,996	93%
KHI EBITDA	**51,365**	**35,643**	**15,722**	**44%**	**42,021**	**34,721**	**7,300**	**21%**
Share of min. int. in subsidiaries net profit	(3,585)	(4,609)	1,024	22%	(3,585)	(4,609)	1,024	22%
Share of min. int in subsidiaries depreciation	(2,844)	(2,410)	(433)	(18%)	(2,844)	(2,410)	(433)	(18%)
Share of min. int in subsidiaries net finance cost	(1,411)	(1,220)	(191)	(16%)	(1,411)	(1,220)	(191)	(16%)
Share of min. int in subsidiaries tax expenses	365	(375)	739	197%	365	(375)	739	197%
Share of min. int in subsidiaries other gains/losses	222	450	(228)	(51%)	222	450	(228)	(51%)
Total share of Minority Interest	**(7,253)**	**(8,163)**	**910**	**11%**	**(7,253)**	**(8,163)**	**910**	**11%**
Share of associates hotel EBITDA (Excl. R/E Sales)	36,337	30,433	5,904	19%	36,337	30,433	5,904	19%
Share of real estate sales in associates	13,635	9,696	3,938	41%	–	–	–	n/a
Adjusted KHI EBITDA	94,084	67,609	26,474	39%	71,104	56,990	14,114	25%

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

** This amount differs from the financial statements as it includes the minority interest portion of gain on bargain purchase of a subsidiary.

*** This amount differs from the financial statements as it includes the gain on bargain purchase of a subsidiary of US$2.6 million for Four Seasons Langkawi.

Supplementary operating and financial information
continued

Profit before non-recurring items

KHI's reported results include a number of one-time or extraordinary items that are non-recurring in nature. The following table provides a reconciliation of net income and net income per share available to KHI shareholders before the effects of one-time items and extraordinary gains or losses before as well as after effect of real-estate sales:

	Consolidated				Per share			
(31 December year-end, US$ 000)	2008	2007 (Restated)	US$ Change	% Change	2008	2007 (Restated)	US$ Change	% Change
Net Profit	**17,141**	**42,335**	**(25,194)**	**-60%**	**US$0.10**	**US$0.24**	**US$(0.14)**	**-58%**
Project costs written-off	26,417	3,980	22,437		US$0.15	US$0.02	US$0.13	
Gains from sale of investments	(720)	(4,625)	3,905		US$(0.00)	US$(0.03)	US$0.03	
Other non recurring general and admin expense	850	–	850		US$0.00	US$–	US$0.00	
Other non-operating income or expense	(628)	(9,624)	8,996		US$(0.00)	US$(0.05)	US$0.05	
Non-recurring items	**25,919**	**(10,015)**	**36,188**		**US$0.15**	**US$(0.06)**	**US$0.21**	
Net profit before non-recurring items	**43,060**	**32,065**	**10,995**	**34%**	**US$0.25**	**US$0.18**	**US$0.07**	**39%**
Real estate sales and marketing	(6,403)	(850)	(5,553)		US$(0.04)	US$(0.00)	US$(0.04)	
Profit from real estate sales in subsidiaries	9,345	922	8,422		US$0.05	US$0.01	US$0.04	
Profit from real estate sales in associates	13,635	9,696	3,938		US$0.08	US$0.06	US$0.02	
Impact of ancillary real estate sales	**16,576**	**9,769**	**6,808**	**70%**	**US$0.09**	**US$0.06**	**US$0.04**	**70%**
Net profit before non-recurring items & real estate sales	**26,484**	**22,296**	**4,187**	**19%**	**US$0.15**	**US$0.13**	**US$0.02**	**19%**

Supplementary operating and financial information
continued

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 as 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 six new development projects, four renovation projects and one capacity expansion project to be US$474 million.

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 & Raffles Makati, Raffles Seychelles and Mövenpick Accra developments:

as at 31 December 2008	Total Project US$'000	KHI Share US$'000
2009	250	191
2010	173	152
2011	49	42
2012	2	2
Total	**474**	**387**

Board of directors

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

HRH Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud

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

He is the founder and Chairman of the Kingdom Establishment for Commerce and Trade, which was restructured in 1996 into the Kingdom Holding Company, and is a member of the board of directors of several companies in which he holds investments. A citizen of the Kingdom of Saudi Arabia, HRH Prince Alwaleed was born in 1955 and is fluent in English and Arabic.

Tarek Abdel-Meguid

Mr. Abdel-Meguid joined the Board in 2006. He serves on the Board's Remuneration Committee and chairs the Audit Committee. He is a founding partner of Perella Weinberg Partners, an independent, privately-owned financial services firm which provides corporate advisory and asset management services to clients around the world.

Prior to co-founding Perella Weinberg Partners in 2006, Mr. Abdel-Meguid had over 25 years of investment banking experience at Morgan Stanley where he headed Worldwide Investment Banking and served on the firm's 12-member Management Committee from 2000 to 2005. He also founded and managed Prince Gate Investors, a private equity investment vehicle within Morgan Stanley. He currently serves on the Board of Layalina Productions, and is a member of the Middle East Advisory Group of the Carnegie Endowment for International Peace.

Mr. Abdel-Meguid holds a B.Sc. degree from McGill University and a Masters of Business Administration from Columbia University. He is a United States citizen, fluent in English and Arabic and has a working knowledge of French.

P.J. Shoucair

Mr. Shoucair chairs the Board's Remuneration Committee. Since 1996 he has been employed by Kingdom Holding Company as the international investment advisor to HRH Prince Alwaleed, and is responsible for direct investments, capital market activities and major investment projects in the Middle East and North Africa region.

Before joining Kingdom Holding Company, he was a senior management consultant in Saudi Arabia for Arthur D. Little. He holds a Masters in Business Administration from the University of Southern California. Born in 1966, Mr. Shoucair is a citizen of the United States and is fluent in English and Arabic.

Board of directors
continued

Shadi S. Sanbar CPA

Mr. Sanbar is a member of the Board's Audit Committee. A United States Certified Public Accountant, Mr. Sanbar joined Kingdom Holding Company as Chief Financial Officer in April 2007 and is a member of its Investment Committee. Since June 2005, he had been a special advisor to HRH Prince Alwaleed. In addition, Mr. Sanbar is a Director of NASDAQ Dubai.

Mr. Sanbar began his career in 1973 with Arthur Andersen in Los Angeles and become a Partner in 1984 heading its worldwide entertainment industry practice. In 1994, he transferred to Arthur Andersen's Riyadh office. In 1996, he was appointed as a Managing Partner for the Assurance and Business Advisory for the Middle East. After Arthur Andersen's merger with Ernst & Young in 2002, Mr. Sanbar continued to work on large company audits and special examinations.

He holds a BA from the University of California in Los Angeles, and an MBA from the University of Oklahoma. Born in 1948, Mr. Sanbar is a US citizen and is fluent in English and Arabic.

Dr. Walid Arab Hashem

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

He holds a Bachelor of Arts in Economics from the American University in Cairo and a Ph.D. in Economics from Georgetown University. Born in 1957, Dr. Hashem is a citizen of the Kingdom of Saudi Arabia and is fluent in English and Arabic.

Ammar A. Alkhudairy

Mr. Alkhudairy joined the Board in March 2007. He is the Chief Executive Officer, Managing Director and founding shareholder of Amwal AlKhaleej. Prior to founding Amwal, Mr. Alkhudairy held a number of senior management positions at Saudi banking institutions. He was Banque Saudi Fransi's Head of Strategic Business Development as well as Central Region Head and Country Head at Gulf International Bank. His professional track record spans a number of banking disciplines including M&A, Project Finance, Corporate Finance, Corporate Banking and Merchant Banking.

Mr. Al-Khudairy is Chairman of Herfy Food Services (Riyadh) and a Director of Savola (Jeddah), Damas (Dubai), Al-Tayyar Travel (Riyadh), Morgan Stanley Saudi Arabia (Riyadh), Afia (Jeddah), Amwal International (Kuwait), Right Angle Media (Dubai), Dubai Contracting Co (DCC) (Dubai) and Kingdom Holding Company (Riyadh).

Mr. Al Khudairy holds a Master's degree in Engineering Administration from The George Washington University as well as a B.Sc. in Civil Engineering. Born in 1963, Mr. Alkhudairy is a citizen of the Kingdom of Saudi Arabia and is fluent in English and Arabic.

Sarmad N. Zok

Mr. Zok has been KHI's Chief Executive Officer since 2001. He is a member of KHI's Executive Committee and also serves on the Board of Directors. He has worked with Kingdom Hotel Partners LLC, a private equity fund and with Kingdom Holding Company, where he was responsible for the Company's hotel investment and asset management activities in the Middle East, Africa and Asia.

Prior to joining KHI, Mr. Zok headed Forte plc's development effort in the Middle East, Africa and India and worked at HVS International, a leading hotel consulting and valuation firm in London covering European markets.

Mr. Zok holds a Master of Arts in Property Valuation and Law from City University Business School in London and a BSc in Hotel Management from the University of Surrey. He is fluent in English, French and Arabic.

Ghaith A. Shocair

Mr. Shocair served as KHI Director and Chief Financial Officer until 31 March 2009.

Gordon Drake, ACA AMCT

Mr. Drake has served as Finance Director since 1 January 2009. He was appointed to the Board on 1 April 2009. Mr. Drake joined the Company in July 2007 as Vice President and Group Treasurer. In that role, he has secured financing in excess of $300 million in six separate transactions.

Previously at Rocco Forte Hotels, Mr. Drake was Group Treasurer and Corporate Finance Manager with responsibility for capital raising, risk management as well as asset disposals. Prior to that, he worked in the Treasury departments of Pearson plc and Hammerson plc with multi-national capital markets and operational responsibilities. Mr. Drake started his career with Ernst & Young in London and is a qualified Chartered Accountant with the Institute of Chartered Accountants for England and Wales.

Mr. Drake holds a BSc Hons in Economics and Accounting from University of Bristol and an AMCT professional qualification with the Association of Corporate Treasurers. He is a British citizen.

Senior management team

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

Top Sarmad N. Zok
Bottom Timothy J. Hansing

Top Gordon Drake
Bottom Joel Russo

Top Samer Abu Ayash
Bottom Shazmah Hakim

Sarmad N. Zok

Mr. Zok has been KHI's Chief Executive Officer since 2001. He is a Member of KHI's Executive Committee and also serves on the Board of Directors. He has worked with Kingdom Hotel Partners LLC, a private equity fund and with Kingdom Holding Company, where he was responsible for the Company's hotel investment and asset management activities in the Middle East, Africa and Asia.

Prior to joining KHI, Mr. Zok headed Forte plc's development effort in the Middle East, Africa and India and worked at HVS International, a leading hotel consulting and valuation firm in London covering European markets.

Mr. Zok holds Master of Arts in Property Valuation and Law from City University Business School in London and a BSc in Hotel Management from the University of Surrey. He is fluent in English, French and Arabic.

Gordon Drake ACA AMCT

Mr. Drake has served as Finance Director since 1 January 2009. He was appointed to the Board on 1 April 2009. Mr. Drake joined the Company in July 2007 as Vice President and Group Treasurer. In that role, he has secured financing in excess of $300 million in six separate transactions.

Previously at Rocco Forte Hotels, Mr. Drake was Group Treasurer and Corporate Finance Manager with responsibility for capital raising, risk management as well as asset disposals. Prior to that, he worked in the Treasury departments of Pearson plc and Hammerson plc with multi-national capital markets and operational responsibilities. Mr. Drake started his career with Ernst & Young in London and is a qualified Chartered Accountant with the Institute of Chartered Accountants for England and Wales.

Mr. Drake holds a BSc Hons in Economics and Accounting from University of Bristol and an AMCT professional qualification with the Association of Corporate Treasurers. He is a British citizen.

Samer Abu Ayash MSC DIC

Samer Abu Ayash was appointed Head of Design & Construction in July 2008. He joined the Company in 1998, as an Owner Representative for the Four Seasons Hotel development in Beirut. In 2002, he became a Vice President Design & Construction with responsibilities for KHI's hotel development projects in Lebanon as well as other design & construction activities relating to KHI's Four Seasons, Fairmont and Mövenpick properties.

A member of the Association of Engineers in Lebanon, Mr. Abu Ayash has a wealth of experience in construction and design. Prior to joining KHI, he was Project Manager/Owner Representative for Société Immobilière Les Dunes in charge of the Holiday Inn Dunes Multi Complex development in Beirut. Previously, Mr. Abu Ayash worked at Metito International in London – a leading environmental engineering firm – covering Middle East and Africa markets. Prior to that, he worked in various design and construction roles in the UK at the Engineering Division of Thames Water Utilities Ltd. (including the London Water Ring Main Project), Howard Humphreys & Partners Consulting Engineers and Freeman Fox & Partners Consulting Engineers.

Mr. Abu Ayash holds a Master of Science/DIC degree in Civil & Environmental Engineering from the Imperial College in London and graduated from the American University of Beirut with a Bachelor of Engineering in Civil Engineering. He has dual Lebanese and British citizenship. He is fluent in English, Arabic and has a working knowledge of French.

Timothy J. Hansing

Mr. Hansing joined KHI in February 2002 as Senior Vice President Acquisitions and Development.

Prior to joining KHI, Mr. Hansing headed the Mövenpick Hotels and Resorts development division, based in Zurich. He was recruited by Mövenpick directly from Arthur Andersen's hospitality and leisure consulting division, where he headed the division for the Middle East and Africa, based in Bahrain. Prior to joining Arthur Andersen, Mr. Hansing was a senior consultant with PKF hotel consultants based in London, where he spent four years advising clients on hotel investment opportunities across Europe, the Middle East, and Africa. Prior to joining PKF hotel consultants, Mr. Hansing worked directly in the hotel industry, with companies such as Canadian Pacific Hotels (now Fairmont), Forte, Thistle and the Whitbread Hotel Group.

Mr. Hansing holds a degree (HCIMA) in hotel management from the University of East Anglia and a Diploma in Hotel and Restaurant Administration from the University of Niagara Falls in Canada. Mr. Hansing is a UK citizen and has a working knowledge of French.

Joel Russo

Joel Russo was appointed Head of Asset Management in September 2008. He joined the Company in 2006, as a Vice President of Asset Management for the MENA region.

His 18 years' experience in the hospitality industry spans operations, consulting, valuation, development, design & construction and asset management. Mr. Russo started his career at InterContinental Hotels Group in operations. Subsequently, he joined HVS where he performed hotel feasibility/market studies, property valuations and advisory services throughout Europe and the Middle East. He later joined HEI Hotels as Executive Vice President responsible for development, finance and hotel operations.

Mr. Russo holds a Bachelor Degree in Hotel Management from the University of Surrey and has pursued post-graduate studies in Property Valuation & Law at the Cass Business School in London. He is a New Zealand citizen.

Shazmah Hakim

Shazmah Hakim was appointed General Counsel and Corporate Secretary on 1 April 2009. She joined the Company in April 2007 as a Vice President of Legal Affairs.

Mrs. Hakim has over 11 years of legal experience. She was, prior to joining KHI, a Vice President and Senior Counsel at Marriott International with responsibility for the legal operations of Marriott's hotels in the United Kingdom, Ireland, Middle East and Africa. In addition, Mrs Hakim worked as a project finance associate at the Washington D.C. office of Orrick, Herrington & Sutcliffe.

Mrs. Hakim holds a Juris Doctor from George Washington University and a Masters in International Business and Politics from New York University.

Directors' report

A review of the Company's activities and future developments including the financial performance during the year and key performance indicators is given on pages 6 to 35 and forms part of this report.

The description of KHI's corporate governance arrangements on pages 41 to 46 also forms part of this report. A description of the Company's financial risk management objectives and policies and its exposure to price, credit liquidity and cash flow risk is contained in note 27 to the consolidated accounts on pages 91 and 97. Other matters material to the appreciation of the Company's position are contained in the Chairman's letter on page 4 and the Chief Executive's review on page 5.

Results

The results for the year are shown in the consolidated income statement on page 48.

Annual General Meeting

This year's Annual General Meeting will be held at Company's offices located at The Gate Precinct, Building 3, Level 6, Dubai International Financial Centre on 11 May 2009 at 10.00am U.A.E. time.

Directors

The directors during the year were those listed on pages 36 to 37. Mr. Jassim Al-Bahar passed away in July 2008. Mr. Ghaith Shocair resigned on 31 March 2009 and is replaced by Mr. Gordon Drake.

Biographical details of all the directors are on pages 36 to 37.

Auditor and disclosure of information to the auditor

Each of the directors in office as of the date of approval of this report confirms that, so far as he/she is aware, there is no relevant audit information (being information needed by the auditor in connection with preparing its report) of which the auditor is unaware and that he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Going concern

The directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing its financial statements.

By order of the Board

Shazmah Hakim

Shazmah Hakim
Company Secretary

Corporate governance report

The Company is registered in the Cayman Islands and its main offices are in the Dubai International Financial Centre. Its operations comply with all applicable corporate governance rules in both jurisdictions.

The Board of Directors

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

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

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

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

The Executive Committee

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

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

The Directors

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

- Mr. P.J. Shoucair is the Executive Director responsible for International Investment at Kingdom Holding Company.
- Mr. Sarmad Zok is Chief Executive Officer of the Company.
- Mr. Gordon Drake is Finance Director of the Company.
- Mr. Shadi Sanbar is Chief Financial Officer of Kingdom Holding Company.
- Mr. Walid Arab Hashem is the CEO of Rotana Video & Audio Visual Company, a subsidiary of Kingdom Holding Company.
- Mr. Ammar Alkhudairy serves as an Independent Director on the Board of the Company. He founded Amwal Alkhaleej and, prior to that, held senior management positions at Saudi banking institutions.
- Mr. Tarek Abdel-Meguid serves as an Independent Director on the Board of the Company. He is a founding partner of Perella Weinberg Partners.

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

The Audit Committee

The Audit Committee comprises three Directors: Mr. Shadi Sanbar, Mr. Ammar Alkhudairy and Mr. Tarek Abdel-Meguid (Chairman). The latter two are independent Directors.

The Committee operates in accordance with charters approved by the Board. The members of the two committees are designated by the Company's Board. At least one member of the Committee must have particular experience in financial and accounting matters. The Committee may delegate to its members the exercise of particular competences. The Committee holds at least two ordinary meetings each year and may also hold extraordinary meetings when deemed necessary. The Company's Board annually reviews the Audit Committee's charter, following a recommendation by the Committee. The Audit Committee's responsibilities include:

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

The Remuneration Committee

The Remuneration Committee comprises Mr. P.J. Shoucair (Chairman) and Mr. Tarek Abdel-Meguid, independent Director.

Our Remuneration Committees operate in accordance with charters approved by the Board. The Remuneration Committee may delegate to its members the exercise of particular competences. The Committee holds at least four ordinary meetings each year and may also hold extraordinary meetings when deemed necessary. Following a recommendation from the Remuneration Committee, the Company's Board annually reviews the Committee's charter as well. The Remuneration Committee's responsibilities include:

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

Relations with shareholders

KHI is committed to transparency with institutional and private shareholders and follows a policy of open communication.

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

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

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

As a further commitment to excellent communication, we also regularly update KHI's website (www.kingdomhotels.com) and release any price-sensitive information to the Dubai and London stock exchanges for posting on their appropriate sites.

Guidelines regarding insider trading

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

Our responsibilities

At Kingdom Hotels Investments, we are aware of our responsibilities to society and the environment. We recognise that our core business activities will have an impact – either directly or indirectly – on many of our stakeholders. We manage these impacts for the well-being of our stakeholders because we believe it makes good business sense.

The key areas in which we exercise our responsibilities include:

- The environment by:
  - Employing sustainable design for our developments and investments
  - Using environmentally-sound materials and practices during the construction of our properties

- People by:
  - Looking after and developing our own people
  - Ensuring the health and safety of our own people and sub-contractors
  - Creating jobs in developing countries, drawing on local expertise and offering training during the operational phase of projects

- Customers by:
  - Ensuring that KHI developments and investments meet our customers' and occupiers' requirements

- Communities by:
  - Investing in emerging markets, which, in turn raises those countries' credibility as locations for inward investment
  - Selling real estate to investors whose confidence derives from the KHI brand
  - Establishing relationships and supporting local communities in the areas in which we operate.

We take many of these responsibilities into consideration at all stages throughout our projects. We are currently evaluating how best to incorporate our responsibilities more formally into KHI's investment and development criteria.

Remuneration report

The Remuneration Committee submits its report on remuneration for the year ended 31 December 2008.

The Remuneration Committee

The Remuneration Committee comprises Mr. P.J. Shoucair (Chairman) and Mr. Tarek Abdel-Meguid, independent Director.

The Remuneration Committee operates in accordance with charters approved by the Board. The Remuneration Committee may delegate to its members the exercise of particular competences. The Committee holds at least four ordinary meetings each year and may also hold extraordinary meetings when deemed necessary. Following a recommendation from the Remuneration Committee, the Company's Board annually reviews the Remuneration Committee's charter as well.
The Remuneration Committee's responsibilities include:

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

Compensation of key management personnel

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

	2008 US$'000	2007 US$'000
Short-term employee benefits	3,888	3,828
End-of-service benefits	1,231	92
Long-term incentive plan (note 30)	1,197	795
	6,316	4,715

Long-term incentive plan

Pursuant to the approval of the long-term incentive plan ("LTIP") by the Board of Directors on 17 May 2007, some senior management employees were granted in 2008 a fixed number of Company shares for a three year cliff vesting period. There are no cash settlement alternatives.

	Number of shares ('000)		Total fair value (US$'000)	
	2008	2007	2008	2007
As at 1 January	248	108	2,262	1,000
Granted during the year	170	140	1,270	1,262
Vested during the year	(72)	–	(333)	–
As at 31 December	346	248	3,199	2,262

Movements in the reserve for long-term incentive plan during the year are shown in the following table:

	2008 US$'000	2007 US$'000
Balance at 1 January	1,181	277
Expense recognised during the year	1,295	904
Vested at cost	(667)	–
Balance at 31 December	1,809	1,181

Directors' responsibilities

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

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

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

Our responsibilities

Relations with shareholders

KHI is committed to transparency with institutional and private shareholders and follows a policy of open communication. Senior management regularly holds meetings with analysts and institutional shareholders. As a key part of this effort, the senior management team visits London several times a year to participate in roadshows that attract prominent members of the international financial community.

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

In addition, the Company is committed to providing private investors with an Annual Report, which is also available on request to any shareholder or member of the financial community. As a further commitment to excellent communication, we also regularly update KHI's website (www.kingdomhotels.com) and release any price-sensitive information to the Dubai and London stock exchanges for posting on their appropriate sites.

Guidelines regarding insider trading

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

Our responsibilities

At KHI, we are aware of our responsibilities to society and the environment. We recognise that our core business activities will have an impact – either directly or indirectly – on many of our stakeholders. We seek to manage these impacts for the well-being of our stakeholders because it makes good business sense.

The key areas in which we exercise our responsibilities include:

- The environment:
  - Employing sustainable design for our developments and investments
  - Using environmentally-sound materials and practices during the construction of our properties

- People:
  - Looking after and developing our own people
  - Ensuring the health and safety of our own people and sub-contractors
  - Creating jobs in developing countries, drawing on local expertise and offering training during the operational phase of projects

- Customers:
  - Ensuring that KHI developments and investments meet our customers' and occupiers' requirements

- Communities:
  - Investing in emerging markets, which, in turn raises those countries' credibility as locations for inward investment
  - Selling real estate to investors whose confidence derives from the KHI brand
  - Establishing relationships and supporting local communities in the areas in which we operate.

We take many of these responsibilities into consideration at all stages throughout our projects and are currently evaluating how best to incorporate our responsibilities more formally into KHI's investment and development criteria.

Independent auditors' report

to the shareholders of Kingdom Hotel Investments

ERNST & YOUNG

P.O. Box 9267
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Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Kingdom Hotel Investments ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

10 March 2009

Dubai

Consolidated income statement

for the year ended 31 December 2008

	Notes	2008 US$'000	2007 US$'000 Restated
Revenue	6	278,725	180,909
Direct costs	6	(197,101)	(125,440)
Depreciation and amortisation of hotel property, plant and equipment	11,12	(27,716)	(21,114)
Gross profit		53,908	34,355
General and administrative expenses	7	(22,621)	(19,406)
Sales and marketing expenses (Real Estate)		(6,403)	(850)
Depreciation and amortisation	11,12	(693)	(635)
Pre-opening expenses		(1,730)	–
Operating profit		22,461	13,464
Share of results of associates	14	40,425	26,883
Gain on sale of available for sale financial assets	15	4,493	4,625
Loss on sale of associates	14	(273)	–
Loss on sale of development project	11	(3,500)	–
Dividend income		495	430
Gain on bargain purchase of subsidiaries	3	73	8,759
Project costs	8	(25,917)	(3,484)
Impairment for available for sale financial assets	15	(500)	(496)
Interest income		3,918	11,503
Interest expense		(17,209)	(13,549)
Other income		555	611
Profit before tax		25,021	48,746
Income tax expense	9	(4,295)	(2,057)
Profit for the year		20,726	46,689
Attributable to:			
Shareholders of the parent		17,141	42,335
Minority interests		3,585	4,354
		20,726	46,689
Earnings per share (US$)	10		
From continuing operations:			
– Basic		0.10	0.24
– Diluted		0.10	0.24

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated balance sheet

at 31 December 2008

	Notes	2008 US$'000	2007 US$'000 Restated
Assets			
Non-current assets			
Property, plant and equipment	11	1,053,971	1,003,112
Goodwill and other intangible assets	12	103,788	113,557
Investment properties	13	33,839	33,197
Investments in associates	14	273,999	268,534
Available-for-sale financial assets	15	71,958	76,002
Other assets	16	23,898	14,529
Deferred tax assets	9	11,291	3,769
		1,572,744	1,512,700
Current assets			
Real estate held for sale		3,249	4,933
Inventories		5,470	5,726
Trade and other receivables		21,400	26,426
Due from related parties	26	3,268	3,022
Prepayments		30,526	31,332
Cash and short-term deposits	17	256,393	180,564
Income taxes recoverable		860	393
		321,166	252,396
Total assets		1,893,910	1,765,096
Equity and liabilities			
Equity attributable to shareholders of the parent			
Share capital	18	873,694	873,694
Treasury shares	18	(1,041)	(1,220)
Share premium	19	181,074	180,993
Foreign currency translation reserve	19	(29,591)	(900)
Cumulative changes in fair value	19	30,839	30,676
Retained earnings		103,765	86,624
Cash flow hedge reserve	19	(6,280)	1,453
Reserve for long-term incentive plan	19	1,809	1,181
		1,154,269	1,172,501
Minority interests		138,166	144,749
Total equity		1,292,435	1,317,250
Non-current liabilities			
Interest-bearing loans and borrowings	20	334,328	292,087
Employees' end of service benefits	21	4,555	3,663
Retentions payable	22	4,375	5,223
Deferred tax liabilities	9	46,191	38,504
Other liabilities	23	43,764	10,697
		433,213	350,174
Current liabilities			
Trade and other payables	24	94,247	70,170
Interest-bearing loans and borrowings	20	71,186	22,812
Retentions payable	22	1,444	–
Due to related parties	26	1,385	4,690
		168,262	97,672
Total liabilities		601,475	447,846
Total equity and liabilities		1,893,910	1,765,096

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated cash flow statement
for the year ended 31 December 2008

	Note	2008 US$'000	2007 US$'000 Restated
Operating activities			
Profit before tax		25,021	48,746
Adjustments for:			
Depreciation and amortisation	11,12	28,409	21,749
Share of results of associates	14	(40,425)	(26,883)
Dividend received on available-for-sale financial assets		(495)	(430)
Interest income		(3,918)	(11,503)
Interest expense		17,209	13,549
Gain on sale of available for sale financial assets	15	(4,493)	(4,625)
Loss on sale of associates	14	273	–
Loss on sale of development project	11	3,500	–
Project cost	8	25,917	3,484
Impairment for available for sale financial assets	15	500	496
Gain on bargain purchase of subsidiaries	3	(73)	(8,759)
Employees' end of service benefits provided	21	1,978	1,646
		53,403	37,470
Changes in operating assets and liabilities			
Trade and other receivables		8,368	(5,897)
Prepayments		144	(18,296)
Inventories		256	(990)
Other long-term assets		(32)	6,988
Trade and other payables		13,916	8,889
Other financial liabilities		34,362	5,618
Real estate held for sale		1,685	4,933
Related parties and balance		(1,459)	8,382
Cash generated from operations		110,643	47,097
Interest paid		(17,209)	(13,549)
Income taxes paid		(740)	(459)
Employees' end of service benefits paid		(612)	(477)
Net cash flows from operating activities		92,082	32,612
Investing activities			
Net purchase of property, plant and equipment		(152,507)	(131,388)
Acquisition of subsidiaries and joint venture net of cash acquired	3	–	(273,417)
Acquisition of minority interest	3	(12,027)	–
Acquisition of associates	14	–	(6,237)
Purchase of investment properties	13	(3,487)	(979)
Proceeds from sale of available-for-sale investments	15	8,200	17,665
Proceeds from sale of associates	14	15,322	–
Proceeds from sale of development project	11	23,900	–
Dividends received		20,445	430
Interest received		3,918	11,503
Purchase of intangible asset	12	–	(2,283)
Movement in restricted cash	17	(1,441)	(12,168)
Net cash flows used in investing activities		(97,677)	(396,874)
Financing activities			
Repayment of borrowings		(31,350)	(15,211)
Proceeds from borrowings		125,444	125,417
Purchase of treasury shares		(407)	(1,220)
Dividends paid to minority shareholders		(3,583)	–
Loans repaid to minority shareholders		(6,008)	–
Net cash flows from financing activities		84,096	108,986
Net increase (decrease) in cash and cash equivalents		78,501	(255,276)
Net foreign exchange difference		(5,850)	1,831
Cash and cash equivalents at 1 January		166,851	420,296
Cash and cash equivalents at 31 December	17	239,502	166,851

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2008

	Attributable to equity holders of the parent										
	Issued share capital US$'000	Treasury shares US$'000	Share premium US$'000	Foreign currency translation reserve US$'000	Cumulative changes in fair value US$'000	Retained earnings US$'000	Cash flow hedge reserve US$'000	Reserve for long-term incentive plan US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
As at 1 January 2008 (restated)	873,694	(1,220)	180,993	(900)	30,676	86,624	1,453	1,181	1,172,501	144,749	1,317,250
Foreign currency translation	–	–	–	(28,691)	–	–	–	–	(28,691)	1,275	(27,416)
Net loss on cash flow hedges	–	–	–	–	–	–	(7,733)	–	(7,733)	–	(7,733)
Changes in the fair value of available-for-sale financial assets	–	–	–	–	4,156	–	–	–	4,156	–	4,156
Impairment charges to income statement	–	–	–	–	500	–	–	–	500	–	500
Realised through income statement	–	–	–	–	(4,493)	–	–	–	(4,493)	–	(4,493)
Net income and expense for the year recognised in equity	–	–	–	(28,691)	163	–	(7,733)	–	(36,261)	1,275	(34,986)
Profit for the year	–	–	–	–	–	17,141	–	–	17,141	3,585	20,726
Total income and expenses for the year	–	–	–	(28,691)	163	17,141	(7,733)	–	(19,120)	4,860	(14,260)
Treasury shares acquired	–	(407)	–	–	–	–	–	–	(407)	–	(407)
Minority interest in existing subsidiaries acquired (note 3.1)	–	–	–	–	–	–	–	–	–	(11,419)	(11,419)
Minority interest in development projects	–	–	–	–	–	–	–	–	–	9,567	9,567
Net loans repaid to minority shareholders	–	–	–	–	–	–	–	–	–	(6,008)	(6,008)
Payment of dividend	–	–	–	–	–	–	–	–	–	(3,583)	(3,583)
Long-term incentive plan expense recognised during the year (note 30)	–	–	–	–	–	–	–	1,295	1,295	–	1,295
Long-term incentive plan shares vested during the year (note 30)	–	586	81	–	–	–	–	(667)	–	–	–
As at 31 December 2008	**873,694**	**(1,041)**	**181,074**	**(29,591)**	**30,839**	**103,765**	**(6,280)**	**1,809**	**1,154,269**	**138,166**	**1,292,435**

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2008

	Issued share capital US$'000	Treasury shares US$'000	Share premium US$'000	Foreign currency translation reserve US$'000	Cumulative changes in fair value US$'000	Retained earnings US$'000	Cash flow hedge reserve US$'000	Reserve for long-term incentive plan US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
	Attributable to equity holders of the parent										
As at 1 January 2007	873,694	–	180,993	(20,375)	28,250	44,289	1,168	277	1,108,296	109,210	1,217,506
Foreign currency translation	–	–	–	19,475	–	–	–	–	19,475	1,020	20,495
Net gain on cash flow hedges	–	–	–	–	–	–	285	–	285	–	285
Changes in the fair value of available-for-sale financial assets	–	–	–	–	6,555	–	–	–	6,555	–	6,555
Impairment charges to income statement	–	–	–	–	496	–	–	–	496	–	496
Realised through income statement	–	–	–	–	(4,625)	–	–	–	(4,625)	–	(4,625)
Total income and expenses for the year recognised in equity	–	–	–	19,475	2,426	–	285	–	22,186	1,020	23,206
Profit for the year (restated)	–	–	–	–	–	42,335	–	–	42,335	4,354	46,689
Total income and expenses for the year	–	–	–	19,475	2,426	42,335	285	–	64,521	5,374	69,895
Treasury shares acquired	–	(1,220)	–	–	–	–	–	–	(1,220)	–	(1,220)
Minority interest in existing subsidiaries acquired (note 3.2a)	–	–	–	–	–	–	–	–	–	(3,461)	(3,461)
Minority interest arising from business combinations (note 3)	–	–	–	–	–	–	–	–	–	22,271	22,271
Loan from minority shareholder (note 3.2c)	–	–	–	–	–	–	–	–	–	11,355	11,355
Long-term incentive plan (note 30)	–	–	–	–	–	–	–	904	904	–	904
As at 31 December 2007 (restated)	873,694	(1,220)	180,993	(900)	30,676	86,624	1,453	1,181	1,172,501	144,749	1,317,250

The attached notes 1 to 32 form part of these consolidated financial statements.

Notes to the consolidated financial statements
at 31 December 2008

1 Corporate information

The consolidated financial statements of Kingdom Hotel Investments ("the Company") for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on 10 March 2009.

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

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

A full listing of all Group companies, including joint venture companies, is contained in note 31 to these consolidated financial statements.

2 Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The presentation and functional currency of the consolidated financial statements is United States dollars (US$), as a significant proportion of the Group's assets, liabilities, income and expenses are US$ denominated. However, certain subsidiaries have functional currencies other than US$, in which case the respective local currency is the functional currency and the US$ is the presentation currency. The consolidated financial statements are presented in US$ and all values are rounded to the nearest thousand (US$'000) except where otherwise stated.

Statement of compliance

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries.

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

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Where necessary, adjustments are made to bring the accounting policies into line with those of the Group.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

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

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

2 Summary of significant accounting policies (continued)

Changes in accounting policies and disclosures

The accounting policies are consistent with those used in the previous years except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2008:

IFRIC 11 IFRS 2 – Group and Treasury Share transactions

The Group has also early adopted the following IFRS and IFRIC interpretations as of 1 January 2008:

IFRS 2 – Share-based Payments (revised) effective 1 January 2009
IFRS 8 – Operating Segments effective 1 January 2009
IAS 23 – Borrowing Costs (revised) effective 1 January 2009

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

The principal effects of these changes are as follows:

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 in January 2008 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The Group early adopted this amendment as of 1 January 2008. It did not have an impact on the financial position or performance of the Group as no events occurred that this interpretation relates to.

IFRS 8 Operating Segments

The IASB issued IFRS 8 in November 2006. IFRS 8 replaces IAS 14 Segment Reporting (IAS 14) upon its effective date. The Group early adopted this amendment as of 1 January 2008. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

IAS 23 Borrowing Costs (Revised)

The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

Improvements to IFRSs

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Group has early adopted the following amendments to standards:

IAS 1 Presentation of Financial Statements:

Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet. The Group amended its accounting policy accordingly and analysed whether Management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the balance sheet.

IAS 16 Property, Plant and Equipment:

Replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

IAS 23 Borrowing Costs:

The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

2 Summary of significant accounting policies (continued)

Improvements to IFRSs (continued)

IAS 36 Impairment of Assets:

When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment has no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash-generating units is currently estimated using 'value in use'.

IAS 38 Intangible Assets:

Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

The Group has adopted IFRIC Interpretation 11 insofar as it applies to consolidated financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The Group amended its accounting policy accordingly. The Group has not issued instruments caught by this interpretation.

IFRIC 12 – Service Concession Arrangements

The IFRIC issued IFRIC 12 in November 2006. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 1 Employee Benefits. The Group amended its accounting policy accordingly. The Group's defined benefit schemes have been in deficit, therefore the adoption of this interpretation had no impact on the financial position or performance of the Group.

Real estate held for sale

Real estate held for sale represents development properties which are valued at the lower of cost and net realisable value. Cost includes development and holding costs and interest incurred from commencement of construction until the point that the property is ready for sale. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

Revenue from the sale of real estate is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered to have passed to the buyer at the time the purchaser has control of the asset, which is generally when the title passes.

Intangible assets

Other than goodwill, intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset.

2 Summary of significant accounting policies (continued)

Intangible assets (continued)

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Amortisation is calculated on a straight line basis over the estimated useful lives to their residual values as follows:

- Land use rights over the period of the use

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by the quoted share price of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Transactions in foreign currencies

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

Foreign group companies

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

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

2 Summary of significant accounting policies (continued)

Property, plant and equipment

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

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

No depreciation is charged on land or assets under construction.

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

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

Borrowing costs

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

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

For the purpose of impairment testing, goodwill acquired is, from the date of acquisition, allocated to the related cash generating unit. Each property to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Available-for-sale financial assets

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

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

2 Summary of significant accounting policies (continued)

Impairment of non financial assets (excluding goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

The following criteria are also applied in assessing impairment of specific associates:

Associates

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each balance sheet date whether there is objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises the amount in profit or loss.

Interest in a joint venture

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

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

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

The reporting date of the joint venture and the Group are identical and the joint venture's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investments in associates

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

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

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

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

2 Summary of significant accounting policies (continued)

Investment properties

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

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

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

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

Inventories

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

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

Trade and other receivables

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

Cash and cash equivalents

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

Interest-bearing loans and borrowings

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

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

Provisions

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

2 Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

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

Pensions and employees' end-of-service benefits

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

Employees' end-of-service benefits are provided in accordance with the labour laws of the countries in which the Group operates.

Leases

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

Revenue recognition

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

Hotels

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

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

Revenue from the sale of real estate is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered to have passed to the buyer at the time the purchaser has control of the asset, which is generally when the title passes.

Interest income

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

Rental income

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

2 Summary of significant accounting policies (continued)

Income taxes

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

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

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

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

Derivative financial instruments and hedge accounting

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

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

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

2 Summary of significant accounting policies (continued)

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

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

Start-up cost and pre-operating expense

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

Significant accounting estimates

Estimation uncertainty

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

- *Impairment of goodwill*: The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.
- *Valuation of investment properties*: The Group hires the services of third party valuers and uses its own resources for obtaining estimates of the valuation of investment properties.
- *Purchase price allocation*: The Group hires the services of third party valuers and uses its own resources to complete a final purchase price allocation exercise for assets and liabilities acquired in a business combination.
- *Useful lives of property, plant and equipment*: The useful lives, residual values and methods of depreciation of property, plant and equipment are reviewed, and adjusted if appropriate, at each financial year end. In the review process, the Group takes guidance from recent acquisitions, as well as market and industry trends.
- *Impairment of available-for-sale financial assets*: The Group classifies certain financial assets as available-for-sale and recognises movements in their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in profit or loss.
- *Impairment of non-financial assets*: The Group's impairment test for goodwill and intangible assets with indefinite useful lives is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 12.

2 Summary of significant accounting policies (continued)

Significant accounting estimates (continued)
Estimation uncertainty (continued)

- *Deferred tax assets*: Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.
- *Fair value of financial instruments*: Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Standards issued but not yet effective
IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements
The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early applied. However, the Group does not intend to take advantage of this possibility.

IAS 1 Revised Presentation of Financial Statements
The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfill a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

2 Summary of significant accounting policies (continued)

Improvements to IFRSs

The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

IFRS 7 Financial Instruments: Disclosures:

Removal of the reference to 'total interest income' as a component of finance costs.

IAS 8 Accounting Policies, Change in Accounting Estimates and Errors:

Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

IAS 10 Events after the Reporting Period:

Clarification that dividends declared after the end of the reporting period are not obligations.

IAS 16 Property, Plant and Equipment:

Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

IAS 18 Revenue:

Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.

IAS 19 Employee Benefits:

Revised the definition of 'past service costs', 'return on plan assets' and 'short-term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.

IAS 27 Consolidated and Separate Financial Statements:

When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

IAS 29 Financial Reporting in Hyperinflationary Economies:

Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.

IAS 34 Interim Financial Reporting:

Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.

IAS 39 Financial Instruments: Recognition and Measurement:

Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

IAS 40 Investment Property:

Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

2 Summary of significant accounting policies (continued)

Improvements to IFRSs (continued)

IFRIC 15 Agreement for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group is currently assessing which accounting policy to adopt for the recycling on disposal of the net investment.

3 Business combination and acquisitions of minority interests

3.1 2008 acquisitions

a. Increase of effective share in investment in Serena Beach Company

On 1 July 2008, the Group acquired, through its subsidiary Kingdom 5-KR 153 Ltd, an additional 7.3% interest in Serena Beach Company for US$2 million.

The increase in goodwill on acquisition is as follows:

	2008 US$'000
Cost of the Group's additional interest in the subsidiary	2,027
Minority interest's share of the assets and liabilities reflected in the consolidated balance sheet	(1,346)
Goodwill	681

b. Increase of effective share in investment in KR001 (Kenya)

On 1 November 2008, the Group acquired, through its subsidiary Kingdom 5-KR 166 Ltd, an additional 30% interest in 5-KR 181 Ltd which is the 100% shareholder in Kingdom Kenya 01 Limited for US$10 million.

Goodwill on acquisition is as follows:

	2008 US$'000
Cost of the Group's additional interest in the subsidiary	10,000
Minority interest's share of the assets and liabilities reflected in the consolidated balance sheet	(10,073)
Negative goodwill recognised in the income statement at the date of the acquisition	73

3 Business combination and acquisitions of minority interests (continued)

3.2 2007 acquisitions

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

On 18 July 2007, the Group acquired, through a subsidiary, an additional 10% interest in Kingdom 5-KR-71 Ltd, which is the 55% shareholder in Syrian Saudi Tourism Investments Company (SSTIC), an entity registered in Syria. This acquisition increased the Group's interest in Kingdom 5-KR-71 Ltd from 90% to 100%. SSTIC is engaged in the hotel and tourism industry and operates the Four Seasons Hotel in Damascus.

The increase in goodwill on acquisition is as follows:

	2007 US$'000
Cost of the Group's additional interest in the subsidiary	8,000
Minority interest's share of the assets and liabilities reflected in the consolidated balance sheet	(3,461)
Goodwill	4,539

b. Acquisition of Raffles Da Nang Resort and Residences, Vietnam

On 18 January 2007, KHI Da Nang Limited ("KHID"), a wholly owned subsidiary of the Company, entered into an agreement with European Hotel Corporation Limited to acquire Magnum Investment Group Limited ("MIGL"). KHID acquired an 80% equity interest in MIGL. MIGL owns 100% of Vegas Hotels and Villas which in turn has development rights to build a 150 room hotel and 15 private residential villas in Da Nang City, Vietnam which is expected to be complete in 2011.

The fair values of the identifiable assets and liabilities of the company and the corresponding carrying amounts at the date of acquisition are as follows:

	Recognised on acquisition US$'000	Carrying values US$'000
Property, plant and equipment	188	188
Intangible asset	7,627	1,269
Trade and other payables	(380)	(380)
Net assets	7,435	1,077
Minority interest	(1,487)	
Group's share of the fair value of net assets acquired	5,948	
Acquisition cost	167	
Cost	6,115	
Cash outflow on acquisition:		
Cash paid	6,115	

The initial accounting for the above acquisition was only provisional as of 31 December 2007 as the fair values to be assigned to the acquiree's identifiable assets and liabilities could be determined only provisionally (intangible asset comprising of land use rights had not been finalised at the date of the financial statements). The initial accounting was completed after 31 December 2007. No adjustments were made to the fair values of assets and liabilities as referred to above.

During the year ended 31 December 2008, the company contributed a loss of US$3.3 million (2007: loss of US$0.2 million) to the overall net results of the Group.

3 Business combination and acquisitions of minority interests (continued)

3.2 2007 acquisitions (continued)

c. Acquisition of Four Seasons Langkawi, Malaysia

On 1 April 2007, the Company, through its subsidiaries, acquired a 90% stake in Kingdom Langkawi B.V. (Holland) ("KLBV") which in turn acquired a 100% stake in Mamlaka Langkawi Sdn. Bhd (formerly MAS Hotels and Boutiques Sdn. Bhd) ("MLSB"), the owning company of the Four Seasons Hotel Langkawi. KLBV was formed through an agreement with the minority shareholder who owns 10% in the company.

The fair values of the identifiable assets and liabilities of MLSB and the corresponding carrying amounts at the date of acquisition are as follows:

	Fair values provisionally recognised on acquisition US$'000	Adjustments to fair values US$'000	Adjusted fair values US$'000	Carrying values US$'000
Property, plant and equipment	113,872	7,515	121,387	104,425
Cash and cash equivalents	4,065	–	4,065	4,065
Inventories	471	–	471	471
Trade and other receivables	820	–	820	820
Trade and other payables	(1,452)	(2,133)	(3,585)	(1,452)
Deferred tax liability	(520)	(2,836)	(3,356)	(1,624)
Net assets	117,256	2,546	119,802	106,705
Minority interest	(1,111)	(255)	(1,366)	
Group's share of the fair value of net assets acquired	116,145	2,291	118,436	
Negative goodwill arising on acquisition	–	(2,291)	(2,291)	
Cost	116,145	–	116,145	
Cash outflow on acquisition:				
Cash paid	116,145	–	116,145	
Net cash acquired with the subsidiary	(4,065)	–	(4,065)	
Net cash outflow	112,080	–	112,080	

As part of the acquisition, the minority interest also acquired 10% of an existing shareholder loan for a total consideration of US$10.6 million, and subsequent to the acquisition paid certain expenses on behalf of the subsidiary amounting to US$0.7 million. These have been treated as equity as they carry no interest and are repayable only at the discretion of the subsidiary.

The initial accounting for the above acquisition was provisional in the 31 December 2007 financial statements as the Purchase Price Allocation (PPA) had not been finalised. Subsequent to 31 December 2007, the final valuations and PPA were completed and the Group has recognised the relevant adjustments, as shown above, with effect from the date of acquisition as required by IFRS 3.

Consequently, the consolidated income statement for the year ended 31 December 2007 has been restated to show the gain of US$2.3 million as "gain on bargain purchase of a subsidiary". The bargain purchase was the result of an exit strategy being executed by the seller.

During the year ended 31 December 2008, the company contributed a loss of US$4.3 million (2007: profit of US$2.1 million) to the overall net results of the Group.

During the year ended 31 December 2008, the Company repaid the loan amounting to US$6.0 million to the minority shareholders.

3 Business combination and acquisitions of minority interests (continued)

3.2 2007 acquisitions (continued)

d. Acquisition of Swissôtel Kunshan, China

On 1 May 2007, KHI-11, Ltd, a wholly-owned subsidiary of the Group, acquired 100% of both First Shanghai Hotel Group Limited and Sino Dragon Asset Limited. In turn, these companies own 65% and 35% respectively of Kunshan Traders Park Hotel Company Limited, the owning company of the Swissôtel Kunshan (formerly Traders Park Hotel Kunshan).

The fair values of the identifiable assets and liabilities of Kunshan Traders Park Hotel Company Limited and the corresponding carrying amounts at the date of acquisition are as follows:

	Fair values provisionally recognised on acquisition US$'000	Adjustment to fair value US$'000	Adjusted fair values US$'000	Carrying value US$'000
Property, plant and equipment	59,308	(17,520)	41,788	26,772
Intangible asset	2,313	13,909	16,222	2,313
Cash and cash equivalents	655	–	655	655
Inventories	260	–	260	260
Trade and other receivables	436	–	436	436
Trade and other payables	(3,365)	(434)	(3,799)	(3,365)
Bank debt	(18,168)	–	(18,168)	(18,168)
Deferred tax liability	–	(7,231)	(7,231)	–
Net assets	41,439	(11,276)	30,163	8,903
Goodwill arising on acquisition	–	11,276	11,276	
Cost	41,439	–	41,439	
Cash outflow on acquisition:				
Cash paid	41,439	–	41,439	
Net cash acquired with the subsidiary	(655)	–	(655)	
Net cash outflow	40,784	–	40,784	

The initial accounting for the above acquisition was provisional in the 31 December 2007 financial statements as the Purchase Price Allocation (PPA) had not been finalised. Subsequent to 31 December 2007, the final valuations and PPA were completed and the Group has recognised the relevant adjustments, as shown above, with effect from the date of acquisition as required by IFRS 3.

During the year ended 31 December 2008, the company contributed a profit of US$59 thousand (2007: profit of US$0.5 million) to the overall net results of the Group.

The Goodwill recognised above is attributed to the expected synergies and other benefits from combining the assets and operations of the company with those of the Group.

3 Business combination and acquisitions of minority interests (continued)

3.2 2007 acquisitions (continued)

e. Acquisition of PT Permadani Khatulistiwa Nustantaraa

On 12 September 2007, the Company, through its subsidiaries, acquired 91% of the voting shares of PT Permadani Khatulistiwa Nustantaraa ("PKN"), an Indonesian company which operates the Four Seasons Jakarta, Indonesia.

The fair values of the identifiable assets and liabilities and the corresponding carrying amounts as of the date of acquisition are as follows:

	Fair values provisionally recognised on acquisition US$'000	Adjustments to fair values US$'000	Adjusted fair values US$'000	Carrying values US$'000
Property, plant and equipment	48,401	5,298	53,699	28,695
Cash and cash equivalents	1,799	–	1,799	1,799
Trade and other receivables	1,892	–	1,892	1,892
Inventories	217	–	217	217
Trade and other payables	(4,289)	(432)	(4,721)	(4,289)
Deferred tax liability	(495)	(2,991)	(3,486)	(495)
Net assets	47,525	1,875	49,400	27,819
Minority interest	1,088	(1,875)	(787)	1,088
Group's share of the fair value of net assets acquired	48,613	–	48,613	28,907
Cost	48,613	–	48,613	
Cash outflow on acquisition:				
Cash paid	48,613	–	48,613	
Net cash acquired with the subsidiary	(1,799)	–	(1,799)	
Net cash outflow	46,814	–	46,814	

On 28 June 2006, the previous owners entered into an agreement with PT Kodel, an Indonesian company, to sell and transfer 429,738 ordinary shares of PKN comprising 9.07% of the issued and allotted share capital of PKN to PT Kodel in consideration of the sale and transfer of all the outstanding borrowings, loans to and other indebtedness of PKN owing to PT Kodel pursuant to a loan agreement dated 22 December 2003. The loan was approximately US$2.3 million, including accrued interest, as at 31 December 2007. Following the acquisition of PKN by the Group, PT Kodel indicated that they wish the agreement to be fulfilled. During the year ended 31 December 2007, the above transaction was effected leading to the dilution of the Group's stake to 81.93%.

The initial accounting for the above acquisition was provisional in the 31 December 2007 financial statements as the Purchase Price Allocation (PPA) had not been finalised. Subsequent to 31 December 2007, the final valuations and PPA were completed and the Group has recognised the relevant adjustments, as shown above, with effect from the date of acquisition as required by IFRS 3.

During the year ended 31 December 2008, the company contributed a profit of US$0.6 million (2007: net loss of US$0.5 million) to the overall net results of the Group.

3 Business combination and acquisitions of minority interests (continued)

3.2 2007 acquisitions (continued)

f. Acquisition of Raffles Grand Hotel Pte Ltd and Raffles Royal Hotel Pte Ltd

On 16 July 2007, the Company, through its subsidiaries, acquired 100% of the voting shares of Grand Hotel Pte Ltd and Raffles Royal Hotel Pte Ltd, which are Cambodian companies that operate the Raffles Grand Hotel D'Angkor, Siem Reap and the Raffles Hotel le Royal, Phnom Penh, respectively.

The fair values of the identifiable assets and liabilities and the corresponding carrying amounts at the date of acquisition are as follows:

	Fair values provisionally recognised on acquisition US$'000	Adjustments to fair values US$'000	Adjusted fair values US$'000	Carrying values US$'000
Property, plant and equipment	33,337	(8,781)	24,556	44,632
Prepaid long-term lease	2,833	14,697	17,530	2,833
Cash and cash equivalents	2,343	–	2,343	2,343
Trade and other receivables	2,240	–	2,240	2,240
Trade and other payables	(4,726)	–	(4,726)	(4,580)
Inventories	401	–	401	401
Deferred tax liability	–	484	484	–
Net assets	36,428	6,400	42,828	47,869
Negative goodwill arising on acquisition	–	(6,400)	(6,400)	
Cost	36,428	–	36,428	
Cash outflow on acquisition:				
Cash paid	36,428	–	36,428	
Net cash acquired with the subsidiary	(2,343)	–	(2,343)	
Net cash outflow	34,085	–	34,085	

The initial accounting for the above acquisition was provisional in the 31 December 2007 financial statements as the Purchase Price Allocation (PPA) had not been finalised. Subsequent to 31 December 2007, the final valuations and PPA were completed and the Group has recognised the relevant adjustments, as shown above, with effect from the date of acquisition as required by IFRS 3.

Consequently, the consolidated income statement for the year ended 31 December 2007 has been restated to show the gain of US$6.4 million as "gain on bargain purchase of a subsidiary". The bargain purchase was the result of an exit strategy being executed by the seller.

During the year ended 31 December 2008, the company contributed a profit of US$1.3 million (2007: profit of US$0.5 million) to the overall net results of the Group.

3 Business combination and acquisitions of minority interests (continued)

3.2 2007 acquisitions (continued)

g. Acquisition of KHI-ALI Manila, Inc.

On 13 December 2007, the Company through its subsidiaries acquired 80% of the economic interest in KHI-ALI Manila Inc. for the purpose of developing a Raffles hotel and a Fairmont hotel, as well as constructing and selling a condominium residence in Manila, Philippines.

The fair values of the identifiable assets and liabilities as at the date of acquisition and the corresponding carrying amounts as of the date of acquisition are as follows:

	Recognised on acquisition US$'000	Carrying value US$'000
Property, plant and equipment	44,356	44,356
Net assets	44,356	44,356
Minority interest	(18,631)	(18,631)
Group's share of the fair value of net assets acquired	25,725	25,725
Cash outflow on acquisition:		
Cash paid	25,725	

The initial accounting for the above acquisition was only provisional as of 31 December 2007 as the fair values to be assigned to the acquiree's identifiable assets and liabilities could be determined only provisionally (Property, plant and equipment had not been finalised at the date of the financial statements). The initial accounting was completed after 31 December 2007. No material adjustments were made to the fair values of assets and liabilities as referred to above.

During the year ended 31 December 2008, the company contributed a loss of US$2.1 million (2007: Nil) to the overall net results of the Group.

h. Effect on revenue and profit had business combinations taken place on 1 January

If all the business combinations which took place during the year ended 31 December 2007 had taken place at the beginning of that year, the Group's profit and revenue for the year ended 31 December 2007 would have been higher by US$0.2 million and US$30.9 million respectively.

There have been no business combinations during the year ended 31 December 2008.

4 Investment in joint venture

The Group's joint venture is disclosed in note 31 to the consolidated financial statements. The Group's aggregate share in the assets and liabilities of the joint venture, which is proportionately consolidated, is as follows:

	2008 US$'000	2007 US$'000
Current assets	7,943	13,044
Non-current assets	52,008	40,532
	59,951	53,576
Current liabilities	40,468	33,310
Non-current liabilities	8,734	8,449
	49,202	41,759
Net investment in joint venture	10,749	11,817

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

	2008 US$'000	2007 US$'000
Revenues	40,289	–
Cost of revenue	(31,104)	–
Gross margin	9,185	–
Other expenses	(3,859)	(3)
	5,326	(3)
Income tax	(1,504)	–
Profit (loss) for the year	3,822	(3)

5 Segment information

The primary segment reporting format is determined to be the geographical segments as the Group's risks and rates of return are affected predominantly by differences in geographical areas. The geographical areas are organised and managed separately, with each segment representing a strategic business area that offers services to guests.

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

- Middle East and North Africa
- Sub-Saharan Africa
- Asia
- Europe

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

5 **Segment information (continued)**

Geographical segments
The following tables demonstrate revenue and result information and certain asset and liability information regarding geographical segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008

	Corporate US$'000	MENA[1] US$'000	Sub-Saharan Africa US$'000	Asia US$'000	Europe US$'000	Total operations US$'000
Hotel revenue	–	95,038	47,727	88,183	–	230,948
Real estate revenue	–	6,039	37,193	2,668	–	45,900
Other revenue	1,877	–	–	–	–	1,877
Total revenue	1,877	101,077	84,920	90,851	–	278,725
Hotels results	–	28,947	138	9,072	–	38,157
Real estate results	–	4,529	6,630	(3,688)	–	7,471
Other profit	–	1,877	–	–	–	1,877
General and administrative expense	(20,176)	(1,361)	(2,143)	(1,364)	–	(25,044)
Operating profit	**(18,299)**	**32,115**	**4,625**	**4,020**	**–**	**22,461**
Share of associate	–	35,577	(182)	–	5,030	40,425
Net interest income (expense)	555	(5,815)	(2,392)	(5,639)	–	(13,291)
Gain on sale of AFS	–	4,494	–	–	–	4,494
Loss on sale of associates	–	(477)	204	–	–	(273)
Loss on sale of development project	–	–	–	(3,500)	–	(3,500)
Dividend income	495	–	–	–	–	495
Project cost write off	(5,167)	–	–	(20,750)	–	(25,917)
Impairment of available for sale financial assets	(500)	–	–	–	–	(500)
Other income	241	(773)	926	234	–	628
Income tax	–	(1,070)	(396)	(2,829)	–	(4,295)
MI interest	1,281	(7,467)	1,516	1,084	–	(3,585)
Net profit	**(21,394)**	**56,584**	**4,301**	**(27,380)**	**5,030**	**17,141**
Assets and liabilities						
Segment assets		807,451	276,973	535,487	–	1,619,911
Investments in associates		155,766	–	–	118,233	273,999
Total assets		**963,217**	**276,973**	**535,487**	**118,233**	**1,893,910**
Total liabilities		**333,275**	**108,981**	**159,220**	**–**	**601,476**
Other segmental information						
Additions to:						
Property, plant and equipment		27,098	52,149	103,800	–	183,047
Goodwill		681	–	–	–	681
Land use rights		–	–	–	–	–
Investment properties		3,487	–	–	–	3,487
Interest income		3,742	30	146	–	3,918
Interest expense		(9,002)	(2,422)	(5,785)	–	(17,209)
Depreciation of hotel property, plant and equipment		(6,604)	(7,298)	(13,814)	–	(27,716)
Income tax expense		(1,070)	(396)	(2,829)	–	(4,295)

[1]Middle East: includes Egypt

5 Segment information (continued)

Business segments

The Group's business segments are based on the nature of the Group's operations. The primary business segment in which the Group operates comprises the provision of hospitality services to guests through investment in high quality hotels. Information relating to the business segment analysis is presented in the tables above.

Real estate revenue and results are shown separately above. However, real estate assets and liabilities can not be segregated due to impracticality as real estate operations are integral part of the operations of the concerned operating entities.

Year ended 31 December 2007 (restated)

	Corporate US$'000	MENA[1] US$'000	Sub-Saharan Africa US$'000	Asia US$'000	Europe US$'000	Total operations US$'000
Hotel revenue	–	72,423	44,995	52,354	–	169,772
Real estate revenue	–	5,122	–	4,837	–	9,959
Other revenue	1,178	–	–	–	–	1,178
Total revenue	1,178	77,545	44,995	57,191	–	180,909
Hotels results	–	18,662	4,033	5,166	–	27,861
Real estate results	–	4,393	–	922	–	5,315
Other profit	–	1,178	–	–	–	1,178
General and administrative expenses	(17,283)	(1,877)	(1,592)	(138)	–	(20,891)
Operating profit	**(16,106)**	**21,178**	**2,441**	**5,950**	**–**	**13,464**
Share of associate	–	24,887	(271)	–	2,267	26,883
Net interest income (expense)	10,344	(6,650)	(2,177)	(3,562)	–	(2,045)
Gain on sale of AFS	4,625	–	–	–	–	4,625
Dividend income	–	430	–	–	–	430
Project cost write off	(3,484)	–	–	–	–	(3,484)
Impairment of available for sale financial assets	(496)	–	–	–	–	(496)
Other income	(532)	(340)	467	9,774	–	9,369
Income tax	–	(702)	(1,295)	(60)	–	(2,057)
MI interest	–	(3,989)	(199)	(166)	–	(4,354)
Net profit	**(5,648)**	**34,814**	**(1,034)**	**11,936**	**2,267**	**42,335**
Assets and liabilities						
Segment assets		714,235	259,437	522,890	–	1,496,562
Investments in associates		153,044	1,391	–	114,099	268,534
Total assets		**867,279**	**260,828**	**522,890**	**114,099**	**1,765,096**
Total liabilities		**253,543**	**93,896**	**100,407**	**–**	**447,846**
Other segmental information						
Additions to:						
Property, plant and equipment		39,433	55,361	314,265	–	409,059
Goodwill		10,924	–	11,276	–	22,200
Land use rights		–	2,283	41,379	–	43,662
Investment properties		979	–	–	–	979
Interest income		11,269	234	–	–	11,503
Interest expense		(7,576)	(2,411)	(3,562)	–	(13,549)
Depreciation of hotel property, plant and equipment		(6,280)	(4,637)	(10,197)	–	(21,114)
Income tax expense		(702)	(1,295)	(60)	–	(2,057)

[1]Middle East: includes Egypt

6 Revenue and direct costs

Revenues and related direct operating costs comprised the following:

	2008 US$'000	2007 US$'000 (Restated)
Hotel revenue		
Rooms	130,741	95,979
Food and beverage	77,973	57,265
Other operating revenue	22,234	16,528
Total hotel revenue	230,948	169,772
Real estate sales	39,861	4,837
Real estate rental	6,039	5,122
Other revenue	1,877	1,178
Total revenue	278,725	180,909

	2008 US$'000	2007 US$'000 (Restated)
Direct costs		
Rooms	21,557	15,802
Food and beverage	49,684	36,495
Other operating services costs	9,630	7,808
Direct hotel general and administrative expenses	22,662	16,830
Sales and marketing	12,216	8,996
Fuel, water and electricity	18,075	11,592
Repairs and maintenance	12,922	9,533
Other direct hotel operating expenses	18,328	13,740
Cost of real estate units sold	30,517	3,915
Real estate leasing cost	1,510	729
Total	197,101	125,440

Included in food and beverage costs is US$22.5 million (2007: US$18.8 million) of inventory recognised as an expense.
Salaries and wages costs included in direct costs were US$55.7 million (2007: US$39.4 million).

7 General and administrative expenses

General and administrative expenses comprise the following:

	2008 US$'000	2007 US$'000 (Restated)
Salaries and employee benefits	13,184	12,312
Professional fees	3,123	2,838
Travel	1,271	668
Insurance	296	184
Rent	1,076	993
Telecommunication	460	239
Exhibitions and conferences	216	232
Restructuring cost*	850	–
Office expenses	454	429
Repair and maintenance	104	73
Others	1,587	1,438
	22,621	19,406

*During the fourth quarter of 2008, the Company initiated a programme to reduce costs and improve operating efficiencies in response to the impact of the global slowdown and current challenges in capital markets. Restructuring plans were completed and approved as at 31 December 2008 with a total cost of US$0.85 million.

Salaries and employees' benefits include expense arising from share-based payment transactions amounting to US$1.3 million (2007: US$0.9 million) (note 30).

8 Project costs

Amounts provided against costs incurred on development projects which are no longer considered feasible. These costs relate to hotel developments and impairment for available for sale financial assets in the following:

	2008 US$'000	2007 US$'000
Hotel developments:		
Danang (note 11, 12)	16,000	–
Langkawi (note 11)	4,000	–
Phang Nga (note 11)	2,907	–
Uganda (note 12)	2,260	–
Tripoli (note 16)	–	900
Lahore (note 16)	–	500
Beijing (note 16)	–	600
Others (note 16)	–	1,480
Project cost accrual – Danang (note 24)	750	–
	25,917	3,484

9 Income tax

The major components of income tax expense are as follows:

	2008 US$'000	2007 US$'000
Consolidated income statement		
Current income tax		
Current income tax charge	2,651	432
Deferred income tax		
Relating to original and reversal of temporary differences	1,644	1,625
Income tax expenses reported in the consolidated income statement	4,295	2,057

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

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

2008		Profit/(loss) before tax US$'000	Tax rate	Tax at domestic rates US$'000	Adjustments for items not allowable for income tax US$'000	Income tax/(credit) expense US$'000
Kingdom Kenya 01 Ltd	Kenya	(3,280)	30%	(984)	(1,116)	(2,100)
Marasa Holdings Limited	Zambia	2,044	35%	715	578	1,293
Serena Beach Company	Egypt	3,999	20%	800	267	1,067
Saltlake Resort Limited	Mauritius	(1,108)	15%	(166)	(135)	(301)
Mamlaka Langkawi Sdn. Bhd.	Malaysia	(2,131)	26%	(554)	2,753	2,199
PT Permadani Khatulistiwa Nustantaraa	Indonesia	991	30%	297	246	543
Raffles Le Royal, Phnom Penh	Cambodia	217	9%	20	–	20
Raffles Grand Hotel d'Angkor	Cambodia	1,155	9%	104	(38)	66
Kunshan Traders Park Hotel Company Ltd	China	59	25%	15	(15)	–
Anahita Hotel Limited	Mauritius	5,326	15%	799	706	1,505
EHC Maroc	Morocco	76	1%	1	2	3
Locations not subject to tax		17,673	–	–	–	–
Total		25,021		1,047	3,248	4,295

9 Income tax (continued)

2007		Profit/(loss) before tax US$'000	Tax rate	Tax at domestic rates US$'000	Adjustments for items not allowable for income tax US$'000	Income tax expense US$'000
Kingdom Kenya 01 Ltd	Kenya	1,334	30%	400	180	580
Marasa Holdings Limited	Zambia	1,605	35%	562	(289)	273
Serena Beach Company	Egypt	3,074	20%	615	87	702
Saltlake Resort Limited	Mauritius	(1,759)	15%	(264)	706	442
Mamlaka Langkawi Sdn. Bhd.	Malaysia	2,592	28%	726	(720)	6
PT Permadani Khatulistiwa Nustantaraa	Indonesia	(485)	30%	(146)	200	54
Raffles Le Royal, Phnom Penh	Cambodia	(219)	9%	(20)	20	–
Raffles Grand Hotel d'Angkor	Cambodia	384	9%	35	(35)	–
Kunshan Traders Park Hotel Company Ltd	China	904	25%	226	(226)	–
Locations not subject to tax		41,316	0%	–	–	–
Total (restated)		48,746		2,134	(77)	2,057

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated balance sheet 2008 US$'000	Consolidated balance sheet 2007 US$'000 (restated)	Consolidated income statement 2008 US$'000	Consolidated income statement 2007 US$'000
Deferred tax liabilities				
Accelerated depreciation for tax purposes:				
– on existing entities	20,497	10,691	9,806	4,244
– on new acquisitions*	–	2,119	(2,119)	–
Temporary differences arising on Purchase Price Allocation relating to business combinations:				
– depreciation of property, plant and equipment	25,694	25,694	–	–
	46,191	38,504	7,687	4,244
Deferred tax assets				
Provisions, accruals and others	2,647	440	(2,207)	(48)
Losses available for offset against future taxable income	8,644	3,329	(5,315)	(2,164)
	11,291	3,769	(7,522)	(2,212)
			165	2,032
Represented by:				
Exchange adjustments			(1,479)	407
Deferred income tax expense			1,644	1,625
			165	2,032

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

10 Basic and diluted earnings per share

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

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

	2008 US$'000	2007 US$'000 (restated)
Net profit attributable to ordinary equity holders of the parent	17,141	42,335

	2008 Thousands	2007 Thousands
Weighted average number of ordinary shares for basic earnings per share	174,607	174,732

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

11 Property, plant and equipment

	Freehold Land US$'000	Leasehold Improvements US$'000	Buildings US$'000	Furniture and Fixtures US$'000	Equipment US$'000	Motor Vehicles US$'000	Construction in Progress US$'000	Total US$'000
Cost								
At 1 January 2008	278,546	127,821	427,628	89,703	69,918	4,117	147,870	1,145,603
Additions	11,534	837	2,863	3,081	3,244	153	158,639	180,351
Transfer from investment properties	–	–	2,696	–	–	–	–	2,696
Disposals	(20,393)	–	(767)	(220)	–	(181)	(6,345)	(27,906)
Transfer to real estate held for sale	(2,496)	–	–	–	–	–	(27,287)	(29,783)
Project costs provided for	(2,293)	–	(551)	–	(10)	(8)	(12,100)	(14,962)
Other transfers	–	14,710	51,348	8,007	10,646	–	(84,711)	–
Exchange adjustments	(2,623)	(9,834)	(17,923)	(4,061)	(4,586)	(336)	(5,068)	(44,431)
At 31 December 2008	262,275	133,534	465,294	96,510	79,212	3,745	170,998	1,211,568
Depreciation								
At 1 January 2008	–	10,844	52,134	45,631	31,514	2,368	–	142,491
Depreciation charge for the year*	–	4,052	8,981	8,284	5,764	451	–	27,532
Disposals	–	–	–	(220)	–	(150)	–	(370)
Exchange adjustments	–	(1,795)	(4,243)	(2,925)	(2,898)	(195)	–	(12,056)
At 31 December 2008	–	13,101	56,872	50,770	34,380	2,474	–	157,597
Net carrying amount:								
At 31 December 2008	262,275	120,433	408,422	45,740	44,832	1,271	170,998	1,053,971

* Includes depreciation expense on KHI and development assets amounting to US$522 thousand (2007: US$476 thousand)

The carrying value of construction in progress includes interest of US$3.1 million (2007: US$3.9 million) capitalised during the year.

Included in property, plant and equipment above are development costs of US$26.7 million. In November 2008, the Group sold its development project in Phang Nga, Thailand for US$23.9 million and incurred a loss of US$3.5 million including selling expense of US$0.7 million.

Property, plant and equipment as shown above includes US$313 million (2007: US$318 million) which are mortgaged for borrowings at the year end.

11 Property, plant and equipment (continued)

	Freehold Land US$'000	Leasehold Improvements US$'000	Buildings US$'000	Furniture and Fixtures US$'000	Equipment US$'000	Motor Vehicles US$'000	Construction in Progress US$'000	Total US$'000
Cost								
At 1 January 2007 (restated)	210,652	68,968	252,230	73,810	44,606	3,937	72,112	726,315
Additions	23,594	2,151	6,530	6,370	2,370	117	82,295	123,427
Disposals	(205)	–	–	(1,502)	(37)	(772)	(1,826)	(4,342)
Transfer to real estate held for sale	–	–	–	–	–	–	(8,848)	(8,848)
Transfer to investment properties	(2,972)	–	–	–	–	–	–	(2,972)
Other transfers	(1,222)	(500)	–	165	(216)	–	1,773	–
Acquisition of subsidiaries (note 3) (restated)	47,600	51,471	156,997	8,662	19,889	645	368	285,632
Exchange adjustments	1,099	5,731	11,871	2,198	3,306	190	1,996	26,391
At 31 December 2007 (restated)	278,546	127,821	427,628	89,703	69,918	4,117	147,870	1,145,603
Depreciation								
At 1 January 2007 (restated)	–	6,775	45,002	39,715	26,200	2,595	–	120,287
Depreciation charge for the year* (restated)		3,615	7,039	6,193	3,973	417	–	21,237
Disposals	–	–	–	(1,491)	(18)	(747)	–	(2,256)
Transfers	–	(316)	–	36	–	–	–	(280)
Exchange adjustments	–	770	93	1,178	1,359	103	–	3,503
At 31 December 2007 (restated)	–	10,844	52,134	45,631	31,514	2,368	–	142,491
Net carrying amount:								
At 31 December 2007 (restated)	278,546	116,977	375,494	44,072	38,404	1,749	147,870	1,003,112

12 Goodwill and other intangible assets

	Goodwill US$'000	Land use rights US$'000	Total US$'000
Cost:			
At 1 January 2008	70,130	43,939	114,069
Acquisition of minority interest (note 3)	681	–	681
Foreign currency translation	–	437	437
At 31 December 2008	**70,811**	**44,376**	**115,187**
Amortisation and impairment:			
At 1 January 2008	–	512	512
Provided for during the year (note 8)	–	10,010	10,010
Amortisation during the year*	–	877	877
At 31 December 2008	**–**	**11,399**	**11,399**
Net book value at 31 December 2008	**70,811**	**32,977**	**103,788**

12 Goodwill and other intangible assets (continued)

	Goodwill US$'000	Land use rights US$'000	Total US$'000
Cost:			
At 1 January 2007	–	–	–
Acquisition of subsidiaries (note 3) Restated – note 32	47,930	–	47,930
At 31 December 2006 Restated – note 32	47,930	–	47,930
Acquisition of subsidiaries (note 3) (restated)	15,815	41,379	57,194
Acquisition of share rights (note 22)	6,385	–	6,385
Acquisition of land use rights	–	2,283	2,283
Foreign currency translation (restated)	–	277	277
At 31 December 2007 (restated)	70,130	43,939	114,069
Amortisation and impairment			
At 1 January 2007	–	–	–
Amortisation during the year (restated)*	–	512	512
At 31 December 2007	–	512	512
Net book value at 31 December 2007 (restated)	70,130	43,427	113,557

* Includes amortisation expense on development projects amounting to US$171 thousands (2007: US$159 thousands)

Goodwill and land use rights were restated for 2007 following final valuations made to the identifiable assets and liabilities acquired on business combinations made in the prior year.

Goodwill is allocated to the individual hotel operations (the cash-generating unit), and has been tested for impairment using a value in use model. The hotel is the lowest level within the Group at which goodwill is monitored for internal management purposes.

The recoverable amounts have been determined based on value in use calculations, using discounted cash flow projections. Management has adopted a 10 year period to assess its value in use. The cash flow projections are based on financial budgets issued by the hotel operators and senior management's view of hotels future performance covering the same period.

Key assumptions used in value in use calculations

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

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

Market share: The key assumption relates to management's assessment that the properties will maintain their status as premier hotels.

Growth rate: estimates are based on management's assessment of market share having regard to forecasted economic growth in the countries in which the hotels operate and the demand for accommodation. A conservative terminal growth rate of 2% to 4% per annum has been applied.

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

Discount rate: Management has used a discount rate of 10% to 12% per annum throughout the assessment period, reflecting the current estimated weighted average cost of capital of the Group and specific market risk profile and cost of debt.

Sensitivity to changes in assumptions

Management believes that no reasonably possible changes in any of the key assumptions would cause the carrying values of the hotels to exceed their recoverable amount, after giving due consideration to the economic outlook for the hospitality industry and the commercial assumptions underpinning the cash flow forecast of the hotels.

13 Investment properties

At fair value	2008 US$'000	2007 US$'000
At 1 January	33,197	28,953
Transfer (to)/from property, plant and equipment	(2,696)	2,972
Additions	3,487	979
Change in fair value	–	293
Foreign currency translation	(149)	–
At 31 December	33,839	33,197

Transfer (to)/from property, plant and equipment

In 2008, investment property relating to Marina Moorings (US$2.69 million) in Merryland Pour less Project Touristiques was transferred to property, plant and equipments as management's intention for use changed and these were no longer available for sale.

In 2007, the residential properties at the Mövenpick Karon Beach Phuket, Thailand were completed. Land is being leased on a long-term basis and, consequently, the cost of the land has been transferred to investment properties at fair value on the date of transfer.

Mövenpick Bur Dubai Residences

In September 2007, KHI completed the acquisition of an apartment building adjacent to the existing Mövenpick Hotel in Bur Dubai for a total consideration including acquisition costs of US$25.5 million. During 2008, it has undergone major refurbishments and was renovated and commissioned as serviced apartment in January 2009. The fair value of the property as of 31 December 2008 approximates its carrying value.

Fair value

The fair value of the Group's investment properties at 31 December 2008 has been arrived at by using discounted cash flow projections performed by the management The fair value of the properties have not been determined on transactions observable in the market because of the nature of the property and the lack of comparable data. Instead, a valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied.

14 Investments in associates

Below is a summary of the movement in investments in associates during the year:

Associate – Operating Entity Name	Balance at 1 January 2008 US$'000	Additions US$'000	Share of results of associates US$'000	FX Hedge & translation adjustment US$'000	Disposals US$'000	Dividends/ others US$'000	Balance at 31 December 2008 US$'000
Kingdom 5-KR-35 Ltd. (Four Seasons – Paris)	114,099	–	5,030	(896)	–	–	118,233
Kingdom 5-KR-30 Ltd. (Four Seasons – Cairo)	95,738	–	25,118	2,076	–	(19,950)	102,982
Kingdom Sharm El-Sheikh Ltd. (Four Seasons – Sharm El-Sheikh)	29,070	–	6,421	901	–	–	36,392
Kingdom 5-KR-147 Ltd. (Mövenpick El Gouna)	13,787	–	4,103	375	–	(1,873)	16,392
Kingdom 5-KR-157 Ltd. (Fairmont Palm Hotel & Resort)	14,449	–	(65)	–	(14,384)	–	–
Kingdom 5-KR-187 Ltd. (Mövenpick Zanzibar)	1,391	–	(182)	–	(1,209)	–	–
Total balance	**268,534**	–	**40,425**	**2,456**	**(15,593)**	**(21,823)**	**273,999**

In October 2008, the Group sold its investments in Fairmount Palm Hotel and Resorts Dubai and Fairmount Zanzibar for a consideration of US$13.9 million with a realised loss of US$0.5 million and US$1.4 million with a realised gain of US$0.2 million respectively.

14 Investments in associates (continued)

Below is a summary of the movement in investments in associates during the previous year:

Associate – Operating Entity Name	Balance at 1 January 2007 US$'000	Additions US$'000	Share of results of associates US$'000	FX Hedge & translation adjustment US$'000	Disposals US$'000	Dividends/ others US$'000	Balance at 31 December 2007 US$'000
Kingdom 5-KR-35 Ltd. (Four Seasons – Paris)	111,351	–	2,266	482	–	–	114,099
Kingdom 5-KR-30 Ltd. (Four Seasons – Cairo)	76,460	–	19,278	–	–	–	95,738
Kingdom Sharm El-Sheikh Ltd. (Four Seasons – Sharm El-Sheikh)	25,738	–	3,332	–	–	–	29,070
Kingdom 5-KR-147 Ltd. (Mövenpick El Gouna)	11,484	–	2,303	–	–	–	13,787
Kingdom 5-KR-157 Ltd. (Fairmont Palm Hotel & Resort)	8,237	6,237	(25)	–	–	–	14,449
Kingdom 5-KR-187 Ltd. (Mövenpick Zanzibar)	1,618	–	(271)	44	–	–	1,391
Total Balance	234,888	6,237	26,883	526	–	–	268,534

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

	2008 US$'000	2007 US$'000
Share of associates' balance sheets:		
Current assets	149,424	104,175
Non-current assets	189,186	212,586
Current liabilities	(57,780)	(36,546)
Non-current liabilities	(140,322)	(152,966)
Net assets	140,508	127,249
Share of associates' revenues and results:		
Revenues	119,949	99,890
Results	40,425	26,883

15 Available-for-sale financial assets

	2008 US$'000	2007 US$'000
Quoted shares	17,963	17,800
Unquoted shares	53,995	58,202
	71,958	76,002

The movement in Available-for-sale financial assets is illustrated below:

	2008 US$'000	2007 US$'000
At 1 January	76,002	87,112
Sold	(8,200)	(17,665)
Net changes in fair value	4,156	6,555
	71,958	76,002

During the year, the Group provided for an impairment of the investment in Gaza amounting to US$0.5 million (2007: US$0.49 million).

15 Available-for-sale financial assets (continued)

Available-for-sale investment – unquoted equity shares

The amount of unquoted shares stated at fair value is US$43.8 million as at 31 December 2008 (2007: US$43.8 million), while the remainder of US$10.1 million (2007: US$14.4 million) is stated at cost, as fair market value cannot be reliably determined due to the unpredictable nature of future cash flows.

The fair value of the unquoted ordinary shares has been estimated using a discounted cash flow model. The valuation requires management to make certain assumptions about the model inputs including credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

Available-for-sale investment – quoted equity shares

The Group has investments in listed equity securities. The fair value of the quoted equity shares is determined by reference to published price quotations in an active market.

Investments carried at cost primarily comprise private equity entities in a start up stage, with projects still under construction as of 31 December 2008. The Group intends to hold such investments either for long-term investment purposes or until such time when an appropriate exit is found.

2008

In February 2008, the Group sold its investment to Mövenpick Hotel Pearl Dubai for a consideration of US$8.2 million. The sale of investment resulted in a gain of US$4.5 million.

2007

In April 2007, KHI sold its investment in Four Seasons Inc. with a cost of US$12 million and sales price of US$14.7 million resulting in a gain of US$2.7 million.

In December 2007, Fairmont Raffles Hotels partially repurchased 1,972 shares of KHI share with a cost of US$1.1 million and sales price of US$3 million resulting in a gain of US$1.9 million.

16 Other assets

	2008 US$'000	2007 US$'000 (restated)
Advance to contractors	18,114	8,777
Acquisitions in progress	–	5,618
Deferred real estate commissions	4,562	–
Others	1,222	134
	23,898	14,529

During the year US$ Nil (2007: US$3.4 million) has been written off from acquisitions in progress which are not likely to proceed.

Sales commissions directly attributable to contracts entered into for sale of real estate are deferred and recognised as expenses upon recognition of the sales of the related properties in the income statement.

17 Cash and short-term deposits

	2008 US$'000	2007 US$'000
Cash at bank and in hand	87,310	85,756
Short-term deposits	169,083	94,808
Total cash and bank balances	256,393	180,564

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at rates between 2.5% and 4.5% per annum.

Included in short-term deposits is restricted cash of US$14 million (2007: US$12.6 million).

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

	2008 US$'000	2007 US$'000
Cash at bank and in hand	87,310	85,756
Short-term deposits	155,077	82,243
Bank overdrafts (note 20)	(2,885)	(1,148)
	239,502	166,851

18 Share capital

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

	Shares Thousand	2008 US$'000	2007 US$'000
Authorised			
300,000 thousand ordinary shares of US$5 each	300,000	1,500,000	1,500,000
Issued and fully paid			
174,739 thousand ordinary shares of US$5 each	174,739	873,694	873,694
Treasury shares			
163 thousand (2007: 150) ordinary shares (held by a trustee, for employees' long-term incentive plan)	163	(1,041)	(1,220)

19 Reserves

Share premium

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

Foreign currency translation reserve

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

Cumulative changes in fair value

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

Cash flow hedge reserve

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

Reserve for long-term incentive plan

This reserve is made to record the value of share-based payment transactions relating to the Company's long-term incentive plan (note 30).

20 Interest bearing loans and borrowings

	2008 US$'000	2007 US$'000
Current		
Bank overdrafts	2,885	1,148
Unsecured loan	112	1,463
Mortgages payable – secured	68,189	20,201
	71,186	22,812
Non-current		
Unsecured loan	48,597	5,000
Mortgages payable – secured	285,731	287,087
	334,328	292,087
Total Interest bearing loans and borrowings	405,514	314,899

The maturities of the non-current portion of the interest bearing loans are:

	2008 US$'000	2007 US$'000
In more than one but less than two years	26,661	73,050
In more than two but less than three years	74,939	28,471
In more than three but less than four years	50,691	40,625
In more than four but less than five years	62,920	47,501
In more than five years	119,117	102,440
	334,328	292,087

20 Interest bearing loans and borrowings (continued)

				2008	
(Loan amounts in US$'000)	Currency		Maturity date	Loan amount	Interest rate
Middle East North Africa					
Mövenpick Beirut	US Dollar	Variable US$ LIBOR basis	07/2014	41,927	5.8%
Mövenpick Beirut	US Dollar	Variable US$ LIBOR basis	12/2009	190	5.8%
Four Seasons Damascus	US Dollar	Variable US$ LIBOR basis	06/2011	13,866	8.3%
Mövenpick Hotel Bur Dubai	UAE Dirham	Variable AED EIBOR basis	07/2011	9,915	4.4%
	US Dollar	Variable US$ LIBOR basis	06/2015	16,000	4.5%
	US Dollar	Variable US$ LIBOR basis	05/2017	26,550	4.5%
Mövenpick Resort El Quseir	US Dollar	Variable US$ LIBOR basis	12/2008	–	–
Kingdom Hotel Investments	Euro	Fixed	09/2012	29,383	6.8%
Kingdom Hotel Investments	UAE Dirham	Variable, EIBOR basis	08/2011	43,597	6.0%
Sub-total loans, Wtd avg interest rate				181,428	5.8%
Sub Sahara Africa					
Mövenpick Resort & Spa Mauritius	US Dollar	Variable US$ LIBOR basis	11/2014	23,500	4.2%
Fairmont Kenya	US Dollar	Fixed	05/2020	5,000	0.0%
Mövenpick Royal Palm, Dar es Salaam	US Dollar	Variable US$ LIBOR basis	03/2015	1,400	8.1%
Mövenpick Royal Palm, Dar es Salaam	TZS	Fixed	01/2013	3,969	13.0%
InterContinental Lusaka	US Dollar	Fixed	10/2009	112	0.0%
Sub-total loans, Wtd avg interest rate				33,981	4.8%
Asia					
Mövenpick Phuket	Thai Baht	Variable, Minimum lending rate	11/2009	26,790	7.0%
Four Season Langkawi	US Dollar	Variable US$ LIBOR basis	09/2013	50,000	6.5%
Swissôtel Kunshan	China Renminbi	Variable, RMB Basic rate	04/2016	20,519	5.8%
Sub-total loans, Wtd avg interest rate				97,309	6.5%
Development projects					
Four Seasons Beirut	US Dollar	Variable US$ LIBOR basis	12/2014	38,290	6.4%
Four Seasons Beirut	US Dollar	Variable US$ LIBOR basis	12/2009	2,695	6.4%
Four Seasons Marrakech	Morocco Dirham	Variable, Moroccan Treasury rate	09/2018	21,436	6.9%
Four Seasons Anahita Mauritius	US Dollar	Variable US$ LIBOR basis	12/2009	2,750	4.6%
	Euro	Variable, EUROBOR basis	12/2009	18,891	6.7%
	Mauritius	Variable US$ LIBOR basis	11/2016	8,734	11.5%
Sub-total loans, Wtd avg interest rate				92,796	7.0%
KHI total loans, Wtd avg interest rate				405,514	6.1%

The Group has not provided any security against unsecured loans except, in some cases, a negative pledge on the individual properties.

20 Interest bearing loans and borrowings (continued)

(Loan amounts in US$'000)	Currency		2007 Loan amount	2007 Interest rate
Middle East North Africa				
Mövenpick Beirut	US Dollar	Property mortgage debt (non-recourse)	44,600	7.0%
Mövenpick Beirut	US Dollar	Overdraft	968	7.0%
Four Seasons Damascus	US Dollar	Property mortgage debt	17,866	10.7%
Mövenpick Hotel Bur Dubai	UAE Dirham	Property mortgage debt (non-recourse)	12,253	7.2%
	US Dollar	Property mortgage debt (non-recourse)	17,600	6.9%
	US Dollar	Property mortgage debt (non-recourse)	27,000	6.7%
Mövenpick Resort El Quseir	US Dollar	Unsecured	1,187	9.4%
Kingdom Hotel Investments	Euro	Property mortgage debt	31,837	6.8%
Kingdom Hotel Investments	UAE Dirham	Revolver (Unsecured)	–	–
Sub-total loans, Wtd avg interest rate			153,311	7.4%
Sub Sahara Africa				
Mövenpick Resort & Spa Mauritius	US Dollar	Property mortgage debt (non-recourse)	26,500	6.0%
Fairmont Kenya	US Dollar	Unsecured	5,000	0.0%
Mövenpick Royal Palm, Dar es Salaam	US Dollar	Property mortgage debt (non-recourse)	1,400	10.4%
Mövenpick Royal Palm, Dar es Salaam	TZS	Property mortgage debt (non-recourse)	5,643	13.0%
InterContinental Lusaka	US Dollar	Unsecured	276	0.0%
Sub-total loans, Wtd avg interest rate			38,819	6.4%
Asia				
Mövenpick Phuket	Thai Baht	Property mortgage debt (non-recourse)	33,241	6.6%
Four Season Langkawi	US Dollar	Property mortgage debt (non-recourse)	–	–
Swissôtel Kunshan	China Renminbi	Property mortgage debt (non-recourse)	19,995	5.9%
Sub-total loans, Wtd avg interest rate			53,236	6.3%
Development projects				
Four Seasons Beirut	US Dollar	Property mortgage debt (non-recourse)	21,549	8.5%
Four Seasons Beirut	US Dollar	Overdraft	180	8.5%
Four Seasons Marrakech	Morocco Dirham	Property mortgage debt (non-recourse)	21,958	6.3%
Four Seasons Anahita Mauritius	US Dollar	Property mortgage debt (non-recourse)	9,046	6.2%
	Euro	Property mortgage debt (non-recourse)	9,046	6.2%
	Mauritius	Property mortgage debt (non-recourse)	7,754	12.0%
Sub-total loans, Wtd avg interest rate			69,533	7.6%
KHI total loans, Wtd avg interest rate			314,899	7.1%

The Group has not provided any security against unsecured loans except, in some cases, a negative pledge on the individual properties.

21 Employees' end-of-service benefits

	2008 US$'000	2007 US$'000
At 1 January	3,663	2,414
Arising during the year	1,978	1,646
Paid during the year	(612)	(477)
Foreign currency translation	(474)	80
At 31 December	4,555	3,663

Labour laws in certain countries in which the Group operates require employers to provide for end-of-service benefits. These benefits are payable to employees at the end of their period of employment. The provision for end-of-service benefits is calculated based on the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with the local labour laws of the jurisdictions in which the Group operates.

22 Retentions payable

Retentions payable represents amounts withheld from the contractors on development projects in accordance with the terms of the contracts.

Retentions payable as at 31 December 2006 included US$4.1 million payable to the construction contractor of Four Seasons Hotel, Damascus. Under the terms of the contract, SSTI (holding company of the Four Seasons Hotel, Damascus) undertook to issue SSTI equity shares in settlement of the liability, conditional upon the contractor providing an unconditional and irrevocable bank guarantee representing 2.5% of the total contract value.

In December 2007, the Group paid US$11 million to buy back the rights to the shares. Goodwill of approximately US$6.4 million was recognised on the purchase.

23 Other liabilities

	2008 US$'000	2007 US$'000
Advances received in respect of real estate sales	42,566	9,667
Other	1,198	1,030
	43,764	10,697

24 Trade and other payables

	2008 US$'000	2007 US$'000 (restated)
Trade payables	30,152	40,363
Accruals and other payables	64,095	29,807
	94,247	70,170

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

25 Commitments and contingencies

Capital commitments

At 31 December 2008, the Group had capital commitments in respect of construction work of US$337.7 million (2007: US$196.9 million). Such commitments are expected to be settled throughout the construction period of the properties, i.e. 2 to 3 years from the balance sheet date.

Contingent liabilities

Legal and Tax claims

Merryland Pour les Projects Touristiques (MPPT)

The company was subject to a review by the Income Tax authorities for the fiscal year 2002 and, as a result, was charged additional taxes and fines in the amount of US$1.1 million. The company has provided for an amount of US$0.4 million as of 31 December 2008 (2007: US$0.4 million) which the company believes will be ultimately payable following an appeal against the assessment. In addition, the company was subject to a review by the Income Tax authorities for the fiscal years 2003-2004 and, as a result, was assessed additional taxes and fines in the amount of US$1.1 million. The company has provided for an amount of US$0.27 million as of 31 December 2008 (US$0.27 million) which management believes will be payable.

The company was subject to a review by the Department of Value Added Tax for the period to 31 December 2002 and, as a result, was charged taxes and fines in the amount of US$19.7 million. Further to the tax department claim an interlocutory seizure on the real estate registry is part of the normal proceedings of the tax department pending final judgement. The company has provided for an amount of US$0.4 million as of 31 December 2008 (2007: US$0.4 million), which management believes will be payable following final judgement of the pending assessment.

Kingdom Kenya 01 Ltd

The company was subject to tax assessment from the authorities and the total claim of taxes is US$1.1 million relating to payroll tax, corporation tax and withholding tax. The company has objected to these claims and no provision has been made against these as the management is of an opinion that no liability will crystallise.

Bank Guarantees

Merryland Pour les Projects Touristiques (MPPT)

As at 31 December 2008, the company had contingent liabilities in respect of the bank guarantees arising in the ordinary course of business amounting to US$1.6 million. (2007: US$1.8 million)

Kingdom Beirut

As at 31 December 2008, the company had contingent liabilities in respect of the bank guarantees arising in the ordinary course of business amounting to US$1.8 million (2007: US$1.8 million)

26 Related party transactions

The consolidated financial statements include the financial statements of Kingdom Hotel Investments and the subsidiaries listed in note 31. Kingdom Hotel Investments is the ultimate parent entity of the Group.

Transactions

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

		Business development income US$'000	Management and incentive fees expense US$'000	Asset management fee income US$'000	Loans advanced to/(from) related parties US$'000	Interest expense US$'000
Other related parties	**2008**	**1,768**	**(11,630)**	**109**	**(29,883)**	**(2,233)**
	2007	772	(8,682)	406	(32,337)	(783)

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

All related party income and expenses and the pricing policies and terms of these transactions are entered in the normal course of business and are approved by the Group's management.

Compensation of key management personnel

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

	2008 US$'000	2007 US$'000
Short-term employee benefits	3,888	3,828
End-of-service benefits	1,231	92
Long-term incentive plan (note 30)	1,197	795
	6,316	4,715

Balances due from/(to) related parties

	2008 US$'000	2007 US$'000
Balances due from:		
Other related parties:		
Mövenpick Hotels and Resort AG	245	16
Anahita Golf Limited	2,979	3,006
Ayala Land Inc	44	–
	3,268	3,022
Balances due to:		
Other related parties:		
Four Seasons Hotels Inc.	(1,256)	(610)
Fairmont Hotels and Resorts Inc.	(18)	(2,117)
DBRC Anahita	–	(1,963)
Swissôtel Hotels & Resorts	(111)	–
	(1,385)	(4,690)
Short-term loans from:		
Other related parties		
Mövenpick Hotels and Resort AG (note 20)	500	500
Long-term loans from:		
Associate:		
Kingdom 5-KR-35 Ltd. (note 20)	29,383	31,837

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

27 Risk management objectives and policies

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

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

The main risks arising form the Group's financial instruments are credit risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its bank balances, trade receivables and certain other assets as reflected in the balance sheet.

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

As at 31 December, the ageing of trade and other receivables is as follows:

		Total US$'000	Neither past due nor impaired US$'000	Past due but not impaired <30 days US$'000	30-60 days US$'000	60-90 day US$'000	90-120 day US$'000	>120 days US$'000
2008	**Trade and other receivables**	**21,400**	**1,349**	**11,536**	**3,790**	**1,437**	**2,563**	**725**
2007	Trade and other receivables	26,426	3,816	6,967	10,492	1,429	1,006	2,716

Unimpaired receivables are expected, on the basis of past experience, to be recoverable. It is not the practice in the industry to obtain collateral over receivables which are unsecured.

As at 31 December 2008, trade and other receivables amounting to US$2.0 million (2007: US$1.7 million) were impaired. Movements in the provision for impaired receivables are as follows:

	2008 US$'000	2007 US$'000 (Restated)
At 1 January	1,761	1,125
Charge for the year	474	759
Amounts written off	(49)	(78)
Unused amounts reversed	(107)	(45)
Foreign currency translation	(40)	–
At 31 December	2,039	1,761

With respect to credit risk arising from the other financial assets of the Group, which mainly comprise bank balances, due from related parties, and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments as follows:

	2008 US$'000	2007 US$'000
Bank balances	255,920	174,387
Due from related parties	3,268	3,022

27 Risk management objectives and policies (continued)

Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments.

Year ended 31 December 2008

	Less than 3 months US$'000	3 to 12 months US$'000	2 to 5 years US$'000	5 years+ US$'000	Total US$'000
Interest-bearing loans and borrowings*	10,618	82,538	269,156	127,291	489,603
Trade payables	27,012	3,140	–	–	30,152
Due to related parties	619	766	–	–	1,385
Retentions	229	1,215	4,375	–	5,819
Total	**38,478**	**87,659**	**273,531**	**127,291**	**526,959**

Year ended 31 December 2007

	Less than 3 months US$'000	3 to 12 months US$'000	2 to 5 years US$'000	5 years+ US$'000	Total US$'000
Interest-bearing loans and borrowings*	9,148	27,213	294,723	127,919	459,003
Trade payables	23,787	16,576	–	–	40,363
Due to related parties	–	4,690	–	–	4,690
Retentions	–	–	5,223	–	5,223
Total	32,935	48,479	299,946	127,919	509,279

*includes future interest payable of US$84.1 million on interest-bearing loans and borrowings outstanding as at 31 December 2008 (2007: US$144.1 million).

27 Risk management objectives and policies (continued)

Foreign currency risk

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's equity.

		Net assets/(liabilities) in foreign currency 2008 US$'000	Net assets/(liabilities) in foreign currency 2007 US$'000 (restated)	% change in the currency rate	Effect on equity 2008 US$'000	Effect on equity 2007 US$'000
Effect on the Group's equity						
Kingdom 5-KR-35 Ltd. (Four Seasons – Paris)	EUR	118,233	114,099	+10%	11,823	11,410
Kingdom Sharm El-Sheikh Ltd (100%) – subsidiary of KHI	EGP	36,392	29,070	+10%	3,639	2,907
Kingdom Nile Plaza – subsidiary of Kingdom 5-KR-30	EGP	103,050	97,212	+10%	10,305	9,721
Kingdom 5-KR-71 Ltd – subsidiary of Damascus Holding	SYP	120,420	116,977	+2%	2,408	2,339
Kingdom Amman – subsidiary of KHI	JOD	17,962	18,228	+10%	1,796	1,823
Kingdom Beirut – subsidiary of Kingdom 5-KR-59, Ltd.	LBP	63,831	63,819	+2%	1,277	1,276
Merryland Pour les Projects Touristiques (MPPT) – subsidiary of Kingdom 5-KR-57, Ltd	LBP	74,784	72,538	+2%	1,496	1,451
Kingdom KR-181 Ltd – subsidiary of Kingdom 5-KR-166 Ltd	KHS	58,196	50,157	+10%	5,820	5,016
Kingdom 5-KR-147 Ltd – subsidiary of KHI	EGP	14,393	13,752	+10%	1,439	1,375
Serena Beach Company – subsidiary of Kingdom 5-KR-153, Ltd.	EGP	32,675	29,773	+10%	3,267	2,977
Tanruss Investment Limited – subsidiary of Kingdom 5-KR-90, Ltd.	TZS	13,201	16,672	+10%	1,320	1,667
Anahita Hotel Limited – subsidiary of Kingdom 5-KR-182, Ltd.	MUR	16,457	18,093	+10%	1,646	1,809
Kingdom Ghana 01 Ltd – subsidiary of KR 144 Ltd	GHC	20,097	6,320	+10%	2,010	632
EHC Maroc – subsidiary of Kingdom 5-KR-172, Ltd.	MAD	14,409	14,396	+10%	1,441	1,439

27 Risk management objectives and policies (continued)

Foreign currency risk (continued)

		Net assets/(liabilities) in foreign currency 2008 US$'000	2007 US$'000 (restated)	% change in the currency rate	Effect on equity 2008 US$'000	Effect on equity 2007 US$'000
Salt Lake Resort – subsidiary of Kingdom 5-KR-188, Ltd.	MUR	24,776	29,181	+10%	2,478	2,918
SRF and SRC – Indirect Subsidiaries of Kingdom 5-KR-194&195, Ltd	THB	73,130	78,231	+10%	7,313	7,823
Inter Continental Lusaka – subsidiary of Kingdom Hotels (Cayman) Ltd	ZMK	36,025	37,664	+10%	3,602	3,766
Magnum Investment Group Limited - subsidiary of Kingdom Da Nang Limited	VND	3,652	7,414	+10%	365	741
Mamlaka Langkawi Sdn Bhd – subsidiary of Kingdom Langkawi BV	MYR	62,932	113,309	+10%	6,293	11,331
Swissôtel Kunshan	CNY	43,321	43,779	+10%	4,332	4,378
PT Permadani Khatulistiwa Nustantaraa - subsidiary of Kingdom Acquisition BV	IDR	45,706	49,015	+10%	4,571	4,901
KHI-ALI Manila Ltd. – subsidiary of Kingdom Manila BV	PHP	47,380	44,356	+10%	4,738	4,436
Kingdom Phang Na Ltd	THB	–	21,699	+10%	–	2,170
Kingdom 5-KR-187 Ltd subsidiary of KHI	TZS	–	1,392	+10%	–	139
Total		1,041,023	1,087,146		83,379	88,445

27 Risk management objectives and policies (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity to reasonably possible changes in exchange rates, with all other variables held constant, of the Group's profit before tax.

		Net assets/(liabilities) in foreign currency 2008 US$'000	Net assets/(liabilities) in foreign currency 2007 US$'000	% change in the currency rate	Effect on profit 2008 US$'000	Effect on profit 2007 US$'000
Effect on the Group's profit before tax						
Kingdom Hotel Investments	EUR	(29,383)	(31,837)	+10%	(2,938)	(3,184)
Tanruss Investment Limited – subsidiary of Kingdom 5-KR-90, Ltd.	US$	(1,400)	(1,400)	+10%	(140)	(140)
Anahita Hotel Limited – subsidiary of Kingdom 5-KR-182, Ltd.	US$	(2,750)	(9,046)	+10%	(275)	(905)
	Euro	(18,891)	(9,046)	+10%	(1,889)	(905)
Merryland Pour les Projects Touristiques (MPPT) – subsidiary of Kingdom 5-KR-57, Ltd	US$	(42,117)	(45,568)	+2%	(842)	(911)
Kingdom 5-KR-71 Ltd – subsidiary of Damascus Holding	US$	(13,866)	(17,866)	+2%	(277)	(357)
Serena Beach Company – Subsidiary of Kingdom 5-KR-153, Ltd.	US$	–	(1,187)	+10%	–	(119)
Salt Lake Resort – Subsidiary of Kingdom 5-KR-188, Ltd. Mövenpick Hotels & Resort AG	US$	(23,500)	(26,500)	+10%	(2,350)	(2,650)
Kingdom KR-181 Ltd – subsidiary of Kingdom 5-KR-166 Ltd	US$	(5,000)	(5,000)	+10%	(500)	(500)
Inter Continental Lusaka – subsidiary of Kingdom Hotels (Cayman) Ltd	US$	(112)	(276)	+10%	(11)	(28)
Kingdom Beirut – Subsidiary of Kingdom 5-KR-59, Ltd.	US$	(40,985)	(21,729)	+2%	(820)	(435)
Four Seasons Langkawi	US$	(50,000)	–	+10%	(5,000)	–
		(228,004)	(169,455)		(15,042)	(10,134)

27 Risk management objectives and policies (continued)

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term variable rate debt obligations and its cash and bank balances. Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of unhedged assets and liabilities. Assets and liabilities that are covered through effective hedges are not exposed to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). An increase in interest rate, as shown below, will result in a corresponding increase/decrease in profit. There is no impact on the Group's equity:

	Floating rate exposure 2008 US$'000	2007 US$'000	% change in the interest rate	Effect on profit before tax in 2008 US$'000	Effect on profit before tax in 2007 US$'000
Assets					
Variable rate deposits	155,078	82,243	+1%	1,551	822
Liabilities					
Variable rate borrowings					
Kingdom 5-KR-71 Ltd – Subsidiary of Damascus Holding	13,866	17,866	+1%	(139)	(179)
Kingdom Beirut – Subsidiary of Kingdom 5-KR-59, Ltd.	40,985	21,729	+1%	(410)	(217)
Merryland Pour les Projects Touristiques (MPPT) – Subsidiary of Kingdom 5-KR-57, Ltd	42,117	45,568	+1%	(421)	(456)
Serena Beach Company – Subsidiary of Kingdom 5-KR-153, Ltd.	–	1,187	+1%	–	(12)
Kingdom 01 FZ-LLC Ltd – Indirect Subsidiary of Kingdom 5-KR-168, Ltd	52,465	56,853	+1%	(525)	(569)
Tanruss Investment Limited – Subsidiary of Kingdom 5-KR-90, Ltd.	1,400	1,400	+1%	(14)	(14)
Anahita Hotel Limited – Subsidiary of Kingdom 5-KR-182, Ltd.	30,375	25,846	+1%	(304)	(258)
EHC Maroc – Subsidiary of Kingdom 5-KR-172, Ltd.	21,436	21,958	+1%	(214)	(220)
Salt Lake Resort – Subsidiary of Kingdom 5-KR-188, Ltd. Mövenpick Hotels & Resort AG	23,500	26,500	+1%	(235)	(265)
SRF AND SRC – Indirect Subsidiary of Kingdom 5-KR-194 & 195, Ltd	26,790	33,241	+1%	(268)	(332)
Swissôtel Kunshan	20,519	19,995	+1%	(205)	(200)
Four Seasons Langkawi – Subsidiary of Mamlaka Langkawi Sdn Bhd	10,000	–	+1%	(100)	–
Kingdom Hotel Investments	43,597	–	+1%	(436)	–
	327,050	272,143		(3,271)	(2,722)

27 Risk management objectives and policies (continued)

Equity price risk

The following table demonstrates the sensitivity of the cumulative changes in fair value to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

	Change in equity price 2008 US$'000	Effect on equity 2008 US$'000	Change in equity price 2007 US$'000	Effect on equity 2007 US$'000
At fair value				
Quoted – Amman, Jordan	20%	3,593	20%	3,560
Unquoted	20%	8,767	20%	8,767

The Company also has unquoted investments stated at cost of US$10.2 million as of 31 December 2008 (2007: US$14.4 million). For these investments, the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired and the statement of income is impacted.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may buy back shares, adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

The Group monitors capital using a gearing ratio, which is net debt, divided by total capital plus net debt. The Group's policy is to target a gearing ratio of 50%. The Group includes within net debt, interest bearing loans and borrowings, less cash and cash equivalents. Capital includes total equity of the Group.

	2008 US$'000	2007 US$'000 (restated)
Interest bearing loans and borrowings	405,514	314,899
Less cash and short-term deposits	(256,393)	(180,564)
Net debt	149,121	134,335
Equity	1,292,434	1,317,250
Capital and net debt	1,441,555	1,451,585
Gearing ratio	10%	9%

28 Financial instruments

Fair values

Set out below are details by category of the carrying amounts of the Group's financial instruments:

	Carrying amount	
	2008 US$'000	2007 US$'000
Financial assets		
Available-for-sale financial assets*	71,958	76,002
Trade and other receivables	21,400	26,426
Due from related parties	3,268	3,022
Cash and short-term deposits	256,393	180,564
Financial liabilities		
Interest-bearing loans and borrowings	405,514	314,899
Trade payables	30,152	40,363
Retentions payable	5,819	5,223
Due to related parties	1,385	4,690

*Market values for available-for-sale investments have been used to determine the fair values of listed available-for-sale financial assets with a carrying value of US$18.0 million as of 31 December 2008 (2007: US$17.8 million). The amount of unquoted shares stated at fair value is US$43.8 million as at 31 December 2008 (2007: US$43.8 million), while the remainder of US$10.2 million (2007: US$14.4 million) is stated at cost.

With the exception of available-for-sale investments carried at cost, the fair values of financial assets and liabilities approximate their carrying values.

The fair value of derivatives has been calculated by discounting the expected future cash flows at prevailing interest rates.

Hedging activities

Cash flow hedges

The Group uses interest rate swaps to hedge against the cash flow risks arising on the floating rate term loans. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as cash flow hedges.

The fair value of the derivative financial instrument, which is equivalent to the market value, together with the notional amount is set out below.

The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

	2008		2007	
	Positive (Negative) Fair value US$'000	Notional amount US$'000	Positive (Negative) Fair value US$'000	Notional amount US$'000
Derivatives held as cash flow hedges:				
Interest rate swaps	(6,083)	54,246	(38)	11,066
Interest rate collar	(863)	15,000	–	–

The above derivatives are effective cash flow hedges, and have maturities up to March 2013.

29 Events after the balance sheet date

In January 2009, the Company successfully completed a buyback of 6.2 million of its Global Depository Shares ("GDS") at a purchase price of US$1.00 per GDS in a tender auction for 7.5 million GDS's. This buyback was driven by the Company's belief that the prevailing trading price was not reflective of the value of KHI's business and future prospects. The buyback also offered GDS holders with the opportunity to access liquidity which may otherwise not have been available to them.

In February 2009, the Company completed the sale of its 15% equity investment in the Fairmont Nile City Cairo project (total consideration US$11.5 million) at a gain of US$1.3 million.

30 Long-term incentive plan

The Company granted the CEO the right to receive a fixed number of Company shares following the completion of the Initial Public Offering on 1 March 2006. The 108,108 shares have a three year annual vesting plan.

On 17 May 2007, the Board of Directors approved the long-term incentive plan ("LTIP") for other senior management employees. The 2007 grants are for a fixed number of Company shares for a two year cliff vesting period. The 2008 grants are also for a fixed number of Company shares for a three year cliff vesting period. There are no cash settlement alternatives.

	Number of shares ('000)		Total fair value (US$'000)	
	2008	2007	2008	2007
As at 1 January	248	108	2,262	1,000
Granted during the year	170	140	1,270	1,262
Vested during the year	(72)	–	(333)	–
As at 31 December	346	248	3,199	2,262

Movements in the reserve for long-term incentive plan during the year are shown in the following table:

	2008 US$'000	2007 US$'000
Balance at 1 January	1,181	277
Expense recognised during the year	1,295	904
Vested at cost	(667)	–
Balance at 31 December	1,809	1,181

31 Subsidiaries, joint venture, and associates

At 31 December 2008, the Group had investments in the following subsidiaries and incorporated joint venture:

			Percentage controlled by the Group's subsidiary	
Subsidiary	Operating entity	Name and location	2008	2007
Subsidiaries without changes in ownership during the year:				
Kingdom 5-KR-168 Ltd (100%), through its subsidiary Kingdom 5-KR-161 Ltd. (100%)	Kingdom 01FZ-LLC	Mövenpick – Bur Dubai, United Arab Emirates	100%	100%
Kingdom 5-KR-57 Ltd (100%)	Merryland Pour les Projects Touristiques (MPPT)	Mövenpick – Beirut, Lebanon	93%	93%
Kingdom 5-KR-59 Ltd.(66%)	Kingdom Beirut S.A.L	Four Seasons – Beirut, Lebanon	57%	57%
Kingdom 5-KR-90 Ltd (100%)	Tanruss Investment Ltd.	Mövenpick – Tanzania	96%	96%

31 Subsidiaries, joint venture, and associates (continued)

Subsidiary	Operating entity	Name and location	Percentage controlled by the Group's subsidiary 2008	2007
Kingdom 5-KR-172 Ltd (100%), through its subsidiary Kingdom 5-KR-178 Ltd (100%), through its subsidiary Kingdom 5-KR-177 Ltd (100%)	Société EHC Maroc S.A.R.L.	Four Seasons – Marrakech, Morocco	78%	78%
Kingdom Hotels Asset Management Services Limited	N/A	Cayman Islands	100%	100%
Kingdom 5-KR-144 Ltd (100%)	Ghana 01 Ltd	Mövenpick Hotel Ambassador – Accra, Ghana	100%	100%
Kingdom 5-KR-195 Ltd (100%), through its subsidiary Siam Resort Holdings Ltd (100%)	Siam Resorts Fund & Company Ltd	Mövenpick Karon Beach – Phuket, Thailand	100%	100%
Kingdom 5-KR-188 Ltd (100%)	Saltlake Resort Ltd	Mövenpick Resort & Spa – Mauritius	100%	100%
Kingdom Hotels (Cayman) Ltd through its subsidiaries Kingdom Lusaka Hotel Company, (Antilles) NV (100%) Kingdom Hotels (Netherlands) Cooperatief Kingdom Lusaka Hotel (Netherlands) BV (100%) Societe de l'Hotel Kingdom Lusaka S.A. (100%)	Marasa Holdings Limited	InterContinental Hotel Lusaka, Zambia	100%	100%
Damascus Holding (100%) and Kingdom 5-KR-184 Ltd (100%) through its subsidiary Kingdom 5-KR-71 Ltd (100%)	Syrian Saudi Tourism Investments Co. (SSTIC)	Four Seasons – Damascus, Syria	55%	55%
Kingdom DaNang Limited (80%) through its subsidiaries Magnum Investment Group Limited	Vegas Hotels & Villas	Raffles Da Nang, Vietnam	80%	80%

31 Subsidiaries, joint venture, and associates (continued)

Subsidiary	Operating entity	Name and location	Percentage controlled by the Group's subsidiary 2008	2007
KHI-7 Ltd through its subsidiaries Kingdom Hotels (Cayman) Ltd (100%) Kingdom Lusaka Hotel Company, (Antilles) NV (100%) Kingdom Hotels (Netherlands) Cooperatief Kingdom Lusaka Hotel (Netherlands) BV (100%) Kingdom Langkawi BV (90%)	Mamlaka Langkawi Sdn. Bhd	Four Seasons Hotel Langkawi, Malaysia	90%	90%
KHI-11 Ltd through its subsidiaries First Shanghai Hotel Group Limited (100%) Sino Dragon Asset Limited (100%)	Kunshan Traders Park Hotel Company Ltd	Swissôtel Kunshan, China	100%	100%
Kingdom Cambodia Ltd.(100%)	Raffles Grand Hotel Pte. Ltd	Raffles Grand Siem Reap Cambodia	100%	100%
Kingdom Cambodia Ltd.(100%)	Raffles Royal Hotel Pte. Ltd	Raffles Royal Hotel, Phnom Penh, Cambodia	100%	100%
KHI through its subsidiaries Kingdom Hotels (Cayman) Ltd (100%) Kingdom Lusaka Hotel Company (Antilles) NV (100%) Kingdom Hotels (Netherlands) Cooperatief Kingdom Lusaka Hotel (Netherlands) BV (100%) Kingdom Manila BV (100%)	KHI-ALI Manila Ltd. KHI Manila Property, Inc.	Fairmont/Raffles Manila Philippines	80% economic interest 80% economic interest	80% economic interest 80% economic interest
KHI through its subsidiaries Kingdom Kampala (Cayman) Ltd (100%) Kingdom Lusaka Hotel Company (Antilles) (100%) Kingdom Hotels (NDL) Cooperatief (100%) Kingdom Lusaka Hotel (NDL) BV (100%)	Kingdom Kampala Ltd	Mövenpick Hotel, Kampala	99.9%	99.9%
KHI through its subsidiaries Kingdom Phang Nga ltd (100%) Phang Nga Corp Ltd (80%)	Pudipitchaya Com Ltd	Raffles Phang Nga, Thailand	99.9%	99.9%

31 Subsidiaries, joint venture, and associates (continued)

Subsidiary	Operating entity	Name and location	Percentage controlled by the Group's subsidiary 2008	2007
Subsidiaries where ownership percentage has changed during the year:				
Kingdom Jakarta Ltd through its subsidiaries Kingdom Hotels (Cayman) Ltd (100%) Kingdom Lusaka Hotel Company (Antilles) NV (100%), Kingdom Hotels (Netherlands) Cooperatief (100%) Kingdom Acquisitions BV (100%)	PT Permadani Khatulistiwa Nustantaraa	Four Seasons Hotel Jakarta, Indonesia	81.9%	91%
Kingdom 5-KR-166 Ltd (100%), through its subsidiary Kingdom 5-KR-181 Ltd (100%) Kenya	Kingdom Kenya 01 Ltd.	Fairmont – Aberdare, Ark Lodge, Mount Kenya, Safari and Norfolk	100% 100%	100% 70%
Kingdom 5-KR-153 Ltd (100%)	Serena Beach Company	Mövenpick – El Quseir, Egypt	94%	87%
Subsidiaries established during 2008:				
Kingdom Seychelles Ltd through its subsidiaries KHI Seychelles Holding Ltd (91.2%) KHI Seychelles 01 Ltd, (100%)	KHI Seychelles 01 Ltd.	Raffles Hotel Seychelles	91.2%	–
Interest in joint venture:				
Kingdom 5-KR-182 Ltd (100%)	Anahita Hotel Ltd	Four Seasons – Mauritius	50%	50%
Associates:				
Kingdom 5-KR-147 Ltd (100%)	El Gouna for Hotels Co.	Mövenpick – El Gouna, Egypt	29%	29%
Kingdom 5-KR-30 Ltd (100%), through its subsidiary Kingdom Nile Plaza Ltd (100%)	Nova Park Cairo Co.	Four Seasons – Cairo, Egypt	43%	43%
Kingdom Sharm El-Sheikh Ltd (100%)	Alexandria Saudi Co For Touristic Projects	Four Seasons – Sharm El-Sheikh, Egypt	39%	39%
Kingdom 5-KR-187 Ltd (100%)	Ocean Leisure Company	Mövenpick Beach & Spa Resort Zanzibar	Sold	30%
Kingdom 5-KR-35 Ltd (100%), through its subsidiary Shercock NV (100%)	HGV BV (formerly Calogne Amsterdam)	Four Seasons – Paris, France	25%	25%
Kingdom 5-KR-157 Ltd (100%)	Palm Hotel and Resort FZ LLC	Fairmont Palm Hotel & Resorts	Sold	20.1%

31 Subsidiaries, joint venture, and associates (continued)

2008

Raffles Seychelles Resort and Residences, Praslin, Seychelles

On 8 January 2008, KHI Seychelles Ltd., a wholly owned subsidiary of the Company, acquired a 91.2% stake in KHI Seychelles Holding Ltd. for US$6 million which in turn acquired a 100% in KHI Seychelles 01 Ltd. KHI Seychelles 01 Ltd has development rights to build a 90 villa luxury hotel and 17 private residential villas for sale. The total cost of the project is US$144 million.

Four Seasons Hotel Jakarta, Indonesia

During the year, an existing US$2.3 million shareholder advance due to minority shareholders was converted into a 9.1% equity share under an agreement that pre-dates the acquisition, which resulted in a dilution of KHI's equity interest to 81.9%.

32 Reclassifications and restatement of prior year amounts

During the year, the Group completed the Purchase Price Allocation (PPA) exercise for the business combinations made in the prior year. This has resulted in a restatement of the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity. The specific line items to which restatement adjustment have been made in the consolidated balance sheet as at 31 December 2007 are as follows:

Consolidated balance sheet

	2007 US$'000 (Restated)	2007 US$'000 (Original)	2007 US$'000 Restatement	2007 US$'000 Reclassification
Assets				
Non-current assets				
Property, plant and equipment	1,003,112	1,016,561	(13,449)	–
Goodwill and other intangible assets	113,557	70,171	42,152	1,234
Other assets	14,529	18,545	(2,623)	(1,393)
Deferred tax assets	3,769	848	–	2,921
Total assets	**1,765,096**	**1,736,254**	**26,080**	**2,762**
Equity and liabilities				
Equity attributable to shareholders of the parent				
Retained earnings	86,624	78,382	8,401	(159)
Minority interest	144,749	142,642	2,107	–
Total equity	1,317,250	1,306,901	10,508	(159)
Non-current liabilities				
Deferred tax liabilities	38,504	23,009	12,574	2,921
Employees' end-of-service benefits	3,663	2,707	–	956
Current liabilities				
Trade and other payables	70,170	68,127	2,998	(956)
Total liabilities	**447,846**	**429,353**	**15,572**	**2,921**
Total equity and liabilities	1,765,096	1,736,254	26,080	2,762

The assets, equity and liabilities have been restated to incorporate adjustments to the provisional values as a result of the completion of accounting for business combinations. Individual adjustments have been included in note 3 to the consolidated financial statements.

32 Reclassifications and restatement of prior year amounts (continued)

Consolidated income statement
The specific line items to which restatement adjustments have been made in the consolidated income statement for the period ended 31 December 2007 are as follows:

	2007 US$'000 (Restated)	2007 US$'000 (Original)	2007 US$'000 Restatement	2007 US$'000 Reclassification
Revenue	180,909	178,556	–	2,353
Direct cost	(125,440)	(123,087)	–	(2,353)
Depreciation of hotel property, plant and equipment	(21,114)	(20,728)	(386)	–
Gross profit	34,355	34,741	(386)	–
Depreciation	(635)	(476)	–	(159)
Gain on bargain purchase of subsidiary	8,759	–	8,759	–
Profit before tax, interest income/expense	50,792	42,577	8,374	(159)
Profit before tax	48,746	40,531	8,374	(159)
Profit for the year	46,689	38,474	8,374	(159)
Attributable to:				
Shareholders of the parent	42,335	34,093	8,401	(159)
Minority interest	4,354	4,381	(27)	–

Service charges amounting US$2.3 million have been reclassified from direct cost of revenue to revenue. This reclassification has been made to conform to the current period presentation.

The above adjustments relate to the additional depreciation charge on the increase in the fair value of property, plant and equipment and the recognition of gain on bargain purchase of subsidiary.

Due to the above mentioned adjustments to the consolidated balance sheet and the consolidated income statement, restatements have been made to the consolidated statement of changes in equity and the consolidated cash flow statement to reflect the above changes.

Shareholder information

Our aim is to communicate with the financial community on a regular basis. In 2008, we participated in 4 investor conferences and held meetings with 80 investors. The largest concentration of meetings was among UK and US investors.

Kingdom Hotel Investments
Dubai International Financial Centre
P.O. Box 121223
Dubai,
United Arab Emirates

Website

The information contained in this Annual Report and other information about the Company is available on www.kingdomhotels.com.

Financial calendar

AGM	11 May 2009
2009 interim results	By 30 August 2009 at the latest
2009 preliminary results	By 30 April 2010 at the latest

Share listings

The Company's Ordinary Shares are listed on NASDAQ Dubai. They are listed under ISIN – KYG5257E1017.

The Company also has listed Global Depository Shares on the London Stock Exchange. They are listed under ISIN US49567W1018 and CUSIP 49567W101.

	Number of shares	Ownership %
Kingdom 5-KR-124	75,416,240	43.2%
Kingdom 5-KR-51	19,100,000	10.9%
Other founding shareholders	27,273,767	15.6%
Free float	52,948,737	30.3%
Total	**174,738,744**	**100.0%**

Contacts

		Contact details
Investor Relations	Kingdom Hotel Investments Eric Chang	Dubai International Financial Centre P.O. Box 121223 Dubai, United Arab Emirates info@kingdomhotels.com
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GDS Depositary	Citibank N.A.	Depositary Receipt Services 388 Greenwich Street New York, New York 10013 United States
Public Relations	Brunswick Group	Dubai International Financial Centre Gate Village Building 1 PO Box 506691 Dubai, UAE
Auditors	Ernst & Young	P.O. Box 9267 Al Attar Business Tower, 28th floor Sheikh Zayed Road Dubai United Arab Emirates

Definitions

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.

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.

FF&E or **Furniture, Furnishings and Equipment**

GOP or **Gross Operating Profit**
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).

Hotel EBITDA, NOI or **Net Operating Income**
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).

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).

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

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 complimentary rooms.

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.

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

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.

Designed and produced by Merchant

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