
Kingdom Hotel Investments

2010 Results

17 April 2011

2010 Results Announcement

Financial Highlights

- **Group revenues increased 25% to US\$308 million**
 - Trading reflects general market conditions and KHI's occupancy led hotel strategies. RevPAR of KHI's **System**¹ hotels rose 6.2% like for like on both an actual and a currency neutral basis from 2009 levels. The increases in H1 and H2 2009 were 9.7% and 3.3% respectively. Occupancy rose by 6 points and average daily rate declined by 3.9% on both an actual and a currency neutral basis.
 - Geographic diversification and resilience of the Company's portfolio enabled revenue to grow in 18 comparable hotels by 11% to US\$242 million. Operations in all our hotels in Asia as well as Damascus and Kenya lifted comparable portfolio performance while revenues from the newly opened Four Seasons Beirut lifted revenue by 24% over 2009.
 - KHI recognised US\$29 million from ancillary real estate sales.
- **KHI EBITDA² rose 5% to US\$67 million. Excluding real estate sales, KHI EBITDA increased 12% to \$65million**
 - Despite energy and labour inflation, 13 of the 18 comparable hotels reported a rise in profitability driven by higher revenues. EBITDA retention rates on marginal revenue were almost 38% and gross operating margin at the comparable hotels level improved by 98bp to 28%
 - There was a one-off impact of US\$2.5 million attributable to the pre-opening expenses of the Four Seasons Marrakech, Movenpick Accra and the Raffles Seychelles.
- **KHI Adjusted EBITDA³ decreased 8% to US\$66 million. Excluding real estate sales, KHI Adjusted EBITDA rose 4% US\$65 million**
 - KHI's share of hotel results and real estate income from associates decreased by \$6.9 million and by \$4.6 million respectively.
 - This is attributable to the US\$8.8 million decline in hotel EBITDA at the Four Seasons Nile Plaza following the sale of the Company's equity interest in this property in the third quarter of 2010.
- **Net gains from disposals declined by 61% to US\$ 14.4 million**
 - During 2010, KHI completed the sale of its equity interests in the Four Seasons Nile Plaza and the Four Seasons Amman
- **Net profit before non-recurring items dropped \$ 8.4 million, or 49%, to US\$8.8 million. On an underlying basis the fall was limited to \$1.3 million.**
 - Growth in KHI EBITDA was offset by a decline in KHI's share of associates' results by US\$ 13.5 million with associate disposals and an increase in taxation primarily resulting from a US\$ 3.5 million movement in the deferred tax position at the Four Seasons Langkawi.
 - One off pre-opening expenses and the charging of interest and depreciation has had a short-term detrimental effect to reported net profit during the ramp up of operational performance of Four Seasons Beirut.
- **Reported net profit fell 18.5% to US\$17.8 million resulting from**
 - One off costs of US\$3 million incurred by KHI in relation to the privatisation of the company
 - One time charges of US\$1.3 million from unfavourable dollar movements against foreign currencies (2009: US\$2.7 million gain).

¹ KHI's System hotel portfolio is defined as operating hotel results that are included in the Group's consolidated financial results or investment in associates as at December 31, 2010, and is used by KHI management to measure and assess the performance of the portfolio of hotels in which it has invested capital. For system calculation, all subsidiary hotels are taken as 100%, where as associate hotels taken based on ownership percentage.

² KHI EBITDA is a management operating measure that reflects KHI Net Income before Interest, Tax, Depreciation and Amortization excluding non-recurring gains or losses and non-cash effects of equity investments and minority interests.

³ KHI Adjusted EBITDA 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. KHI Adjusted EBITDA, excluding real estate sales, is viewed as the most relevant valuation metric by its management.

- **Balance sheet remains conservatively leveraged; net debt US\$421 million, net-debt-to-equity ratio of 32%**
 - As at 31 December 2010, KHI's cash balances stood at US\$148 million reflecting a decline from previous levels of US\$ 351 million as at 31 December 2009, impacted by the transfer to KHC of US\$ 293 million.
 - KHI has US\$85 million of loans maturing over the next 12 months.
 - Net debt will continue to increase as committed lines are drawn in the completion of development projects.

Consolidated KHI Results					
(12-months ended 31 Dec, US\$000)	2010	2009	Change		
			\$	%	Excl. Forex
KHI System operating hotels					
# No. of consolidated hotels {rooms}	19 {3990}	18 {3760}		6%	
# No. of associated hotels {rooms}	2 {799}	3 {1177}		-32%	
Total KHI System	21 {4789}	21 {4937}		-3%	
Total revenues	308,123	246,415	61,708	25%	
Hotel revenues	270,975	218,999	51,976	24%	22%
Hotel EBITDA	74,845	60,561	14,284	24%	21%
Hotel gross profit	42,551	32,007	10,544	33%	
Total gross profit	49,957	43,277	6,681	15%	
Operating profit	30,167	20,358	9,808	48%	
KHI EBITDA including real estate sales	67,236	63,917	3,319	5%	
<i>KHI EBITDA excluding real estate sales</i>	65,838	58,773	7,065	12%	
KHI Adj EBITDA including real estate sales	66,744	72,858	(6,114)	(8%)	
<i>KHI Adj EBITDA excluding real estate sales</i>	65,346	63,088	2,258	4%	
Net profit	17,817	21,842	(4,025)	(18%)	
<i>Net Profit before non-recurring items</i>	8,877	17,323	(8,445)	(49%)	
Avg. no. shares outstanding	168,562	168,512	49	0%	
Equity	1,340,484	1,310,355			
Cash	(152,383)	(351,282)	198,900	57%	
IB Debt	586,406	528,453	57,953	11%	
EPS	\$ 0.11	\$ 0.13	\$ (0.02)	(18%)	
<u>Before non-recurring items:</u>					
<i>EPS before non-recurring items</i>	\$ 0.05	\$ 0.10	\$ (0.05)	(49%)	
Net Debt	434,023	177,170	256,853	145%	

Key Ratios	Change		
(12-months ended 31 Dec, US\$000)	2010	2009	(% points)
KHI EBITDA margin (% Total revenues)	22%	26%	(4.1)
Hotel Gross margin (% Hotel revenues)	16%	15%	1.1
Operating profit margin (% Total revenues)	10%	8%	1.5
Net Profit before non-recurring items (% Total revenues)	3%	7%	(4.1)
Net Debt/ Shareholders' Equity	32%	14%	18.9

Strategic Highlights

- **KHI was taken private in June 2010 by its majority shareholder**
 - KHC acquired the 44% of shares it did not own at US\$5 per share for a total consideration of US 372 million
 - KHI's strong balance sheet enabled it to provide KHC with US\$293 million of pre and post transaction funding.
- **Further reduction in non-core investments achieved through disposals of equity interests in the Four Seasons Nile Plaza Cairo and the Four Seasons Amman totally \$157 million, whilst disposal processes were initiated involving Swissotel Kunshan and the Fairmont Ark and Aberdare Lodges**
 - Net gain on disposal of US\$14.4 million through the disposal of KHI's equity interest in the Four Seasons Nile Plaza Cairo (US\$11.8 million) and its equity interest in the Four Seasons Amman (US\$2.6 million)
 - The company initiated in H2 processes to dispose of its equity interests in Swissotel Kunshan and the Fairmont Ark and Aberdare Lodges. A disposal of the Ark and Aberdare was formally completed in January 2011 and that of Kunshan in April 2011. Aggregate net gains in excess of US\$9 million are expected from these transactions
- **The Four Seasons Beirut opened in January 2010 achieving a RevPaR in excess of US\$223 in its first year of trading. The Raffles Seychelles was partially opened in February 2011.**
- **The company's geographic portfolio diversification continues to deliver benefits**
 - An improvement in RevPAR was recorded across the portfolio as strength across Asia as well as in Damascus and Kenya offset weakness in certain parts of MENA and Africa.
 - Increased occupancy and overall spend per guest enabled the company to generate healthy growth in its consolidated hotel revenues.
- **The portfolio captured the benefits of operational gearing offered by last year's hotel cost reduction schemes**
 - Despite significant labour and food related inflationary pressures in a number of our hotel markets, KHI delivered a 98bp improvement in gross operating margin with at least half of our consolidated hotels increasing their EBITDA margin.

Operational Highlights

We witnessed more stable conditions in our trading markets during 2010 in comparison to last year with reductions in offered room rates triggering increased occupancy and overall guest spend. System RevPaR registered 6.2% growth assisted by additional occupancy of 5.9 percentage points as average daily rate declined 3.9%. The company's subsidiary properties across Asia, as well as Damascus and Kenya were the principal contributors to this positive outturn with double digit uplifts in RevPaR. Mauritius and Dubai remain challenging locations with strong competition operating within over-supplied markets however the performance of the Four Seasons Mauritius strengthened during the second half year.

Development projects are proceeding to plan with three hotels scheduled to open in 2011. Despite stable but uncertain real estate markets globally, KHI generated commendable ancillary real estate sales of 24 physical units sold in 2010 for over US\$29 million as well as 25 pre-sales in Manila.

- **The Company experienced a 24% increase in hotel revenues as subsidiary hotels delivered a 7.8% increase in RevPaR (6.9% on a currency neutral basis) slightly ahead of System which rose just over 6% on both a reported and a currency neutral basis**
 - The Middle East experienced a rise in RevPAR of just over 2% on a reported and currency neutral basis in 2010. The Four Seasons Damascus and the Movenpick El Quseir performance offset a drop in revenue at the Mövenpick Dubai.

- RevPAR improved 4% in Sub-Saharan Africa (on a reported and on currency neutral basis). KHI's four hotels in Kenya continued to reap the benefits of the renovation programme and recorded a further 33% rise in RevPaR following an 88% jump in 2009. Kenya experienced a 17% increase in occupancy over 2010.
 - Asia had a particularly successful 2010 with RevPaR up 18.7% following a year of positive trading conditions that led to an 8% increase in occupancy and a 2.9% uplift in rate (unchanged on a currency neutral basis). All our hotels in the region increased their RevPaR with Kunshan and Phuket the biggest contributors with increases in RevPaR of 30% and 37%.
- **The increased revenues together with continued close monitoring of costs enabled KHI to grow Hotel EBITDA by 24%**
 - We experienced high levels of labour, food and beverage and energy related inflation in our African and Asian hotel markets but was well positioned to manage these pressures following the reduction in hotel cost bases secured in 2009. Eleven of the hotels in our consolidated portfolio lifted their EBITDA margin over the year with our Jakarta, Kunshan, Phuket and Damascus assets performing particularly well. The Four Seasons Mauritius had a much stronger year with EBITDA ahead of 2009 by 87% at USD5.7 million. The mid market positioned Movenpick Mauritius experienced far more challenging trading conditions however. A 29.7% decline in this hotel's RevPaR resulted in a 66% decline in its EBITDA. Overall, we increased the EBITDA margin of our consolidated portfolio on a like for like basis by 98 basis points against 2009 levels.
- **A more stable global real estate market enabled KHI to hand over 23 units in 2010 as well as 26 pre-sales**
 - During the year, KHI pre-sold a further 25 units at the Raffles Residences Manila development for a value of US\$15 million (total units pre-sold: 166 out of 237 apartments) and one further unit in Marrakech (value US\$1.1 million). Following completion of the works on residential villas during 2010 we were able to commence the handover to owners in the final quarter enabling KHI to complete in 2010 on 21 of the 42 pre-sold units at a consideration of US\$28.6 million. 3 units were sold in Phuket for a combined value of US\$1.2 million.
 - KHI recognized in its 2010 accounts, revenues and EBITDA from Real Estate sales of US\$29.8 million and US\$0.6 million respectively.
 - Construction of the residential show villa was completed at the Raffles Seychelles where 4 further residential estates are scheduled to be constructed this year to complete phase one of the overall residential development.
 - The Company remains highly focused on phased payment collections. Risk of default has been minimized through rigorous credit controls with 93% of the aggregate value of invoices collected as at 31 December 2010 including 99% of the value of the invoices issued in Manila
- **The development pipeline is advancing on schedule, in line with previous announcements**
 - Our development of The Raffles Seychelles on Praslin Island was partially opened on [10] February 2011 with the remainder of the hotel and its grounds expected to be available for occupation during the second quarter of 2011. The total project including the first phase of residential units is currently costed at US\$ 148 million
 - The Mövenpick Ambassador Accra (Ghana) is proceeding on schedule and the hotel is expected to have a soft opening in Q2 2011. The development budget is set at US\$100 million.
 - The Four Seasons Marrakech is scheduled to open in June / July 2011 whilst the balance of pre-sold residential units is expected during H1 2011. The total development budget is US\$169 million due to recent strengthening of the Moroccan dirham against the US dollar
 - The Fairmont Raffles Hotel and Residences, Philippines, is on schedule to open in H2 2012. The development budget is now US\$191 million following a requirement for the Company to address all outstanding variations and change orders with the contractor.

Subsequent Events

- The Company has since year-end experienced a significant downturn in RevPaR in all its Middle East North Africa hotels other than Bur Dubai due to the ongoing geopolitical situation in the region. Both System and Consolidated RevPaR for the first three months of 2011 have decreased by 3% over the corresponding period. Trading within Africa and Asia is in line with expectations. Excluding the Middle East, System and Consolidated RevPaR have both risen by 15%.
- The sale of the Fairmont Ark and Aberdare in Kenya was completed in January 2011 and the Swissotel Kunshan in April 2011. The net profit on sale for the two disposals was \$14.4M, netting cash proceeds of \$44million.

Outlook

- KHI has adopted a highly cautious view on immediate prospects for its Middle Eastern and North Africa markets and expects continued disruption to trade over the remainder of the first six months of 2011. Trading within Africa and Asia is expected to continue in line with expectations.
- The Company will continue to focus on completing the full openings of The Raffles Seychelles, The Movenpick Accra and The Four Seasons Marrakech.
- The company will continue its ongoing strategy of value realization and capital redeployment.

AUDITED CONSOLIDATED INCOME STATEMENT

For the year ending 31 December

	<i>2010</i> <i>US\$'000</i>	<i>2009</i> <i>US\$'000</i>
Revenue	292,687	246,415
Direct costs	(201,942)	(162,737)
Depreciation and amortisation of hotel property, plant and equipment	(30,174)	(28,553)
Gross profit	60,571	55,125
General and administrative expenses	(15,671)	(15,765)
Sales and marketing expenses (hotel)	(12,787)	(11,848)
Sales and marketing expenses (real estate)	(779)	(1,657)
Preopening expenses	(2,558)	(4,589)
Depreciation and amortisation	(728)	(907)
Operating profit	28,048	20,359
Share of results of associates	7,121	20,653
Dividend income	447	492
Gain on sale of available-for-sale financial assets	2,561	1,328
Gain on sale of associates	11,850	28,312
Gain on disposal of subsidiaries	-	7,882
Other (expense) income	(5,390)	2,680
Impairment of goodwill	-	(36,629)
Profit before tax and finance income (costs)	44,637	45,077
Finance income	3,432	2,085
Finance costs	(19,755)	(19,572)
Profit before tax	28,314	27,590
Income tax expense	(4,584)	(1,697)
Profit for the year from continuing operations	23,730	25,893
Discontinued operations		
Profit for the year from assets classified as held for sale	1,073	-
Profit for the year	24,803	25,893
<i>Profit attributable to:</i>		
Equity holders of the parent company	17,817	21,842
Non - controlling interests	6,986	4,051
	24,803	25,893

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December

	<i>2010</i>	<i>2009</i>
	<i>US\$'000</i>	<i>US\$'000</i>
ASSETS		
Non-current assets		
Property, plant and equipment	1,304,167	1,261,514
Goodwill and other intangible assets	52,205	66,447
Investment properties	32,228	4,108
Investments in associates	107,335	218,642
Available-for-sale financial assets	35,629	50,665
Other assets	4,207	30,191
Deferred tax assets	20,804	14,050
	<u>1,556,575</u>	<u>1,645,617</u>
Current assets		
Real estate held for sale	14,662	4,105
Inventories	6,366	5,358
Trade and other receivables	37,700	24,308
Loan to parent company	293,100	-
Due from related parties	2,019	594
Prepayments	62,654	52,609
Cash and short term deposits	148,326	351,282
	<u>564,827</u>	<u>438,256</u>
Assets classified as held for sale	62,639	-
TOTAL ASSETS	<u><u>2,184,041</u></u>	<u><u>2,083,873</u></u>
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the parent		
Share capital	842,851	842,851
Treasury shares	-	(63)
Share premium	181,489	181,449
Capital Reserve	24,304	24,304
Foreign currency translation reserve	(6,044)	(16,488)
Cumulative changes in fair value	13,657	19,705
Retained earnings	143,424	125,607
Cash flow hedge reserve	(1,706)	(2,706)
Reserve for long term incentive plan	-	950
	<u>1,197,975</u>	<u>1,175,605</u>
Non - controlling interests	<u>142,507</u>	<u>134,746</u>
TOTAL EQUITY	<u><u>1,340,482</u></u>	<u><u>1,310,355</u></u>
Non-current liabilities		
Interest-bearing loans and borrowings	484,505	477,107
Employees' end of service benefits	6,504	5,328
Retentions payable	9,947	8,994
Deferred tax liabilities	49,663	48,876
Other liabilities	34,847	18,952
	<u>585,466</u>	<u>559,257</u>
Current liabilities		
Trade and other payables	137,101	154,868
Interest-bearing loans and borrowings	84,961	51,346
Retentions payable	3,722	5,202
Due to related parties	4,215	2,845
	<u>229,999</u>	<u>214,261</u>
Liabilities attributable to assets classified as held for sale	28,094	-
TOTAL LIABILITIES	<u><u>843,559</u></u>	<u><u>773,518</u></u>

TOTAL EQUITY AND LIABILITIES

2,184,041

2,083,873

AUDITED CONSOLIDATED CASH FLOW STATEMENT

For the year ending 31 December

	2010 US\$'000	2009 US\$'000
OPERATING ACTIVITIES		
Profit before tax from continuing operations	28,314	27,590
Profit before tax from discontinued operations	997	-
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Profit before tax	29,311	27,590
Adjustments for:		
Depreciation and amortisation	30,902	29,460
Share of results of associates	(7,121)	(20,653)
Dividend received on available-for-sale financial assets	(447)	(492)
Finance income	(3,432)	(2,085)
Finance costs	19,755	19,572
Project cost written off	1,274	-
Impairment of goodwill	-	36,629
Gain on sale of associates	(11,850)	(28,312)
Gain on sale of development project	-	(7,882)
Gain on sale of available-for-sale financial assets	(2,561)	(1,328)
Employees' end of service benefits provided	1,829	1,556
Long term incentive plan expense	412	716
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	58,072	54,771
Changes in operating assets and liabilities:		
Trade and other receivables	(3,818)	(2,420)
Prepayments and other assets	303	(17,568)
Inventories	(1,227)	112
Other long term assets	(2,965)	2,700
Trade and other payables	(24,220)	70,813
Deferred tax	(2)	(1,113)
Other financial liabilities	17,310	(23,700)
Real estate held for sale	(10,557)	(856)
Related party balances	274	1,007
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Cash generated from operations	33,170	83,746
Interest paid	(28,255)	(29,130)
Income taxes paid	(1,573)	(2,286)
Employees' end of service benefits paid	(508)	(797)
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Net cash flows from operating activities	2,834	51,533
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INVESTING ACTIVITIES		
Net purchase of property, plant and equipment	(119,728)	(185,910)
Purchase of investment properties	(4,976)	(94)
Purchase of intangible assets	(1,426)	-
Proceeds from sale of available-for-sale investments (net)	11,549	11,487
Proceeds from sale of associates	135,007	70,000
Proceeds from sale of development project	-	5,657
Loan to parent company	(293,100)	-
Dividends received	4,046	12,098
Interest received	3,432	2,085
Movement in restricted cash	(13,771)	664
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Net cash flows used in investing activities	(278,967)	(84,013)
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CONSOLIDATED CASH FLOW STATEMENT**For the year ending 31 December**

	<i>2010</i> <i>US\$'000</i>	<i>2009</i> <i>US\$'000</i>
FINANCING ACTIVITIES		
Repayment of borrowings	(36,619)	(30,000)
Proceeds from borrowings	89,737	167,505
Net loans repaid by (to) minority shareholders	4,697	(1,271)
Disposal (purchase/cancellation) of the Company's own shares	103	(6,761)
Dividends paid to minority shareholders	(5,813)	(6,473)
Net cash flows from financing activities	52,105	123,000
Net (decrease) increase in cash and cash equivalents	(224,028)	90,520
Net foreign exchange difference	2,086	(1,303)
Cash and cash equivalents at 1 January	328,719	239,502
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	106,777	328,719