



INTERNATIONAL HOTEL INVESTMENTS P.L.C.

ANNUAL REPORT & FINANCIAL STATEMENTS 2007





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INTRODUCTION TO IHI



International Hotel Investments p.l.c. (IHI) was launched as a publicly-traded company in 2000 by Corinthia Palace Hotel Company Limited of Malta, with the intention to acquire, develop and operate upscale hotels, and ancillary real estate, in Europe and beyond, principally in fast-evolving destinations.

IHI's investments to date have featured a combination of new-construction landmark developments, as also the acquisition of existing hotels, where IHI has maximised the earnings potential of each of the acquired hotels by way of major refurbishment and expansion projects. Typically, IHI has targeted investment opportunities in evolving, flourishing destinations, working with local authorities to unlock hidden value in landmark real estate. Overall, IHI's policy is to strike a balance between capital appreciation on acquisitions and redevelopments, and healthy operating cashflows.

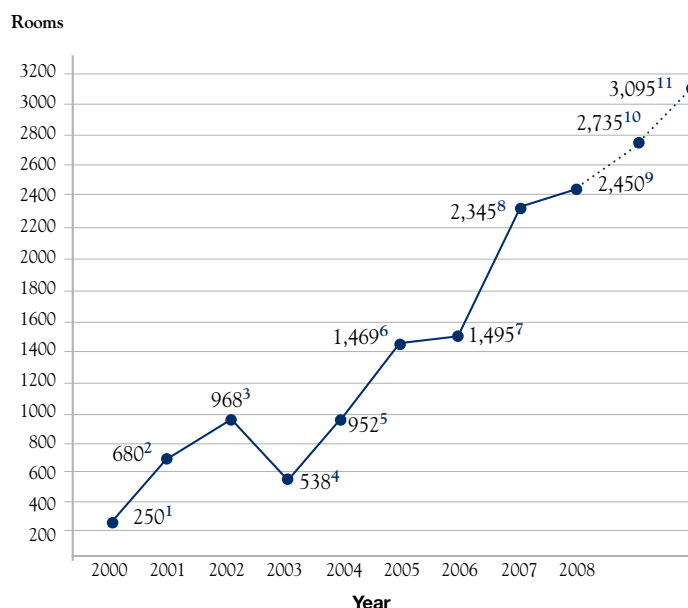
To date, IHI has acquired and developed seven landmark hotel projects, in London (United Kingdom), Prague (Czech Republic), Tripoli (Libya), Lisbon (Portugal), Budapest (Hungary), St Petersburg (Russia) and St Julian's Bay (Malta).

In 2007, IHI welcomed Nakheel Hotels (formerly Istithmar Hotels) of Dubai as another major, strategic shareholder in the Company. IHI is proud to bring together such an esteemed group of committed and strong shareholders.

Since 2006, IHI is also the principal shareholder in a hotel management company – CHI Limited (CHI) – in partnership with Wyndham Hotels Group of the United States. CHI is the nominated licensed operator of the Corinthia, Wyndham and Ramada Plaza brands across Europe, Africa and the Middle East.

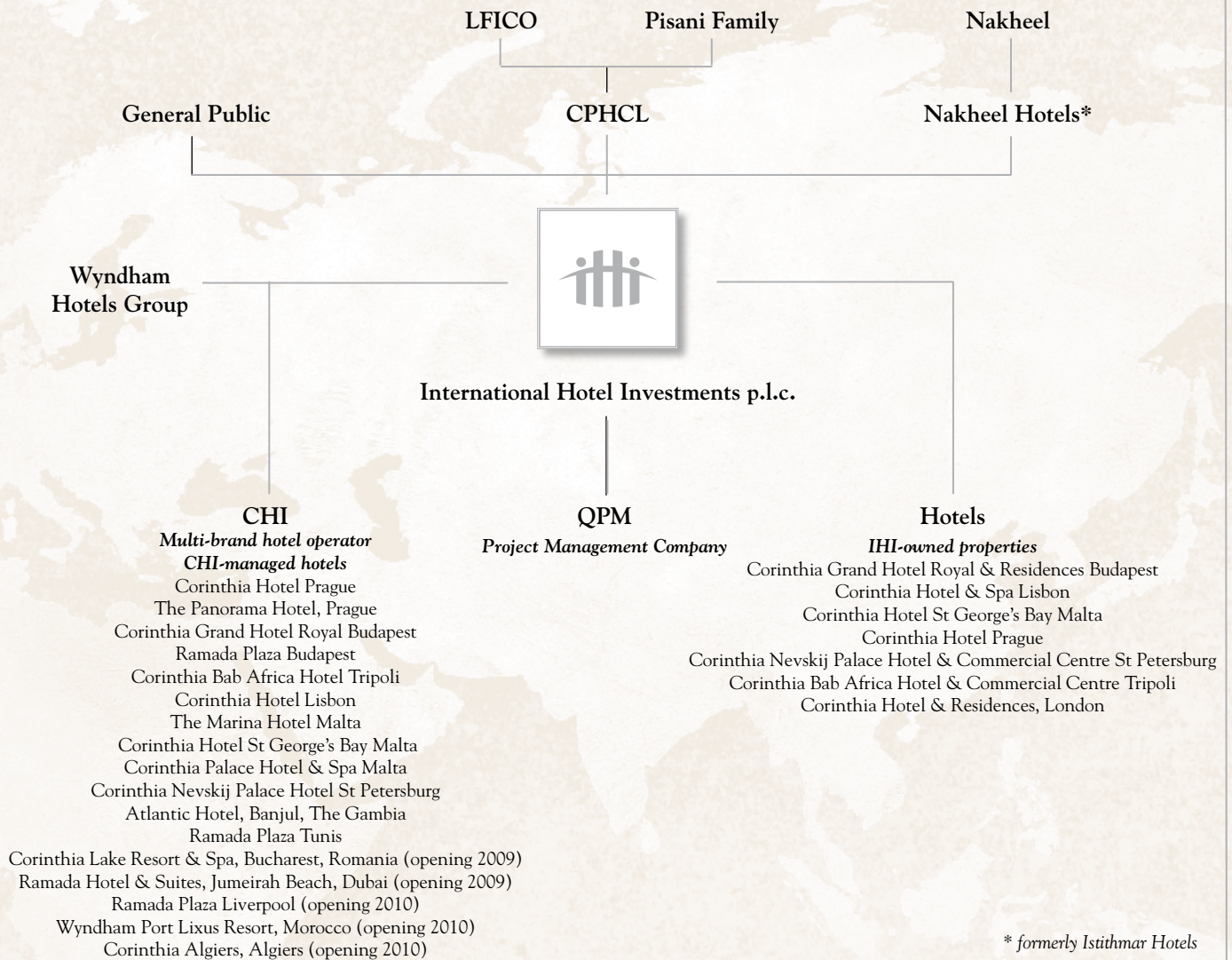
In support of its investments and developments in the hotel sector, IHI is also a strategic shareholder in Quality Project Management Limited, a construction project management firm having a specialist track record in the management of major hotel construction and refurbishment projects in a wide range of countries. Through this association, IHI is reassured of its interests in all its hotel projects, adopting an intimate, direct involvement in the planning and execution of investment projects.

OWNED ROOMS



- 1 IHI is incorporated on 29 March 2000 and immediately acquires the 250-bedroom Corinthia Hotel St George's Bay, Malta.
- 2 Acquisition of the Corinthia Hotel Lisbon on 16 August 2001.
3. Acquisition of the 285-bedroom Corinthia Nevskij Palace Hotel St Petersburg on 16 January 2002 together with adjoining buildings for development.
- 4 Shut down of the Corinthia Hotel Lisbon on 24 February 2003 for refurbishment.
- 5 IHI inaugurates the 414-bedroom Corinthia Grand Hotel Royal Budapest on 30 April 2003.
- 6 Corinthia Hotel Lisbon reopened on 1 May 2004 with 517 bedrooms.
- 7 IHI inaugurates 26 penthouse apartments in Budapest.
- 8 IHI acquires the 550-bedroom Corinthia Hotel Prague, Czech Republic and the 300-bedroom Corinthia Bab Africa Hotel and Commercial Centre in Tripoli, Libya.
- 9 IHI is expected to complete the extension of the Corinthia Nevskij Palace Hotel St Petersburg by a further 105 bedrooms, together with a retail mall.
- 10 In April 2008, IHI and its consortium partners acquire the landmark Metropole Building and 10 Whitehall Place in London from the Crown Estate and initiate plans to develop a 285-bedroom luxury hotel and 12 residential apartments.
- 11 In 2008, IHI and LFICO enter into a preliminary agreement to jointly develop a mixed-use project including a 360-room luxury hotel in Benghazi, Libya.

THE IHI GROUP

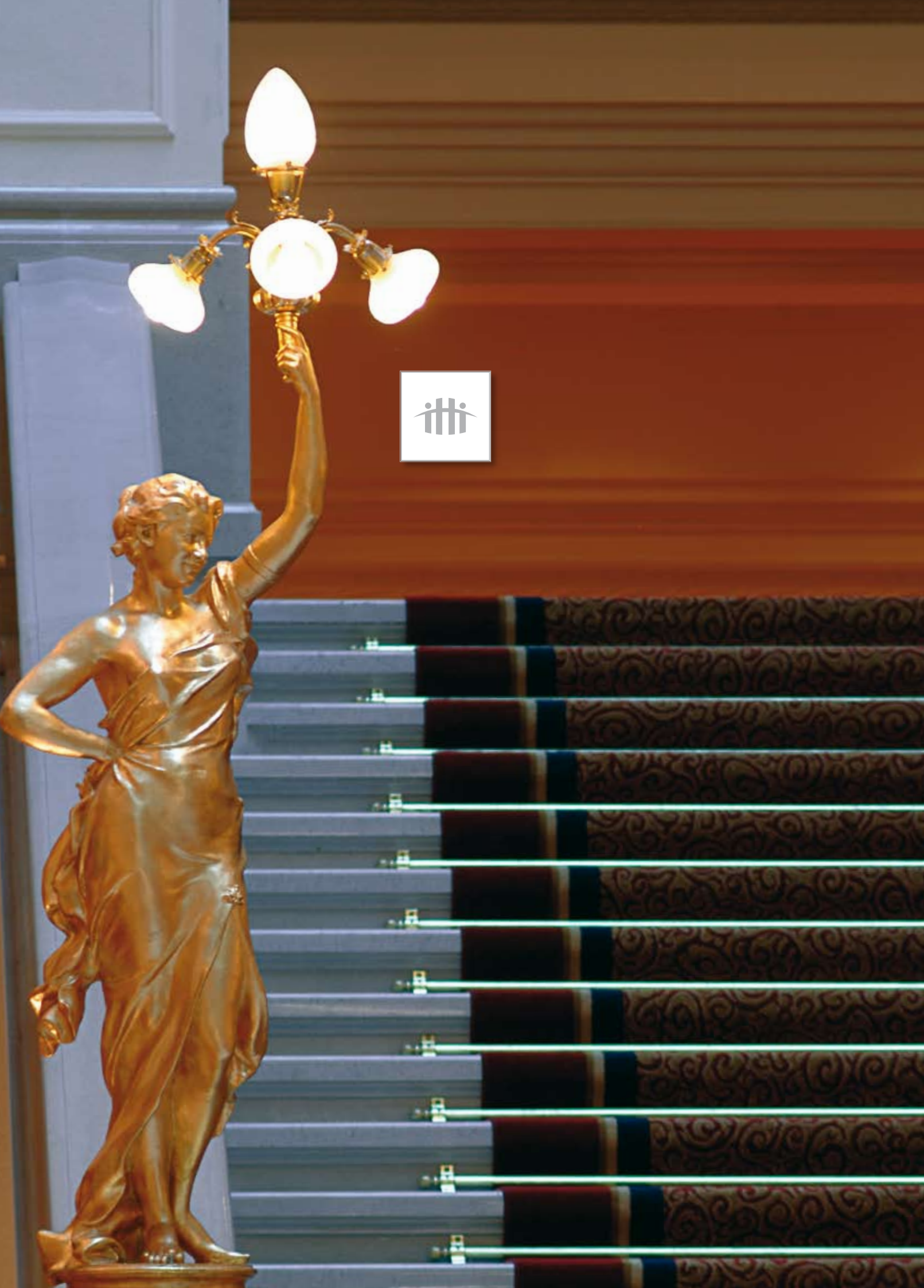


Corinthia (CPHCL) is a joint venture between the Pisani family of Malta, and the Libyan Foreign Investment Company (LFICO), which joined the company in 1974. CPHCL has since grown to be the leading private company in Malta with ownership and management interests in hotels in Europe, Africa and the Mediterranean. LFICO is the investment arm of the Government of Libya, with investments and shareholding interests across the globe, and across several sectors.

Nakheel Hotels (formerly known as Istithmar Hotels FZE) is an integrated hotel development, investment and asset management business with investments under management currently in excess of \$3 billion. Nakheel Hotels' goal is to deliver exceptional returns through the acquisition and active management of luxury hotels in key gateway cities and resorts around the world, together with strategic equity investments and investment in branded budget hotels in key growth markets. Building and leveraging relationships with key strategic partners is central to the company's investment strategy.

Investments include the Mandarin Oriental and W Union Square hotels in New York, Hotel Washington in Washington DC, the One & Only Resort in Los Cabos, Mexico and significant equity stakes in Kerzner, operator of the Atlantis and One & Only brands, and IHI, owner of a portfolio of hotels in Europe and North Africa operated under the Corinthia brand. Nakheel Hotels also has significant investments in the budget hotel sector, holding the master franchise rights for easyHotels.com in the MENA region with the first hotels under development in Dubai, and an investment in Tune Hotels in the ASEAN region.

Wyndham Hotels Group is one of three principal divisions of the NYSE-listed Wyndham Worldwide, the others being RCI Global Vacation Network and Wyndham Vacation Ownership. Wyndham Hotels Group encompasses more than 6,300 franchised and managed hotels and 535,000 hotel rooms worldwide, operating under one or the other of WHG's several renowned brands, including Wyndham, Ramada, Days Inn, Howard Johnson and Super 8. In Europe, Africa and the Middle East, WHG operates hotels under the Wyndham and Ramada Plaza brands in EMEA by way of CHI Limited, the joint venture with IHI.





BOARD OF DIRECTORS

Meeting of the Board of Directors and Mr Yousef Abdelmaula

left to right

Joseph J Vella is a partner in a leading law practice, and a director on the boards of several major companies.

Joseph Fenech, Managing Director, enjoys an acknowledged reputation in the hotel business, having been intimately involved in the Corinthia Group's expansion and financial development over the past 28 years.

Richard Johnson is the CEO of the Standard Chartered - Istithmar Real Estate Fund, based in Singapore. He has over 20 years' experience in real estate investment, development and financing in many of the world's major markets. He was previously Managing Director of Istithmar, responsible for all real estate transactions, financing, strategy and research on a global basis.

Giuseppe (Joe) Sita is the Chief Executive of Nakheel Hotels, the new name for Istithmar Hotels after being consolidated by Dubai World to create a fully integrated hotel investment company. He has extensive experience in financial, operational and development positions within the hospitality industry gained with major international organizations. Mr Sita is also Chairman of CHI Limited.

Khaled Al Kamda is Managing Director of Dubai Islamic Bank and Vice Chairman of UAE mortgage company Tamweel. He was Vice Chairman of Istithmar and also held various senior management positions during his 22-year career, including Senior Vice President of Corporate Development for Emirates Group, where he was responsible for the company's mergers and acquisitions, foreign investments and joint ventures.

Alfred Pisani is the Chairman and CEO of IHI. He founded and headed the Corinthia Group, IHI's principal shareholder. The Corinthia Group is a leading international hotel developer, investor and operator, with interests in several countries.

Mustafa Khattabi is the Chairman of Libyan Foreign Investment Company and joined the Board of IHI in 2006. He has considerable international management experience and also served as Chairman of the Libyan Arab African Investment Company, responsible for investment in Africa.

Yousef Abdelmaula is the Libyan Foreign Investment Company Executive Director and Vice-Chairman of Corinthia Group. He is also a Director of Libyan Foreign Bank.

Frank Xerri de Caro joined the Board of IHI in 2005, having previously been the CEO of Bank of Valletta p.l.c., besides serving on the boards of directors of several major financial, banking and insurance institutions. He is also the Chairman of the IHI Audit Committee.

Simon Naudi joined the Board of IHI in 2005, having joined the Corinthia Group in a senior executive role in 1997. He has been responsible for business development, particularly hotel and real estate acquisitions.

Alfred Fabri has been Company Secretary since IHI's inception. He joined the Corinthia Group in 1989 and has occupied various senior positions in the private and public sectors.



INTERNATIONAL HOTEL INVESTMENTS P.L.C.

CHAIRMAN'S STATEMENT

for the year ended 31 December 2007

Dear Shareholders,

It is my pleasure to present to you this annual report for the year 2007.

This has been a remarkable year for IHI and I am sincerely appreciative for your belief, trust and support in our vision and strategy. It is your very vote of confidence that consistently motivates me and my colleagues on the Board of Directors to continue steering, consolidating and expanding our Company.

Given the present value of its hotel and real estate assets, IHI now stands at the threshold of becoming a billion Euro public company. Having founded IHI with relatively modest resources in March 2000, this truly is a significant milestone in the history of our Company. Once again, I must thank you, our shareholders, including the several thousand individuals and funds that placed their trust in us throughout these years, for making this journey possible.

2007 has been an especially important year for IHI characterised by a quantum leap in all aspects of our business.

During this year,

- i. We tripled our issued share capital to over Euro 537 million and in the process welcomed Nakheel Hotels of Dubai as a strategic shareholding partner;
- ii. We expanded our portfolio of owned hotels and commercial real estate by acquiring the 100% ownership of landmark hotel and commercial properties in Prague and Tripoli;
- iii. We initiated a further wave of new hotel acquisitions, including two adjoining landmark properties for development in London which we acquired, early in 2008, alongside Nakheel of Dubai and LFICO and which we plan to transform into London's principal luxury hotel and a number of residences;
- iv. We embarked on major capital investments and refurbishment projects in all our existing hotels, particularly in St Petersburg where we are refurbishing and extending our hotel into the city's foremost mixed-use development;
- v. We improved the operating performance of all our existing hotels in Malta, St Petersburg, Budapest and Lisbon, and converted this into higher profits for IHI; and
- vi. We have increasingly consolidated our involvement in the hotel management business, by augmenting our shareholding in CHI Limited, the management company, from a minority position to a 70% shareholding.



CORINTHIA HOTEL - LONDON



I shall highlight the strategic relevance of each of these developments, whilst our Managing Director, Joseph Fenech will provide a financial overview of IHI's performance.

To begin with, I am pleased to report that the overall performance of our existing hotels, coupled with the gains in the capital value of our hotels and real estate, has made it possible for us to recommend for your approval an issue of bonus shares to shareholders. The Board of Directors is in fact proposing the issue of a 3 per cent bonus share which, in addition to the previous share issue in 2007, continues to render your investment in IHI a sound and profitable venture.

Prior to reviewing our performance in 2007, I would also wish to dedicate some time towards underlining the values that have made IHI successful.

Our Company was founded in March 2000 by CPHCL of Malta, which is itself a long-standing joint venture between the Pisani family and the Libyan Foreign Investment Company. CPHCL owes its traditions and vision to a 40-year track record, starting with one hotel in Malta inaugurated in 1968. The same philosophy of integrity, hard work and excellence that has driven CPHCL for more than four decades, has been injected in IHI, a public company, since its inception. IHI is just as passionate about our hotels, and just as passionate about our standards.

We are, after all, operating in a very competitive market at the high-end luxury hotel segment in some of the world's most exciting and upcoming cities.

What truly contrasts IHI from other players in the industry is its three-in-one role of investor, developer and operator of hotels. This provides us with a unique opportunity to become intimately involved in our portfolio of projects and to develop and accumulate invaluable in-house expertise across all phases of a hotel project and operation. This broad repertoire of knowledge is quite unique in today's hotel industry given other players' rational decision to focus on either investment, or just development or likewise only management.

In the case of IHI, I remain a firm believer that our continued participation in all aspects of the hotel industry gives us an edge when we come to assess and negotiate investment opportunities, when we carry forward development projects with that keenness and insight so typical of property developers, and ultimately when we come to run a hotel with our in-house management, thereby optimising the operational effectiveness of our completed projects. Furthermore, in so doing, not only would we be maximising on our investment returns, but we would also be simultaneously creating value in our subsidiaries and affiliated companies, most notably in our hotel management company, CHI Limited and our project management affiliate, Quality Project Management Limited.



I said earlier that 2007 was a watershed year for IHI.

Our issued capital now stands at Euro 537 million, compared to Euro 90 million with which IHI started in March 2000. And whilst early capital increases were forthcoming from the founding shareholders, as well as new partners including our friends from the National Real Estate Company and other investors in Kuwait, we have, in 2007, made a significant step forward in tripling our capital base by way of two important capital injections.

Here, I wish to publicly express my appreciation for the commitment and support we have received from Nakheel Hotels of Dubai, formerly Istithmar Hotels. It is exactly one year since Nakheel Hotels acquired a one third shareholding in IHI, by way of a capital injection of Euro 178 million. Over the past twelve months, Nakheel Hotels, and its directors on the Board of IHI, have demonstrated a significant level of dedication and collaboration. Indeed, Nakheel is just as passionate about the Company, and equally passionate to ensure that all our investments are keenly pursued and that all our projects are pitched at the highest standards. Nakheel has also consistently extended its expertise, its contacts and global reach thereby opening new opportunities for us to explore.

Likewise, I would also wish to thank CPHCL, and its ultimate shareholders, including the Pisani families and LFICO, for their relentless support and commitment. In 2007, CPHCL has invested a further Euro 192 million in new equity issued by IHI. This support is well appreciated by all other shareholders and by our Board of Directors.

In this regard, I would wish once again, on behalf of your Board, to express our gratitude to CPHCL, to Nakheel and everyone else.

I believe that it also apt to highlight that the combination of our public and major institutional shareholders is also quite unique and of advantage to IHI. Following the capital increases of last

year, IHI is now in a position to pursue further investment and development opportunities across the world. In addition, however, we have also been able to target larger projects that would have been beyond our own, internal financial reach. For example, in central London, we have only last month completed an important acquisition of two major landmark adjoining properties, whereby IHI together with LFICO and Nakheel are partaking as equal contributing shareholders. Nakheel and LFICO are thus supporting IHI beyond their own shareholding in IHI. This has made it possible for us to identify hotel projects such as the London acquisition that would not have been possible for us to pursue on our own steam. In London, we are now in the throes of finalising our designs and project plans to transform our acquisition of the two buildings – currently known as the Metropole Building and 10 Whitehall Place – into what will be London's foremost luxury Corinthia Hotel with 285-bedrooms, a historic ballroom, conference and meeting facilities, speciality restaurants, a spa and a number of high quality apartments for sale. This project would be completed by 2010.

This same approach is being applied to other acquisitions currently in the pipeline. For example, in Libya, IHI has entered into an agreement with LFICO to develop a major project in a central location in Benghazi, the country's second city. The project is in the planning phase and will include a 360-bedroom luxury hotel, offices for rent to third parties and apartments for sale. Libya is rapidly emerging as one of the world's fastest growing economies with substantial investment flowing into the country, coupled with Libya's own tremendous financial resources and development objectives. IHI is already present in Tripoli through the Corinthia Bab Africa Hotel & Commercial Centre, and is now poised to repeat this success in Benghazi.

Elsewhere, IHI is in active discussions to identify hotels for acquisition or development in some of the world's major cities. These include New York, Paris, Moscow and other cities in emerging destinations.





Needless to mention that the current international climate of uncertainty in the financial markets must be borne in mind when undertaking such a major programme of expansion. On the one hand, with property prices under stress and bank financing not as readily available to developers, this is a time for companies with strong balance sheets and cash reserves, such as IHI, to look out for hotels that may forcibly come onto the market at attractive prices. Acquiring now, in this downturn, would give us sufficient time to organise and complete refurbishment or development projects during what is expected to be a depressed period over the next year or so, and to launch new projects within a couple of years in time for what one expects to be an upturn in the international mood. On the other hand, we must remain conscious of the global situation around us, and ensure that our timing and valuations remain correct, prudent, and in line with the prevailing international markets. Your Board of Directors is mindful of this scenario and I assure you that we shall continue to analyse each acquisition on its own merit in the context of what is happening around us today.

I said earlier that in 2007, we expanded our portfolio of owned hotels and commercial real estate by acquiring the 100% ownership of landmark hotel and commercial properties in Prague and Tripoli. These are the 551-bedroom Corinthia Hotel in Prague and the 300-bedroom Corinthia Bab Africa Hotel & Commercial Centre in Tripoli, Libya.

These have been important acquisitions for IHI for several reasons. Firstly, we have extended our geographic spread, thereby broadening our country risk. Secondly, the hotels are mature properties with a strong track record, even though we see further opportunities for increases in our income, most especially in Prague where we will be commanding higher room rates over the coming years. Likewise, in Tripoli, we see room for further growth, not only in the current performance of the hotel, but also by way of a development project where we intend to build a new commercial office tower on vacant land adjoining the hotel. Nonetheless, the impact of these two hotels on our Income Statement in 2007 is remarkable especially when one notes that these properties were incorporated in IHI in May and, consequently, their contribution to its financial results are solely based on seven months of the year.

Throughout 2007, we also continued with our capital investments in our existing hotels - and this with the aim of establishing our hotels as leaders in the luxury segment in their respective cities.





In particular, in St Petersburg, work has progressed significantly at the 285-bedroom Corinthia Nevskij Palace Hotel, where we are refurbishing the existing Hotel's public areas, restaurants, spa and foyer, as well as reconstructing three adjoining buildings. One of the buildings will house an element of high-street top-end fashion retail shops, as well as an additional 105 executive bedrooms plus St.Petersburg's most modern and largest conference rooms. Another building will feature 15,000m² in retail mall and offices for rent to third parties, whilst the third building consists of a multi-storey carpark and a further 1,200m² of offices for rent. We are half-way through these projects, in fact, the existing hotel will be totally refurbished by June 2008, whilst the extensions and new buildings will be phased in stages by the end of 2008 and early 2009. The total project cost is anticipated to be just under Euro 100 million. When considering the original acquisition price of these various properties in 2002, and the income to be generated upon completion of the development, one would immediately appreciate the substantial capital gains IHI would have achieved in St Petersburg.

Other capital investment projects in 2007 included the construction of a 1,000m² spa at the 517-bedroom, Corinthia Hotel in Lisbon and the refurbishment of 237 bedrooms in this hotel. The remaining bedrooms had already been refurbished in 2004. Here, the results of our investment are increasingly becoming evident, with room rates and profits on the increase for the fourth year running.

In Malta, in 2007, we also completed the refurbishment of the Corinthia Hotel in St Julian's, and here too, the results speak for themselves. Room rates are up and so are the profits. I am confident of Malta's future in the leisure, corporate and conference sectors, and the Corinthia Hotel St Julian's, with its excellent location and pristine condition, will continue to partake in this upswing in the country's overall performance.

In reviewing our performance for 2007, I also wish to take note of the significant company re-structuring that has taken place in CHI Limited, the management company. As you know, in 2006, IHI increased its shareholding in CHI from 20% to 70%, and simultaneously Wyndham Hotels Group International of the United States acquired the remaining strategic shareholding. CHI is licensed to operate hotels under the Corinthia, Wyndham and Ramada Plaza Brands in Europe, Africa and the Middle East.

The increase in the number of operating agreements signed during 2007 augurs well for the future of this relationship. These include a 173-room Ramada Plaza Hotel in Liverpool scheduled to open in 2010, a 418-room Wyndham Port Lixus Resort Hotel in Morocco with a planned opening date of mid-2010, a 371 all-suite Ramada Plaza Hotel & Suites in Jumeirah Beach, Dubai planned to open in 2009, a 274-room Corinthia Algiers Hotel in Algiers planned to open in 2010 and a Corinthia Lake Resort and Spa Hotel in Bucharest scheduled to open in 2009.

Throughout the year under review, CHI has entirely re-organised its internal management, ably led by Mr Tony Potter, the Chief Executive and Managing Director, and supported by Mr Joe Sita, who is the CEO of Nakheel Hotels, and who has in addition assumed responsibility as chairman of CHI Limited. As a consequence of this effort, CHI is now a leaner company, entirely focused on maintaining brand standards and increasing the profitability of its hotels. CHI is also expanding its portfolio of managed properties, under the brand names it is licensed to operate.

Dear Shareholders, 2007 has seen our Company consolidate and expand its presence in the international arena of hotel investments, development and management. 2007 has seen IHI further strengthen its existing operations and was witness to increasing profitability. IHI has truly taken a leap onto a higher platform with plans for further growth in 2008 characterised by tighter management and more acquisitions.

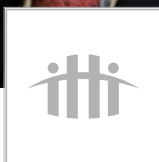
We are also seeking to strengthen our value by listing IHI on the London Stock Exchange. To achieve this milestone, we are in the process of finalising the terms of appointment of a leading international investment bank who will be advising us on this listing. Our objective is principally to list our shares on an exchange which will provide liquidity in trading, as well as further reinforce our overall valuation.

Over the coming months, we shall be preparing detailed groundwork for this listing. On the other hand, the precise timing of the listing will continue to be closely monitored by your Board of Directors since we must remain watchful of the prevailing market conditions on the international financial markets before taking such an important step. On this subject, we shall be consulting our shareholders in due course with the objective of determining the optimum timing and pricing for the listing.

In conclusion, I would wish to once again thank you, all our shareholders, for your support. I also would wish to thank my colleagues on the Board of Directors, and all of our executives and staff, for their determination and perseverance to ensure that our existing hotels and future investments continue to strengthen IHI's position in the challenging and exciting, world of international hotel investment.

Thank you.

Alfred Pisani
Chairman & Chief Executive Officer



INTERNATIONAL HOTEL INVESTMENTS P.L.C.

MANAGING DIRECTOR'S REPORT

for the year ended 31 December 2007

We are happy to report that in 2007 all the main performance indicators registered an improvement over the previous year. The Group's revenues increased by 72.5% to €104.2 million in 2007, from €60.4 million in 2006. Gross Operating Profit for 2007, at €38.5 million, is equivalent to 38% of revenue and reflects a higher level of efficiency than that recorded in 2006 when only 26% of revenues were converted into operating profit.

The key factors for these improvements in revenue growth and increased operational efficiency were the impact of the recently acquired Corinthia Bab Africa Hotel & Commercial Centre in Tripoli, and the Corinthia Hotel in Prague, even though the 2007 results only include the performance of the last seven months of the year. The 2007 Group results also include a full year of the performance of CHI, whilst the 2006 results only included the performance for the last two months, when it became a subsidiary of IHI. Moreover, the results of the existing assets also registered improved revenues and higher profitability, as these continued to progress towards reaching operational maturity. Chart 1 amply shows the impact on the Group's performance from existing hotel assets and those acquired during the course of 2007.

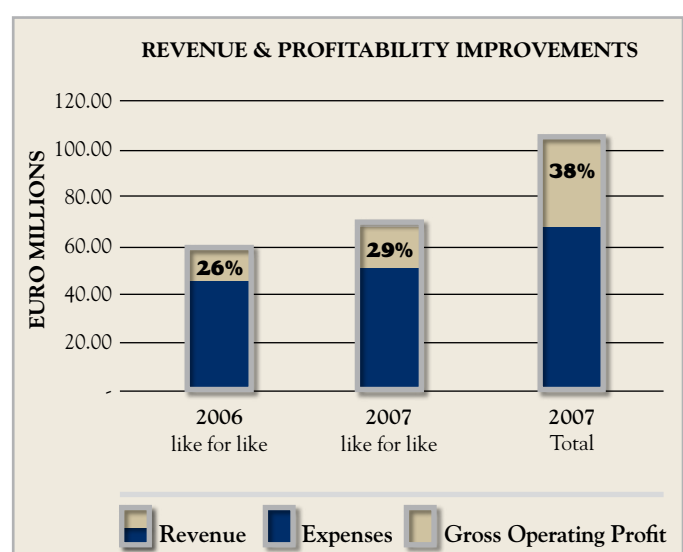


Chart 1: Revenue and Profitability Improvements 2006 - 2007

In line with the policy of the Group of testing the carrying amounts of its properties for fair value, an uplift of €5.7 million was recognised in the Income Statement in the case of a vacant plot of land adjacent to the Corinthia Nevskij Palace Hotel in St. Petersburg and a further €2.0 million in relation to the Commercial Centre in Tripoli.

The 2007 profit before tax of €14 million is a substantial improvement on the €10.7 million loss before tax incurred in 2006. This is mainly due to the higher profitability registered in the year under review, as explained earlier. Another positive factor to this year's turnaround was the impact of the revaluation of the carrying amounts of the Group's properties. Whilst last year we registered an uplift in investment properties of €2.21 million and an impairment loss of €7.15 on one of the hotel properties, in 2007 we are reporting an uplift in investment properties of €7.72 million.

	2007 Group € millions	2006 Group € millions
Gross Operating Profit	38.47	16.12
Non-operational administration costs	(4.71)	(3.01)
Depreciation and amortisation	(17.62)	(10.00)
Profit before revaluations	16.14	3.11
Net revaluations	7.72	(4.94)
	23.86	1.83
Net interest expense	(9.83)	(8.91)
Profit (loss) before taxation	14.03	(10.74)
Taxation	(4.02)	0.22
Profit (loss) after taxation	10.01	(10.52)

Chart 2: Summary of Income Statement

The Group's Balance Sheet was further improved in 2007 by the issue of €375 million in fresh equity. Out of this amount, €192 million was issued to CPHCL along with €15 million cash in exchange for the acquisition of the Corinthia Hotel in Prague and the Corinthia Bab Africa Hotel & Commercial Centre in Tripoli with the balance of €178 million being issued to a strategic investor, Istithmar Hotels FZE, as approved by the shareholders in the Extraordinary General Meeting held in January 2007.

The increase in capital, along with the €10 million net profit after tax and the €22 million increase in the carrying value of hotel assets, which is reflected in equity, all contributed towards an improvement in the Group's net worth by €402 million. It is also encouraging to note that borrowings only increased by €103 million from €180 million in 2006 to €283 million in 2007. The combined effect of the increases in equity and borrowings which are in turn represented by a corresponding increase in our asset base, have positioned our company to reach the Euro one billion mark for the year under review.

Whilst value uplifts on investment properties are recognised in the income statement, corresponding increases in value arising on hotels are included in the Balance Sheet and reported under revaluation reserves. Independent valuations of the Hotels in St. Petersburg, Prague and Tripoli have all given rise to increases in carrying values.



Liquidity and Cash Flow

The positive trends in cash flow generation which started in 2006 continued unabated, in 2007. In total, cash generated from operations increased from €14 million in 2006 to €29 million in 2007. This strong cash generation enabled the Group to make €15 million in loan repayments, and to also fund a significant part of the capital expenditure of €35 million incurred during the year.

Interest Cover and Debt Levels

Interest expense, excluding interest income received, expressed as a percentage to operating profits decreased to 36% in 2007 from 61% in 2006. This is the result of a positive trend of year-on-year increases in profitability on the Group's assets. Chart 3 illustrates the ratio of interest expense as a percentage of profit over the four-year period 2004 to 2007. It is heartening to note that although interest cost has increased substantially over this period, due mainly to the development of existing hotel assets and the acquisition of two additional hotels in 2007, the ratio of interest to profit has fallen dramatically from 68% in 2004 to 36% in 2007 on account of the significant improvement in profitability which has increased more than three-fold over the period.

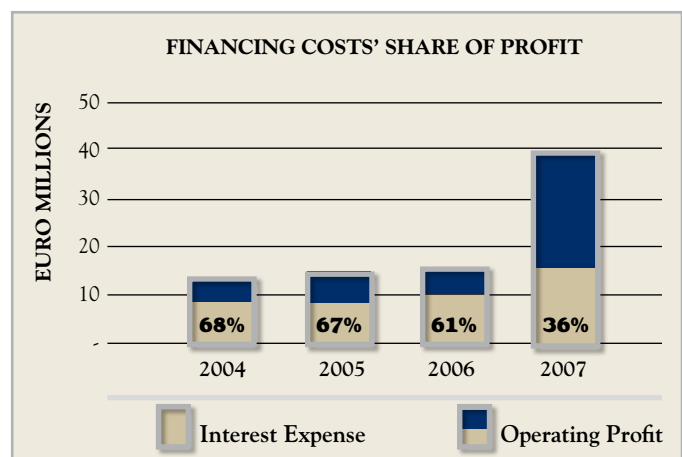


Chart 3: Financing costs' share of profit 2004 - 2007

The conservative gearing levels and improving interest cover, coupled with the €65 million of un-drawn banking facilities, gives us the confidence that we will be able to raise an extra €200 to €220 million worth of debt to invest along with the balance of available capital of €160 million, in new projects.

Future Potential

Notwithstanding the overall improvements registered in 2007, the performance of the Group still has further room for improvement. Our strategy is designed to achieve higher returns through a mix of initiatives:

- a) We shall continue to focus on the improvement of our present operations – asset management efforts continue unabated and our past performance is evidence of our ability to achieve ambitious targets. We are confident that we can still drive substantial higher earnings from each of the existing properties until 2010/11.

In 2007, the Group invested a total of €35 million in capital improvements. It invested €6.4 million in improving its present portfolio of assets through the finalisation of the refurbishment programmes of the Corinthia Hotels in Malta and in Portugal. A further €28.2 million was invested in the development project on the hotel and adjoining buildings in St. Petersburg that is still planned for completion towards the end of 2008. Once completed this project will increase the capacity of the hotel's room stock from the present 285 rooms to 390 rooms, increase the meetings and conference areas and will provide 15,000 square metres of retail and office space for rental to third parties. Even though €70 million worth of loans were approved by banks to finance these projects, only €4.2 million out of these facilities were availed of during 2007 in view of the Group's strong cash flow position. It is also worth noting that on completion of the St. Petersburg project, the additional income and profit that will be generated from the added facilities, will make a very significant impact on the Group's performance as from 2009.

- b) We shall continue to diversify our earnings - whereas up to 2006 the Group's earnings were in the main driven by hotel operations, the Group now has considerable income streams from CHI – the management company, in which the Group has a 70% shareholding, and the Commercial Centre in Tripoli. By 2009, the St. Petersburg project would also contribute a considerable stream of non-hotel related earnings, through the lease of the retail and office component of this development.

This diversification will not only contribute to further increases in revenue but will most importantly continue to drive higher profitability.

- c) We shall achieve growth through new developments – the new capital which has been injected provides an enormous potential for improving future earnings.

The Company

The main source of income of the Company in 2007 was interest receivable on bank deposits and on loans advanced to Group companies. In 2006, other than interest income, the Company also received dividends from CHI Ltd, which up to October 2006 was an associated company. At the end of October 2006, IHI acquired a majority shareholding in CHI and the income and profits made by this subsidiary are now reported in the consolidated results of the Group. The interest earned on the new capital available to IHI for re-investment, was the main determining factor for the increase in the Company's income from €3.3 million in 2006 to €5.8 million in 2007.

Prior to June 2007, IHI paid a management fee to CPHCL in return for services provided by executives employed by CPHCL but assigned to the activities related to IHI. In June 2007 these executives were transferred to the payroll of IHI. Moreover, 2007 was marked by an intensification of efforts to identify new business opportunities. These two factors were the key drivers of the increase in the administrative costs incurred in IHI from €1.7 million in 2006 to €3.1 million in 2007.

The 2007 revaluation to fair value of the Company's investment in its subsidiaries amounted to €34 million compared to a corresponding uplift in 2006 of €7.6 million.

The result for 2007 shows a profit after tax of €20.5 million compared to a profit after tax of €1.7 million in 2006.

Performance by Property

Generally, demand for hotel accommodation strengthened during 2007. The hospitality industries in Portugal, on account of the increased popularity with conference organisers, and Malta, with the introduction of low-cost airlines, have both registered strong improvements in revenue and profitability. Conversely, the Czech Republic and Hungary registered a softening in demand due to the strengthening of their respective local currencies against the more established and widely used international currencies. In the case of the Czech Republic, substantial increases in room inventory acted as a further hindrance to revenue and profitability improvements.

Budapest

The hotel's fair market share continued to progress further to 98% in 2007 with a 2.5% increase in occupancy and a €2.65 increase in average room rate. The hotel generated €22.1 million in total revenues compared to €19.7 million in 2006. Gross Operating Profit for 2007 of €6.4 million represents a €0.5 million improvement on the 2006 result. After charging depreciation of €3.5 million and incentive fees of €0.6 million, the Company registered an operating profit of €2.4 million compared to €2.0 million in 2006. Net interest payable and exchange differences amounted to €2.7 million in 2007 and €2.2 million in 2006.

St. Petersburg

The Company is currently undertaking a major refurbishment and development program which is scheduled for completion by the end of 2008. Once the development is complete, the room stock will increase to 390 bedrooms and the hotel will benefit from larger meeting and conference spaces as well as 15,000 square metres of retail and commercial space for rental to third parties. This will increase the revenue generated, its profitability and contribute to further diversify the source of the Group's income streams. Although the 2007 room occupancy of 56% is lower than that recorded in 2006 by 5% in view of the disturbances caused from the adjoining construction works, the hotel increased its average room rates from €177 in 2006 to €203 in 2007 to maintain total revenue of €17.9 million at par with the 2006 level.



The net profit before fair value adjustments and tax in 2007 amounted to €3.8 million which is better than the 2006 result by €0.5 million mainly on account of the improvement in the average room rate and lower interest costs.

The carrying value of the investment properties adjacent to the hotel were assessed to have incremented by €5.7 million in 2007 as compared to €2.2 million in 2006. This improved the net profit before tax to €9.5 million for 2007 against a corresponding profit figure of €5.5 million in 2006.

Lisbon

The hotel experienced the fourth consecutive year of revenue and profitability growth. In 2007, the hotel improved its fair market share from 75% in 2006 to 90% (Data provided by Deloitte's Hotel Benchmark™ Report). This improvement was achieved both through an increase in occupancy and in the average room rate. The 2007 occupancy rate of 55%, is 4% higher than the 2006 result and the €106 average room rate is €16 higher than that achieved in the previous year.

Whilst 2007 revenues of €17 million were €3.2 million higher than in 2006, the hotel's operating profit expressed as a percentage of revenue was further increased from 14% in 2006 to 23% in 2007 resulting in a Gross Operating Profit of €3.9 million for the year.

After the deduction of the depreciation charge for the year amounting to €3.7 million and interest payable of €2.3 million, the resultant loss of €2.4 million before fair value adjustments shows an improvement of €1.6 million on the loss of €4 million reported in 2006.

Whereas in 2006 an impairment loss of €7.15 million was recognised with respect to this property, the year-on-year improvements in performance indicate that this impairment could soon be reversed. However, in 2007 the Directors decided that it would be prudent to allow further performance improvements to be registered prior to recognise this reversal.

Malta

Subsequent to the refurbishment project carried out in 2006, the hotel's 2007 occupancy of 61% was substantially higher than the 45% achieved in 2006. Average Room Rates were likewise positively impacted by an improvement of €6 resulting in the generation of total revenues of €10.6 million for 2007 compared to €8.3 million in 2006. Gross Operating Profit of €1.4 million in 2007 was €1.0 million higher than the €0.4 million registered in 2006.

The depreciation charge for 2007, at €1.4 million is €0.4 million higher than the charge for 2006 due to the fixed asset additions made during the refurbishment programme. The improvements in operating performance resulted in net loss before tax falling to €0.2 million compared to a loss of €0.8 million in 2006.

New Acquisitions – Tripoli and Prague

The seven-month performance of the two recently acquired assets has increased group revenues by €33.3 million and Gross Operating Profits by €16 million. Whilst revenue generated from these two assets represents 32% of the total annual revenue of the Group, their profits account for more than 42% of the Group's total, reflecting the higher productivity achievable in these destinations, as has been amply demonstrated in Chart 1.

With a combined depreciation charge of €6.0 million, incentive fees of €1.0 million and interest payable of €3.8 million these properties generated €5.1 million in profit before taxation prior to fair value adjustments.

The carrying value of the Commercial Centre in Tripoli increased by €2.0 million since acquisition and this drives the combined profit before tax to €7.1 million. Other increases in the carrying value of the two hotel assets were reflected through equity and not through the income statement of the respective subsidiary company.

CHI – The Management arm

The full year results of this company are reflected in the Group's financial statements for the first time in 2007. With revenues of €8.8 million and gross operating profits of €3.0 million, representing a 34% conversion, CHI is a strong contributor to the increases in Group-wide revenues as well as in achieving higher profitability.

The resulting net profit before tax, after charging depreciation of €0.1 million and adding back net interest receivable of €0.2 million is equal to €3.2 million.

CHI has, in 2007, strengthened its relationship with Wyndham Hotel Group and the business generated through Wyndham's distribution systems continued to show encouraging signs of growth in each of the hotels under management.

Quality Project Management Limited

During the year under review the Company and its wholly-owned subsidiary were engaged in a number of projects, principally the Corinthia Nevskij Palace Hotel and adjoining properties in St. Petersburg, the development of a 230-room Hotel and Commercial Centre in Khartoum, Sudan and the project and construction management of a 418-unit gated residential compound in Janzour, Tripoli.

Total revenue generated during the year under review amounts to €7.7 million compared to €7.2 million in 2006. The Company and its wholly-owned subsidiary achieved a loss before tax of €0.2 million compared to a profit of €0.3 million in 2006. The Group equity accounted for its 20% share of the results of this company in its consolidated financial statements.

In concluding, I would like to thank the Chairman, Board of Directors and the executives of the Group for their continued perseverance, loyalty, hard work and support. These qualities have been the hallmark of our success in the past and will surely continue to contribute towards the achievement of even better results in the future.



Joseph Fenech
Managing Director





INTERNATIONAL HOTEL INVESTMENTS P.L.C.
OUR OWNED PROPERTIES



CORINTHIA
GRAND HOTEL ROYAL
BUDAPEST



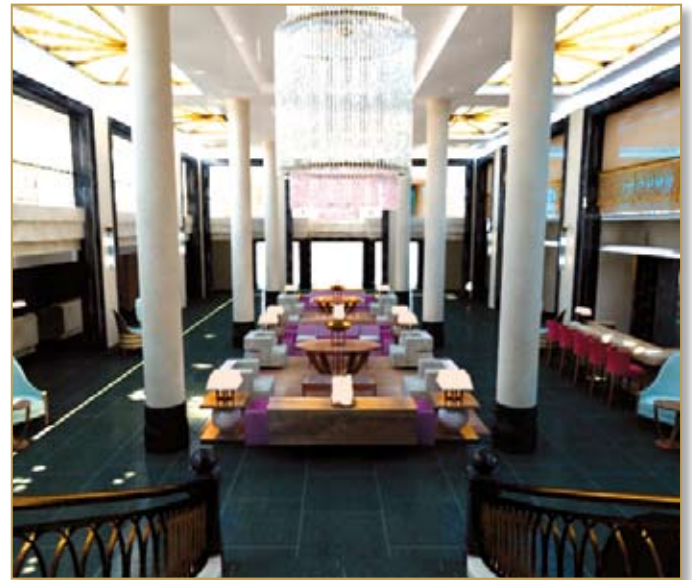
The Corinthia Grand Hotel Royal in Budapest is a landmark, deluxe property, originating in the grand architectural epoch of the late 19th century. The hotel was acquired by IHI as a vacant building in April 2000, and subsequently demolished to make way for a 60,000m² reconstruction that retained the historic façade and the 19th century classical ballroom. The new hotel consists of 414 executive bedrooms, as well as extensive support facilities. These include conference facilities covering 3,600m² of meeting and exhibition areas; the fully-restored 19th century ballroom; a multi-storey 260-vehicle carpark and coach park; a nightclub; and various restaurants and dining outlets. The hotel was officially opened in April 2003.

In 2006, IHI completed the refurbishment of a unique 1,000m² spa adjoining the hotel. The spa was originally built in 1866 and has now been extensively renovated, comprising a 15-metre pool set in a spectacular atrium, state-of-the-art steam baths and saunas, 13 treatment rooms and a wide range of the latest spa facilities.

Also in 2006, IHI completed the fit-out of 26 luxury apartments for long-term staying guests. The penthouse apartments range in size from 80m² to 120m² and are now fully operational.



CORINTHIA
NEVSKIJ PALACE HOTEL
ST. PETERSBURG



The 285-room five-star Corinthia Nevskij Palace Hotel in St. Petersburg, Russia, was acquired by IHI in January 2002. The hotel is located right in the centre of the city, on the main boulevard, Nevskij Prospekt. It is fully operational and its existing rooms have been fully refurbished.

In 2007, work progressed in expanding the hotel by demolishing and rebuilding two large, vacant properties on either side of the hotel, which had also been acquired by IHI at the time of the hotel acquisition.

One building will include 105 additional executive bedrooms and a convention centre. The other building will be allocated to a 15,000m² mixed-use commercial centre featuring a retail mall and offices for rent to third parties. The public areas in the existing hotel will also be refurbished to five-star standards. Works are well underway on this major project. The new, expanded Corinthia Nevskij Palace Hotel & Commercial Centre is expected to be completed by end 2008.



CORINTHIA
HOTEL
LISBON



The high-rise Corinthia Lisbon Hotel & Congress Centre was acquired by IHI in August 2001 and subsequently shut down in February 2003 to make way for a thorough refurbishment and upgrade to five-star status. The renovated hotel was re-opened in May 2004, and comprises 517 bedrooms, a 280-cover main restaurant, a 120-cover Portuguese restaurant and a lobby bar. Above all, the hotel is fully equipped for the meetings, conference and incentive markets. Its 3,000m² allocated to state-of-the-art meeting facilities make it the largest conference hotel in Lisbon, able to handle 1,400 delegates at any given time, supported by a 24th floor executive check-in, dining and business facilities.

In 2007, work was completed on the final phase of the refurbishment project which saw the total upgrade of all rooms up to the standard of the other rooms which were refurbished in the first phase.

Furthermore, works are ongoing and nearing completion on the construction of a luxury 1,000m² spa and health centre in the hotel. The new spa is expected to welcome guests in May 2008.



CORINTHIA

HOTEL

ST. GEORGE'S BAY, MALTA



The Corinthia St George's Bay Hotel is a modern development sitting on 28,000m² of prime site land, right at the water's edge in St. George's Bay, Malta, by far Malta's premier location for hotel and commercial real estate. The hotel was the first IHI acquisition, having been taken over soon after the Company's inception in April 2000. The 250-room hotel is particularly geared for the leisure and conference markets, with extensive meeting facilities and a private beach lido serviced by several restaurants and dining venues.

In 2006, the hotel completed a major refurbishment project. The refurbishment comprised a total upgrade of the hotel foyer, all bedrooms and corridors, as well as the introduction of the latest technological systems in the hotel sector. This upgrading places the Corinthia San Gorg Hotel at the forefront of the leading five-star hotels in Malta.



CORINTHIA
BAB AFRICA HOTEL
TRIPOLI



The Corinthia Bab Africa Hotel & Commercial Centre is the landmark development in downtown Tripoli, located right at the heart of the city's commercial and historic districts, overlooking both the Medina and the Mediterranean Sea. The property was inaugurated in 2003 by Corinthia Group and acquired by IHI in June 2007.

The hotel is housed in two, spectacular high-rise towers, and is the only deluxe accommodation facility available in the City, having 300 executive rooms and suites, as also an array of conference, banqueting and food outlets.

The property also features a luxury spa, outdoor swimming pools and luxurious public areas.

The commercial offices in a purpose-built building adjoining the hotel towers are an integral component of the project, and house 10,000m² of top quality offices, fully occupied by a select number of blue chip companies operating in the oil and gas sector.



CORINTHIA
HOTEL
PRAGUE



The Corinthia Hotel Prague, Czech Republic was acquired by IHI in June 2007.

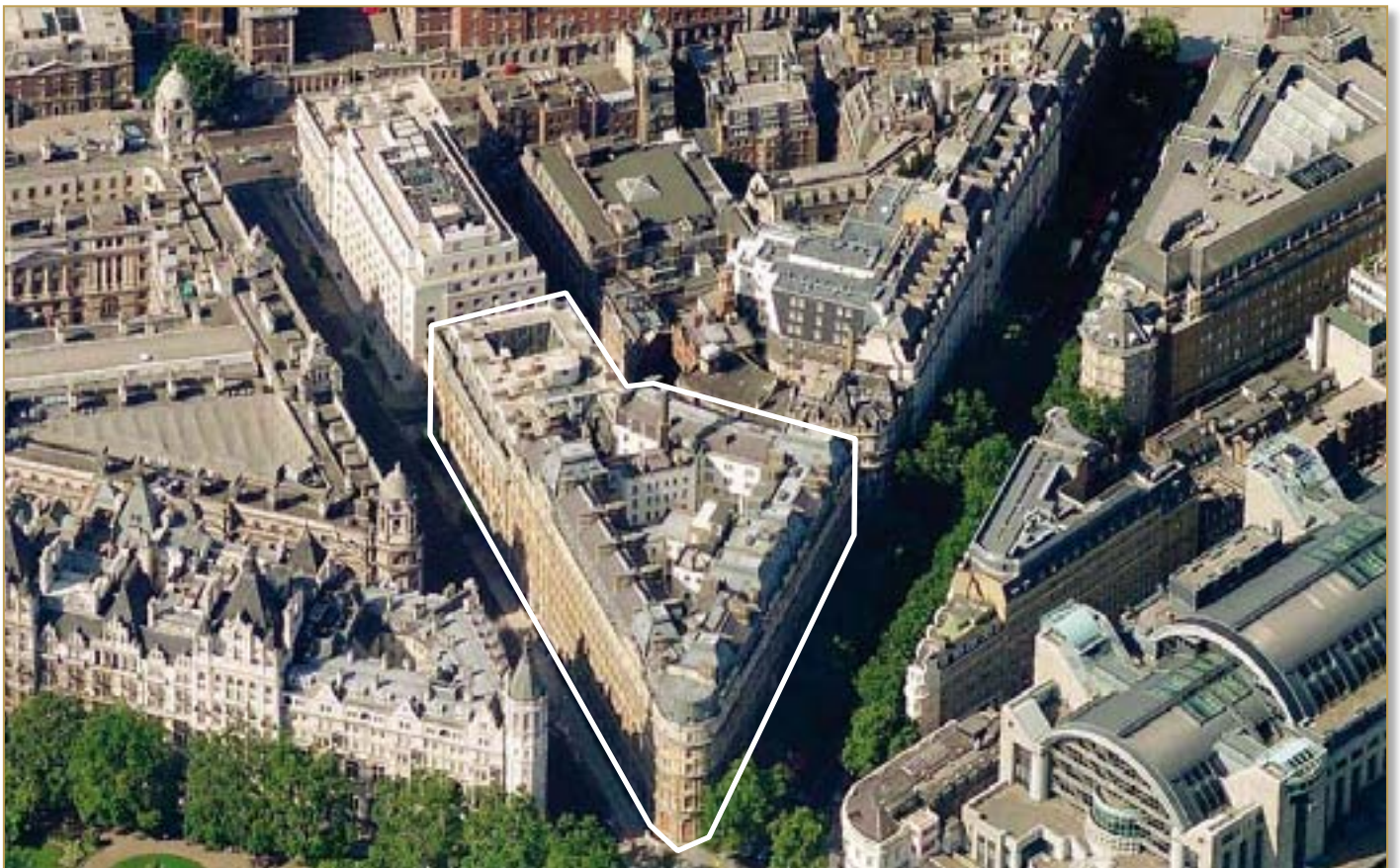
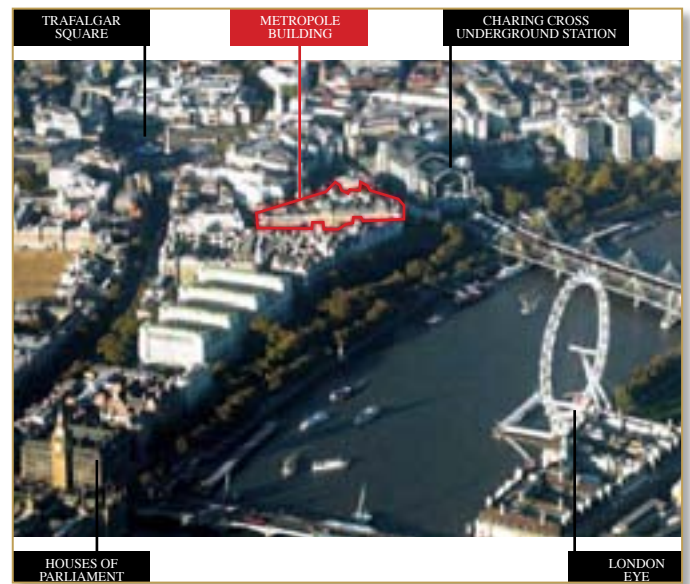
The hotel is a landmark five-star high-rise 550-room property overlooking the City's historic centre, and adjoining the national congress centre of the Czech Republic. The property is one of the leading, major hotel properties in the country, and has been fully refurbished over the past years.

The Corinthia Hotel Prague is a leading conference hotel in its own right, having over 3,000m² of meeting space, besides extensive food and beverage operations, a spa and roof top swimming pool and an executive business lounge floor, all affording dramatic views of the City of Prague.

The 550 rooms include 15 Executive Suites, 16 Junior Suites, six Standard Suites and one Presidential Suite. Executive Club rooms enjoy separate check-in plus private breakfast in the Club Lounge.



CORINTHIA
HOTEL & RESIDENCES
LONDON



Early in 2008, IHI and its principal shareholders – LFICO and Nakheel Hotels – jointly entered into a development and acquisition agreement with the Crown Estate for what is currently known as the Metropole Building and 10 Whitehall Place in central London. The two adjoining properties occupy an entire triangular block, facing Northumberland Avenue, Whitehall Place and Scotland Yard Road.

Developed in the late 19th century as the Metropole Hotel, but later used by the Ministry of Defence since the mid-1930s, the Metropole Building and its adjoining 10 Whitehall Place, now lie vacant. In agreement with the Crown Estate, the property will be redeveloped into London's premier luxury hotel.

The project envisages the refurbishment of the Metropole Building into a luxury Corinthia Hotel with close to 300 bedrooms, a historic ballroom, conference and meeting facilities, a speciality restaurant and a number of other food and beverage outlets. Whitehall Place will be redeveloped to include a luxury spa and 12 luxury apartments for sale.

By virtue of the concepts, interior design and luxurious finishes which the developers are planning for the project, as well as the property's most central location, the Corinthia Hotel is expected to establish itself as London's foremost luxury hotel.





INTERNATIONAL HOTEL INVESTMENTS P.L.C.

DIRECTORS' AND OTHER STATUTORY REPORTS & FINANCIAL STATEMENTS

for the year ended 31 December 2007

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DIRECTORS' REPORT

For the Year Ended 31 December 2007

The Directors present their report of International Hotel Investments p.l.c. (the "Company") and the Group of which it is the parent for the year ended 31 December 2007.

Board of Directors

Mr Alfred Pisani	(Chairman and Chief Executive Officer)
Mr Joseph Fenech	(Managing Director)
Mr Mustafa Khattabi	
Mr Simon Naudi	
Mr Giuseppe Sita	
Dr Joseph J Vella	
Mr Frank Xerri de Caro	
Mr Khaled Al Kamda	(Appointed on 5 July 2007)
Mr Richard Johnson	(Appointed on 5 July 2007)
Mr Lawrence Zammit	(Resigned on 29 May 2007)

Principal activities

International Hotel Investments p.l.c. carries on the business of an investment company in connection with the ownership, development and operation of hotels, leisure facilities, other activities related to the tourism industry, and commercial centres. The Company holds a number of investments in subsidiary and associated companies (as detailed in the notes to the financial statements), through which it furthers the business of the Group.

Review of business development and financial position

The results of the operations for the year are as set out in the income statements. The Managing Director's Report on pages 14 to 19 reviews the business of the Group for the year and the financial position at 31 December 2007.

Bonus shares

The Extraordinary General Meeting held on 31 January 2007 approved a resolution authorising the capitalisation of an amount not exceeding €5,000,000 from revaluation reserves and to issue a fully paid up Bonus share for every six ordinary shares in issue as at 30 June 2007. The Resolution further stated that CPHCL waived its right to its Bonus issue and that the Directors were authorised to undertake a buy-back programme of Bonus shares issued.

An amount of 4,961,223 Bonus shares was issued and, as at the end of the six-week period allowed for the re-sale of such Bonus shares, 398,217 or 8 per cent of the Bonus shares issued were sold back to the Company. The shares bought back were resold as provided in terms of the resolution.

Future developments

The Chairman's Statement on pages 8 to 13 details the developments in the business of the Group including those expected to materialise after the date of this report.

Going concern

The Directors have reviewed the Company's and the Group's operational and cash flow forecasts. On the basis of this review, after making enquiries, and in the light of the current financial position, the existing banking facilities and other funding arrangements, the Directors confirm, in accordance with Listing Rule 9.40.19, that they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

DIRECTORS' REPORT

For the Year Ended 31 December 2007

Principal risks and uncertainties faced by the Group

The Group started trading in 2000 undertaking a strategy of rapid expansion. The Group's operations should be considered in the light of the risks and the difficulties frequently encountered by companies in the early stages of their development, particularly in new and rapidly developing markets. The Company's close relationship with the Corinthia Group and Istithmar Hotels FZE should however contribute towards diluting the risks inherent in the Group's own limited trading record.

The Group's business is reliant on hotel properties and operations which are seasonal in nature. The hotel industry globally is characterised by strong and increasing competition. Many of the Group's current and potential competitors may have longer operating histories, higher brand name recognition, larger customer bases and greater financial and other resources than the companies within the Group.

The Group's major operations are located in stable economies. The Group also owns certain subsidiaries that have operations situated in emerging markets. Emerging markets present different economic and political conditions from those of the more developed markets and could possibly present less social, political and economic stability. Businesses in emerging markets may not be operating in a market-oriented economy as known in other developed markets.

Bonus share distribution

The Directors recommend a Bonus Share Issue of 3% for all the Company's shareholders appearing on the Register of Members of the Company as at close of business on 18 April, 2008 to be distributed from its reserves. The Bonus Share Issue is subject to approval by the Company's Annual General Meeting which will be held on 15 May, 2008.

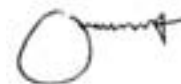
Reserves

The movements on reserves are as set out in the statements of changes in equity.

Approved by the Board of Directors on 8 April 2008 and signed on its behalf by:



Alfred Pisani
Chairman and Chief Executive Officer



Joseph Fenech
Managing Director

Registered Office

22 Europa Centre
Floriana FRN 1400
Malta

STATEMENT BY THE DIRECTORS

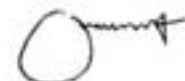
on the Financial Statements and Other Information included in the Annual Report

Pursuant to Listing Rule 9.40.5, we, the undersigned, declare that to the best of our knowledge, the financial statements included in the Annual Report and prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and its subsidiaries included in the consolidation taken as a whole and that this report includes a fair review of the development and performance of the business and position of the Company and its subsidiaries together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board of Directors on 8 April 2008 by:



Alfred Pisani
Chairman and Chief Executive Officer



Joseph Fenech
Managing Director

DIRECTORS' STATEMENT OF COMPLIANCE

with the Code of Principles of Good Corporate Governance

Listed companies are subject to The Code of Principles of Good Corporate Governance (the "Code"). The adoption of the Code is not mandatory, but listed companies are required under the Listing Rules issued by the Listing Authority to include a Statement of Compliance with the Code in their Annual Report, accompanied by a report of the independent auditors thereon.

The Board of Directors (the "Directors" or the "Board") of International Hotel Investments p.l.c. ("IHI" or the "Company") reiterate their support for the Code and note that the adoption of the Code has resulted in positive effects accruing to the Company.

Compliance

The Board deems that, during the reporting period in question, the Company has been in compliance with the Code to the extent that was considered commensurate with the size and operations of the Company. Instances of divergence from the Code are disclosed and explained below.

The Board

The Board of Directors is entrusted with the overall direction and management of the Company, including the establishment of strategies for future development, and the approval of any proposed acquisitions by the Company in pursuing its investment strategies. Its responsibilities also involve the oversight of the Company's internal control procedures and financial performance, and the review of business risks facing the Company, thus ensuring that these are adequately identified, evaluated, managed and minimized. All the Directors have access to independent professional advice at the expense of the Company, should they so require.

The Board of Directors consists of three executive directors and six non-executive directors. The present mix of executive and non-executive directors is considered to create a healthy balance and serves to unite all shareholders' interests, whilst providing direction to the Company's management to help maintain a sustainable organisation. The Board is made up as follows:

<i>Executive Directors</i>		<i>Date of first appointment</i>
Mr Alfred Pisani	Chairman and Chief Executive Officer	29 March 2000
Mr Joseph Fenech	Managing Director	29 March 2000
Mr Simon Naudi	Executive Director	8 June 2005
<i>Non-Executive Directors</i>		<i>Date of first appointment</i>
Dr Joseph J Vella		29 March 2000
Mr Frank Xerri de Caro		2 July 2004
Mr Mustafa Khattabi		21 November 2006
Mr Giuseppe (Joe) Sita		5 December 2006
Mr Khaled Al Kamda		5 July 2007
Mr Richard Johnson		5 July 2007

Mr Alfred Fabri acts as Secretary to the Board of Directors.

In accordance with the requirements of the Articles of Association, the term of office of the following Directors: Mr Alfred Pisani, Mr Joseph Fenech, Mr Mustafa Khattabi, Dr Joseph J. Vella, Mr Simon Naudi, Mr Giuseppe (Joe) Sita and Mr Frank Xerri de Caro, lapsed at the Annual General Meeting held on 29 May 2007, at which date they were re-appointed for a further term. Mr Lawrence Zammit did not stand for re-election. On 5 July 2007, Mr Khaled Al Kamda and Mr Richard Johnson were appointed as Directors.

The roles of Chairman and Chief Executive Officer are both carried out by Mr Alfred Pisani. Although the Code recommends that the role of Chairman and Chief Executive Officer are kept separate, the Directors believe that, in view of the particular circumstances of the Company, Mr Pisani should occupy both positions.

The non-executive Directors constitute a majority on the Board and their main functions are to monitor the operations of the executive Directors and their performance as well as to analyse any investment opportunities that are proposed by the executive Directors. In addition, the non-executive Directors have the role of acting as an important check on the possible conflicts of interest of the executive Directors, which may exist as a result of their dual role as executive Directors of the Company and their role as officers of IHI's parent company, Corinthia Palace Hotel Company Limited ("CPHCL") and its other subsidiaries.

Under the present circumstances, the Board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role, as the Board's performance is always under the scrutiny of the shareholders.

DIRECTORS' STATEMENT OF COMPLIANCE

with the Code of Principles of Good Corporate Governance

The Board met six times during the period under review. The number of Board Meetings attended by the Directors for the year under review in terms of Principle 5.4 is as follows:

Mr Alfred Pisani	6
Mr Joseph Fenech	5
Mr Mustafa Khattabi	6
Mr Simon Naudi	6
Mr Giuseppe Sita	6
Dr Joseph J Vella	6
Mr Lawrence Zammit	3 (Resigned 29 May 2007)
Mr Frank Xerri de Caro	6
Mr Khaled Al Kamda	2 (Appointed 5 July 2007)
Mr Richard Johnson	2 (Appointed 5 July 2007)

Terms of appointment

The appointment of Directors to the Board is reserved to shareholders or a number of members who individually or between them have a "qualifying holding", defined in the Articles of Association as 11% of the total issued share capital of the Company having voting rights.

A shareholder or a number of members who individually or between them hold the qualifying holding (11%) plus one share of the issued share capital of the Company are entitled to appoint one director for every such 11% shareholding held. Any shareholder who does not appoint a Director or Directors in terms of the qualifying holding, will participate in the annual election of directors at the Annual General Meeting of the Company. Shareholders who are entitled to appoint directors in terms of the qualifying holding shall be entitled to participate in the annual election of Directors, provided that in such an election they only use such shares, not otherwise used as part of the qualifying holding.

CPHCL currently owns 58.89% of the share capital of IHI. In terms of the Memorandum and Articles of Association of the Company, CPHCL is therefore entitled to appoint the majority of the Directors of the Company. Istithmar owns 33.14% of the share capital and is entitled to appoint three Directors.

All Directors may be removed from their post by the shareholder appointing them, or by an ordinary resolution of the shareholders in general meeting. Unless appointed for a longer or shorter period or unless they resign or are removed, the Directors shall, unless otherwise specified in the letter of their appointment, hold office for a period of one year. Directors are eligible for re-appointment upon the lapse of the period stated in their letter of appointment.

Save for the service contracts of the Executive Directors, none of the other Directors of the Company have a service contract with the Company. These contracts cover a three-year period.

Remuneration

There are no loans outstanding by the Company to any of its Directors, nor any guarantees issued for their benefit by the Company. For the financial year ended 31 December 2007, the Group paid an aggregate of €367,000 to its Directors.

The Articles of Association set out that the maximum limit of aggregate emoluments of the Directors is to be established by the shareholders in the Annual General Meeting. The Extraordinary General Meeting held on 31 January 2007 increased the aggregate amount of emoluments to Directors to a maximum of €400,000. Within this limit, the Directors have the power to fix their remuneration levels. The Company has adopted a practice whereby the executive Directors vote at meetings deciding the remuneration packages of the non-executive Directors, from which the latter abstain.

The Directors are fully aware of their obligations regarding dealings in securities of the Company as required by the Listing Rules in force during the year. Moreover, they are notified, by means of a letter, of block-out periods, prior to the issue of the Company's interim and annual financial information, during which they may not trade in the Company's shares.

Board-appointed committees

The Board of Directors has established the following committees:

Audit Committee

The Audit Committee's primary objective is to assist the Board in fulfilling its oversight responsibilities over the financial reporting processes, financial policies and internal control structure. The Committee oversees the conduct of the internal and external audit and acts to facilitate communication between the Board, management, and upon the direct request of the Audit Committee, the internal audit team and the external auditors.

During the year under review, the Committee met eight times. The internal and external auditors are invited to attend these meetings. The Committee, which was set up in 2002, is made up of a majority of non-executive Directors and reports directly to the Board of Directors.

Mr Frank Xerri de Caro, a non-executive Director, acts as Chairman, whilst Mr Joseph Fenech, Dr Joseph J.Vella and Mr Lawrence Zammit act as members. The Company Secretary, Mr Alfred Fabri acts as Secretary to the Committee.

DIRECTORS' STATEMENT OF COMPLIANCE

with the Code of Principles of Good Corporate Governance

Audit Committee (continued)

The Audit Committee is also responsible for the overview of the internal audit function. The role of the internal auditor is to carry out systematic risk-based reviews and appraisals of the operations of the Company (as well as of the subsidiaries and associates of the Group) for the purpose of advising management and the Board, through the Audit Committee, on the efficiency and effectiveness of management policies, practices and internal controls. The function is expected to promote the application of best practices within the organisation. During 2007, the internal audit function continued to advise the Audit Committee on aspects of the regulatory framework which affect the day-to-day operations of the hotels.

The Directors are fully aware that the close association of the Company with CPHCL and its other subsidiaries is central to the attainment by the Company of its investment objectives and implementation of its strategies. The Audit Committee ensures that transactions entered into with related parties are carried out on an arm's length basis and are for the benefit of the Company, and that the Company and its subsidiaries accurately report all related party transactions in the notes to the financial statements.

Nomination and Remuneration Committee

The function of this Committee is to propose the appointment of senior executives of IHI and its subsidiaries, and their remuneration package, together with those of the executive Directors. The members of the Committee are Mr Lawrence Zammit acting as Chairman, and non-executive Directors Mr Frank Xerri de Caro and Dr Joseph J. Vella as members. Mr Alfred Fabri acts as Secretary to the Committee.

Monitoring Committee

This Committee is responsible for ensuring that proper budgets are set by management for every hotel within the Group in order to achieve maximum returns on investments. The Committee also monitors closely the performance of the hotels throughout the year to ensure that such budgets are actually achieved and that corrective action is taken as necessary in the light of changing circumstances.

Mr Joseph M. Pisani acts as Chairman, with Mr Joseph C. Caruana and Mr Lino Soler as members. Mr Lino Soler acts as Secretary to the Monitoring Committee. The Committee reports directly to the Directors of the Company. In 2007, the Committee met every month to review the performance of each hotel. Meetings were also held as necessary with CHI Limited ("CHI"), the operator of the Company's hotels.

Management and employees

Following the termination of the management agreement previously in force with CPHCL, certain executives and employees previously employed with CPHCL have now been engaged by IHI. This will further strengthen the management structure of the Company.

Commitment to shareholders and an informed market

The Company is highly committed to having an open and communicative relationship with its shareholders and investors. In this respect, over and above the statutory and regulatory requirements relating to the Annual General Meeting, the publication of interim and annual financial statements, two Interim Directors' Statements and respective Company announcements, the Company seeks to address the diverse information needs of its broad spectrum of shareholders in various ways. It has issued three newsletters in the course of the year to its shareholders and has invested considerable time and effort in setting up and maintaining the Company's website and making it user friendly, with a section dedicated specifically to investors.

The Company holds an additional meeting for stockbrokers and institutional investors twice a year, to coincide with the publication of its financial statements. As a result of these initiatives, the investing public is kept abreast of all developments and key events concerning the Company, whether these take place in Malta or abroad.

The Company's commitment to its shareholders is exemplified by the special concessions which it makes available to them. In order to better serve the investing public, the Board has appointed the Company Secretary to be responsible for shareholder relations.

Approved by the Board of Directors on 8 April 2008 and signed on its behalf by:



Frank Xerri de Caro
Director and Chairman of Audit Committee



Joseph J Vella
Director

SHAREHOLDER REGISTER INFORMATION

Pursuant to Listing Rule 9.40.11

Mr Alfred Pisani has a beneficial interest in the Company of 589,779 ordinary shares through the shareholding of A & A Pisani & Company Limited in Corinthia Palace Hotel Company Limited.

Directors' interest in the shareholding of the Company

	Number of shares held	
	31 December 2007	28 March 2008
Mr Joseph Fenech	73,487	73,487
Dr Joseph J. Vella	49,605	49,605
Mr Simon Naudi	1,241	1,241
Mr Mustafa Khattabi	-	-
Mr Giuseppe Sita	-	-
Mr Frank Xerri de Caro	-	-
Mr Khaled Al Kamda	-	-
Mr Richard Johnson	-	-

Pursuant to Listing Rule 9.40.12

Shareholders holding 5% or more of the equity share capital as at 31 December 2007:

	Number of shares	Percentage holding (%)
Corinthia Palace Hotel Company Limited	316,288,375	58.89
Istithmar Hotels FZE	178,000,000	33.14

There were no changes in shareholders holding 5% or more of the equity share capital as at 28 March 2008.

Number of shareholders and shareholding details:

Range	Number of shareholders	
	31 December 2007	28 March 2008
1 to 1,000	315	321
1,001 to 5,000	1,737	1,719
5,001 and over	1,052	1,047
	<u>3,104</u>	<u>3,087</u>

All shares in issue by the Company constitute one class of shares, each share being entitled to one vote at meetings of shareholders.

OTHER DISCLOSURES IN TERMS THE OF LISTING RULES

Pursuant to Listing Rule 8.14

Share Capital Structure

The Company's issued share capital is five hundred and thirty seven million and ninety nine thousand nine hundred and seventy seven (537,099,977) ordinary shares of €1 each. All of the issued shares of the Company form part of one class of ordinary shares in the Company, which shares are listed on the Malta Stock Exchange. All shares in the Company have the same rights and entitlements and rank pari passu between themselves. The following are highlights of the rights attaching to the shares:

Dividends:	The shares carry the right to participate in any distribution of dividend declared by the Company;
Voting Rghts:	Each share shall be entitled to one vote at meetings of shareholders;
Pre-emption Rights:	Subject to the limitations contained in the memorandum and articles of association, shareholders are entitled to be offered any new shares to be issued by the Company, in proportion to their then current shareholding, before such shares are offered to the public or to any person not being a shareholder;
Capital Distributions:	The shares carry the right for the holders thereof to participate in any distribution of capital made, whether on a winding up or otherwise;
Transferability:	The Shares are freely transferable in accordance with the rules and regulations of the Malta Stock Exchange, applicable from time to time;
Other:	The Shares are not redeemable.

Holdings in Excess of 5% of the Share Capital

On the basis of the information available to the Company as at the 31 December 2007, Corinthia Palace Hotel Company Limited and Istithmar Hotels FZE hold 316,288,375 and 178,000,000 shares respectively, equivalent to 58.89% and 33.14% of the Company's total issued share capital. As far as the Company is aware, no persons hold an indirect shareholding in excess of 5% of its total issued share capital.

Appointment and Replacement of Directors

In terms of the memorandum and articles of association of the Company, the Directors of the Company shall be appointed as follows:

- (a) The appointment of Directors to the Board is reserved to shareholders or a number of members who individually or between them have a "qualifying holding", defined in the Articles of Association as 11% of the total issued share capital of the Company having voting rights;
- (b) A shareholder or a number of members who individually or between them hold the qualifying holding (11%) plus one share of the issued share capital of the Company are entitled to appoint one Director for every such 11% shareholding held. Any shareholder who does not appoint a Director or Directors in terms of the qualifying holding, will participate in the annual election of Directors at the Annual General Meeting of the Company. Shareholders who are entitled to appoint Directors in terms of the qualifying holding shall be entitled to participate in the annual election of Directors, provided that in such an election they only use such shares, not otherwise used as part of the qualifying holding;
- (c) All Directors may be removed from their post by the shareholder appointing them, or by an ordinary resolution of the shareholders in general meeting. Unless appointed for a longer or shorter period or unless they resign or are removed, the Directors shall, unless otherwise specified in the letter of their appointment hold office for a period of one year. Directors are eligible for re-appointment upon the lapse of the period stated in their letter of appointment.

Further details on the appointment of Directors may be found in the memorandum and articles of association of the Company.

OTHER DISCLOSURES IN TERMS OF THE LISTING RULES

Pursuant to Listing Rule 8.14 (continued) Amendments to the Memorandum and Articles of Association

In terms of the Companies Act, Cap 386 of the Laws of Malta, the Company may by extraordinary resolution at a general meeting alter or add to its memorandum or articles of association. An extraordinary resolution is one where:

- (a) it has been taken at a general meeting of which notice specifying the intention to propose the text of the resolution as an extraordinary resolution and the principle purpose thereof has been duly given;
- (b) it has been passed by a shareholder or shareholders having the right to attend and vote at the meeting holding in the aggregate:
 - (i) not less than seventy five per cent (75%) in nominal value of the shares represented and entitled to vote at the general meeting and either
 - (ii) (a) at least sixty five percent (65%) in nominal value of the issued share capital entitled to vote at the meeting in all cases other than for Shareholders Reserved Matters as specified in the articles of association or
 - (b) eighty percent (80%) in nominal value of the issued share capital entitled to vote at a meeting during which Shareholder Reserved Matters as referred to in the articles of association are to be voted upon.

Provided that, if one of the aforesaid majorities is obtained but not both, another meeting shall be convened within thirty (30) days in accordance with the provisions for the calling of meetings to take a fresh vote on the proposed resolution. At the second meeting the resolution may be passed by a shareholder or shareholders having the right to attend and vote at the meeting holding in the aggregate not less than seventy five per cent (75%) in nominal value of the shares issued by the Company represented and entitled to vote at the meeting. However, if more than half in nominal value of all the shares issued by the Company having the right to vote at the meeting is represented at that meeting, a simple majority in nominal value of such shares so represented shall suffice.

Board Member Powers

The Directors are vested with the management of the Company, and their powers of management and administration emanate directly from the memorandum and articles of association and the law. The Directors are empowered to act on behalf of the Company and in this respect have the authority to enter into contracts and sue and be sued in representation of the Company. In terms of the memorandum and articles of association they may do all such things that are not by the memorandum and articles of association reserved for the Company in general meeting.

Pursuant to Listing Rule 9.40.6 Published Forecast for 2007

In line with Listing Rule 9.40.6, the Board notes that the actual results for the year ended 31 December 2007 differ from those forecasted in the Circular to the Shareholders dated 7 August 2007 providing details on the acquisitions of Corinthia Towers Tripoli Limited and IHI Towers s.r.o. from CPHCL, as set out below:

	Actual results for the year	Published forecast	Variance
	€'000	€'000	€'000
Revenue	104,182	100,175	4,007
Direct costs	(65,710)	(62,454)	(3,256)
Other operating costs	(22,340)	(22,391)	51
Revaluation to fair value of investment property (see note 16.1 to the financial statements)	7,723	-	7,723
Net finance costs	(9,796)	(12,182)	2,386
Share of loss of equity accounted investees	(34)	-	(34)
Profit before taxation	<u>14,025</u>	<u>3,148</u>	<u>10,877</u>

The two main variances in the figures above relate to the uplift in the investment properties held by two subsidiary companies arising from an end of year revaluation exercise and lower net financing costs resulting from interest income on the deposit of funds injected by Istithmar at higher interest rates and for a longer period than previously anticipated.

OTHER DISCLOSURES IN TERMS OF THE LISTING RULES

Pursuant to Listing Rule 9.40.16

Contracts of significance

Management Agreements with CHI Limited

CHI Limited ("CHI") has been appointed by IHI to operate, manage, and provide consultancy services to its various hotel properties. In terms of the agreements CHI is entitled to receive the following fees:

- Management fee of 2% based on total revenue;
- Marketing fee of 1.5% based on room revenue; and
- Incentive fee of 8% on gross operating profit subject to pre-agreed parameters.

The agreements ensure that the hotel properties are supported by an experienced hotel operator and that they can make use of the "Corinthia" brand. In turn, in terms of an agreement with CPHCL, CHI is obliged to pay CPHCL royalty and marketing fees of 0.75% and 0.5% respectively, based on room revenue.

Pursuant to Listing Rule 9.40.18

Related Party Transactions

Administrative Support Services Agreement with Corinthia Palace Hotel Company Limited

The Company had an Administrative Support Services Agreement with Corinthia Palace Hotel Company Limited ("CPHCL"). The agreement ensured that the Company could sustain its streamlined organisational structure at senior level by having continued and guaranteed access to the top executive staff and support personnel of the Corinthia Group of which the Company is a member. In terms of the agreement, CPHCL was entitled to receive from the Company a fixed annual fee of Lm125,000 (€291,172) and a variable amount equivalent to 0.5% of the total turnover of each of the Company's hotel subsidiaries with an overall cap of Lm250,000 (€582,343) per annum.

This agreement was terminated on 29 May 2007 in view of the fact that executives and employees previously engaged with CPHCL were transferred as full-time executives and employees of the Company.

Corporate Management Agreement between IHI and Corinthia Palace Hotel Company Limited

On 29 May 2007, the Company entered into a Transitional Corporate Management Services Agreement with Corinthia Palace Hotel Company Limited ("CPHCL") whereby the latter appointed the Company to provide it with corporate management and administrative support services. The principal objective of this Agreement is to provide CPHCL with services relating to the monitoring of assets including the necessary management and administration support services and assistance of the combined resources and experience of IHI's specialist staff, so that CPHCL may properly manage its interest in the assets. In terms of this agreement CPHCL is to pay IHI a management fee amounting to €225,000 for the period up to 31 December 2007 and €600,000 per annum thereafter, which sum shall be prorated for any period shorter than one year.

The management fee is exclusive of any out-of pocket expenses which IHI may incur in providing its services within the terms of this agreement, which expenses are capped up to an amount of €300,000. Amounts payable under this agreement become due within fifteen days from invoice date. Interest at the rate of three-month Euribor plus two per-cent shall also accrue on any outstanding amounts. The term of this agreement is for an eighteen month period and can be renewed for further periods of eighteen months.

Management Agreements between IHI and its subsidiaries

By virtue of various agreements entered into between IHI and its various subsidiaries, the subsidiaries appointed IHI to provide them with Administrative and Management and Support Services.

In consideration for the services provided pursuant to these agreements, IHI is entitled to receive a management fee amounting to one per cent (1%) of the total hotel revenue generated by the respective subsidiary companies with the exception of IHI Benelux B.V. in which case the management fee is fixed at €220,000 per annum. Such management fees are due and payable on a monthly basis.

Interest at the rate of 2.5% over the applicable rate of the Central Bank of Malta (following balance sheet date, interest is subject to changes in base interest rates as may be announced by the European Central Bank from time to time) shall also be due on any amount that remains outstanding.

Pursuant to Listing Rule 9.40.20

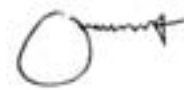
Company Secretary and Registered Office

Alfred Fabri
22 Europa Centre, Floriana FRN 1400, Malta
Telephone (+356) 21 233 141

Signed on behalf of the Board of Directors on 8 April 2008 by:



Alfred Pisani
Chairman and Chief Executive Officer



Joseph Fenech
Managing Director

INDEPENDENT AUDITORS' REPORT

to the Members of International Hotel Investments p.l.c.



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Portico Building
Marina Street
Pietà PTA 9044
Malta

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Fax (+356) 2566 1000
E-mail kpmg@kpmg.com.mt
Web page <http://www.kpmg.com.mt>

Report on the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance

Listing Rules 8.37 and 8.38 issued by the Listing Authority, require the directors of International Hotel Investments p.l.c. (the "Company") to include in their annual report a statement of compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance (the "Statement of Compliance"), and the effective measures they have taken to ensure compliance with these Principles.

Our responsibility, as auditors of the Company, is laid down by Listing Rule 8.39, which requires us to include a report on this Statement of Compliance.

We read the Statement of Compliance and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with these financial statements. Our responsibilities do not extend to considering whether this statement is consistent with other information included in the annual report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance covers all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures, nor on the ability of the Company to continue in operational existence.

In our opinion, the Statement of Compliance set out on pages 41 to 43 provides the disclosures required by Listing Rules 8.37 and 8.38 issued by the Listing Authority.

Hilary Galea-Lauri (Partner) for and on behalf of

KPMG
Registered Auditors

8 April 2008

KPMG, a Maltese civil partnership, is a member firm of
KPMG International, a Swiss cooperative.

Partners
Joseph C Schembri
Raymond Azzopardi
Mark Bamber
Juanita Bencini
David Caruana
Alfred V Cremona
Hilary Galea-Lauri

Noel Mizzi
Eric Muscat
Anthony Pace
Pierre Portelli
André Zarb
Anthony Zarb



INTERNATIONAL HOTEL INVESTMENTS P.L.C.

FINANCIAL STATEMENTS

for the year ended 31 December 2007

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DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Save as provided by Article 4 of Regulation 1606/2002/EC (the "IAS Regulation"), which applies to companies that at balance sheet date had their securities trading on a regulated market of any EU Member State, the Companies Act, 1995 (the "Act") requires the Directors of International Hotel Investments p.l.c. (the "Company") to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company and the Group as at the end of the financial period and of the profit or loss of the Company and the Group for that period in accordance with the requirements of International Financial Reporting Standards in respect of the Company and International Financial Reporting Standards as adopted by the EU in respect of the Group.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Act.

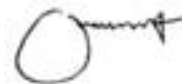
The Directors are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors, through oversight of management, are responsible to ensure that the Group establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Group's business. This responsibility includes establishing and maintaining controls pertaining to the Group's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors by:



Alfred Pisani
Chairman and Chief Executive Officer



Joseph Fenech
Managing Director

BALANCE SHEET – GROUP

As at 31 December 2007

		2007	2006
	Note	€'000	€'000
ASSETS			
Property, plant and equipment	14	621,485	333,001
Intangible assets	15	66,456	32,867
Investment property	16	104,600	26,800
Equity accounted investees	18	606	640
Loan receivable	19	1,470	1,470
Financial assets	20	3,600	-
Total non-current assets		798,217	394,778
Inventories		4,953	2,368
Current tax assets		614	401
Trade and other receivables	22	21,618	12,658
Cash at bank and in hand		163,813	21,805
Total current assets		190,998	37,232
Total assets		989,215	432,010
EQUITY			
Share capital	23.2	537,099	162,101
Revaluation reserve	23.6	47,715	30,751
Translation reserve	23.7	(1,068)	(1,068)
Other reserve	23.8	1,382	603
Reporting currency conversion difference	23.9	443	443
Accumulated losses	23.10	(11,207)	(20,022)
Other equity components	23.11	4,206	4,206
Total equity attributable to equity holders of the Company		578,570	177,014
Minority interest		6,989	6,574
Total equity		585,559	183,588
LIABILITIES			
Bank borrowings	25	197,721	112,958
Bonds	26	45,309	45,076
Derivatives	29	-	79
Parent company loan	27	5,670	10,384
Other interest-bearing borrowings	27	1,671	1,671
Provisions		139	162
Deferred taxation	21	81,658	41,098
Total non-current liabilities		332,168	211,428
Bank borrowings	25	22,704	6,984
Other interest-bearing borrowings	27	9,600	2,425
Current taxation		3,052	1,099
Trade and other payables	28	36,117	26,486
Derivatives	29	15	-
Total current liabilities		71,488	36,994
Total liabilities		403,656	248,422
Total equity and liabilities		989,215	432,010

The notes on pages 59 to 109 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 51 to 54 and 59 to 109, were approved by the Board of Directors on 8 April 2008 and signed on its behalf by:



Alfred Pisani
Chairman and Chief Executive Officer



Joseph Fenech
Managing Director

STATEMENT OF CHANGES IN EQUITY – GROUP

For the Year Ended 31 December 2007

Attributable to Equity Holders of the Company

	Share capital € 000	Revaluation reserve € 000	Translation reserve € 000	Other reserve € 000	Reporting currency conversion difference € 000	Accumulated losses € 000	Other equity components € 000	Total € 000	Minority interest € 000	Total equity € 000
Balance at 1 January 2006	139,053	24,780	(1,068)	1,004	443	(10,432)	832	154,612	-	154,612
Adjustments in respect of Company's previously held 20% interest in CHI, net of deferred taxation	-	-	-	-	-	-	-	-	-	-
• increase in equity from date of initial interest to date of additional interest acquired	-	-	-	-	-	-	826	826	-	826
• fair value of adjustment on acquisition	-	-	-	-	-	-	3,033	3,033	-	3,033
Minority interest in subsidiary acquired during the year	-	-	-	-	-	-	-	-	2,069	2,069
Minority interest share of fair value adjustment on acquisition of subsidiary net of deferred taxation	-	-	-	-	-	-	-	-	4,549	4,549
Revaluation of hotel property, net of deferred taxation	-	5,971	-	-	-	-	-	5,971	-	5,971
Income and expenses recognised directly in equity	-	5,971	-	-	-	-	3,859	9,830	6,618	16,448
Loss for the year	-	-	-	-	-	(10,476)	-	(10,476)	(44)	(10,520)
Total income and expenses for the year	-	5,971	-	-	-	(10,476)	3,859	(646)	6,574	5,928
Issue of ordinary shares	23,048	-	-	-	-	-	-	23,048	-	23,048
Transfer to accumulated losses	-	-	-	(401)	-	886	(485)	-	-	-
Balance at 31 December 2006	162,101	30,751	(1,068)	603	443	(20,022)	4,206	177,014	6,574	183,588
Balance at 1 January 2007	162,101	30,751	(1,068)	603	443	(20,022)	4,206	177,014	6,574	183,588
Revaluation of hotel property, net of deferred taxation	-	21,925	-	-	-	-	-	21,925	-	21,925
Income and expenses recognised directly in equity	-	21,925	-	-	-	-	-	21,925	-	21,925
Profit for the year	-	-	-	-	-	9,594	-	9,594	415	10,009
Total income and expenses for the year	-	21,925	-	-	-	9,594	-	31,519	415	31,934
Issue of bonus shares	4,961	(4,961)	-	-	-	-	-	-	-	-
Cost of bonus shares re-acquired	(398)	-	-	-	-	-	-	(398)	-	(398)
Proceeds from re-issue of bonus shares re-acquired	398	-	-	-	-	-	-	398	-	398
Conversion of bonds	37	-	-	-	-	-	-	37	-	37
Issue of ordinary shares	370,000	-	-	-	-	-	-	370,000	-	370,000
Transfer from accumulated losses	-	-	-	779	-	(779)	-	-	-	-
Balance at 31 December 2007	537,099	47,715	(1,068)	1,382	443	(11,207)	4,206	578,570	6,989	585,559

The notes on pages 59 to 109 are an integral part of these consolidated financial statements

INCOME STATEMENT – GROUP

For the Year Ended 31 December 2007

		2007	2006
	Note	€'000	€'000
CONTINUING OPERATIONS			
Revenue	8	104,182	60,395
Direct costs		(65,710)	(39,097)
Gross profit		38,472	21,298
Marketing costs		(4,863)	(4,302)
Administrative expenses	9	(16,463)	(13,695)
Impairment losses on hotel properties		-	(7,150)
Revaluation to fair value of investment property		7,723	2,213
Other net operating charges	10	(1,014)	(211)
Results from operating activities	6	23,855	(1,847)
Finance income	12	3,924	471
Finance expenses	12	(13,720)	(9,819)
Net finance expense		(9,796)	(9,348)
Share of (loss) profit of equity accounted investees (net of income tax)	18	(34)	459
Profit (loss) before income tax		14,025	(10,736)
Income tax (expense) credit	13	(4,016)	216
Profit (loss) for the year	6	10,009	(10,520)
Attributable to:			
Equity holders of the Company		9,594	(10,476)
Minority interest		415	(44)
Profit (loss) for the year		10,009	(10,520)
Earnings per share			
Basic earnings (loss) per share	24	0.03	(0.07)

The notes on pages 59 to 109 are an integral part of these consolidated financial statements.

CASH FLOW STATEMENT – GROUP

For the Year Ended 31 December 2007

		2007	2006
	Note	€'000	€'000
Cash flows from operating activities			
Cash received from customers		96,076	60,241
Cash paid to suppliers and employees		(65,324)	(44,003)
Cash generated from operating activities	31	30,752	16,238
Income tax paid		(1,431)	(1,224)
Net cash from operating activities		29,321	15,014
Cash flows from investing activities			
Net payments to acquire property, plant and equipment		(35,043)	(13,391)
Acquisition of subsidiary, net of cash acquired	7	(6,695)	1,054
Placement of term deposits with banks		(5,400)	-
Interest received		3,860	414
Net cash used in investing activities		(43,278)	(11,923)
Cash flows from financing activities			
Proceeds from the issue of share capital	23.2	178,000	8,048
Bonus shares re-acquired	23.8	(398)	-
Bonus shares re-issued	23.8	398	-
Advances of bank finance	25	4,219	20,915
Repayment of bank borrowings	25	(9,682)	(20,533)
Loans repaid to parent company and its other subsidiary companies		(4,318)	(3,035)
Proceeds from issue of Euro bond		-	12,367
Interest paid		(13,003)	(9,300)
Net cash from financing activities		155,216	8,462
Net increase in cash and cash equivalents		141,259	11,553
Cash and cash equivalents at 1 January		19,054	1,923
Cash and cash equivalents of previously held equity accounted company now a subsidiary		-	5,578
Cash and cash equivalents at 31 December	32	160,313	19,054
Non-cash transactions			
Acquisition of subsidiary companies		192,000	15,000
Issue of bonus shares		4,961	-
Conversion of bonds into shares		37	-

The notes on pages 59 to 109 are an integral part of these consolidated financial statements.

BALANCE SHEET – COMPANY

For the Year Ended 31 December 2007

		2007	2006
	Note	€'000	€'000
ASSETS			
Plant and equipment	14	107	-
Investments in subsidiaries	17	466,616	225,234
Equity accounted investees	18	119	119
Loans receivable	19	32,153	10,753
Total non-current assets		498,995	236,106
Current tax assets		269	323
Trade and other receivables	22	16,088	9,146
Cash at bank and in hand		142,057	10,980
Total current assets		158,414	20,449
Total assets		657,409	256,555
EQUITY			
Share capital	23.2	537,099	162,101
Other reserve	23.8	26,164	17,573
Reporting currency conversion difference	23.9	443	443
Accumulated losses	23.10	(2,399)	(9,310)
Other equity components	23.11	347	347
Total equity		561,654	171,154
LIABILITIES			
Bank borrowings	25	6,700	8,133
Bonds	26	45,309	45,076
Derivatives	29	-	79
Parent company loan	27	5,670	10,384
Subsidiary company loan	27	915	-
Deferred taxation	21	25,769	14,381
Total non-current liabilities		84,363	78,053
Bank borrowings	25	1,433	1,662
Parent company loan	27	6,777	-
Trade and other payables	28	3,167	5,686
Derivatives	29	15	-
Total current liabilities		11,392	7,348
Total liabilities		95,755	85,401
Total equity and liabilities		657,409	256,555

The notes on pages 59 to 109 are an integral part of these financial statements.

The financial statements on pages 55 to 109 were approved by the Board of Directors on 8 April 2008 and signed on its behalf by:



Alfred Pisani
Chairman and Chief Executive Officer



Joseph Fenech
Managing Director

STATEMENT OF CHANGES IN EQUITY – COMPANY

For the Year Ended 31 December 2007

	Share capital	Other reserve*	Reporting currency conversion difference*	Accumulated losses	Other equity component*	Total equity
	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2006	139,053	13,027	443	(6,936)	832	146,419
Profit for the year	-	-	-	1,687	-	1,687
Total income and expenses for the year	-	-	-	1,687	-	1,687
Issue of ordinary shares	23,048	-	-	-	-	23,048
Transfer to other reserve	-	4,546	-	(4,061)	(485)	-
Balance at 31 December 2006	162,101	17,573	443	(9,310)	347	171,154
Balance at 1 January 2007	162,101	17,573	443	(9,310)	347	171,154
Profit for the year	-	-	-	20,463	-	20,463
Total income and expenses for the year	-	-	-	20,463	-	20,463
Transfer from other reserve - absorption of accumulated losses	-	(9,310)	-	9,310	-	-
Issue of bonus shares	4,961	(4,961)	-	-	-	-
Cost of bonus shares re-acquired	(398)	-	-	-	-	(398)
Proceeds from re-issue of bonus shares re-acquired	398	-	-	-	-	398
Conversion of bonds	37	-	-	-	-	37
Issue of ordinary shares	370,000	-	-	-	-	370,000
Transfer to other reserve	-	22,862	-	(22,862)	-	-
Balance at 31 December 2007	537,099	26,164	443	(2,399)	347	561,654

* Not available for distribution by way of dividends.

The notes on pages 59 to 109 are an integral part of these financial statements.

INCOME STATEMENT – COMPANY

For the Year Ended 31 December 2007

		2007	2006
	Note	€'000	€'000
CONTINUING OPERATIONS			
Interest receivable and similar income	8	5,792	3,264
Interest payable and similar charges		(4,362)	(4,108)
Administrative expenses	9	(3,135)	(1,681)
Revaluation to fair value of investments in subsidiaries	17	33,974	7,553
Operating net exchange differences		(1)	(11)
Profit before income tax		32,268	5,017
Income tax expense	13	(11,805)	(3,330)
Profit for the year		20,463	1,687
Earnings per share			
Basic earnings per share	24	0.05	0.01

The notes on pages 59 to 109 are an integral part of these financial statements.

CASH FLOW STATEMENT – COMPANY

For the Year Ended 31 December 2007

		2007	2006
	Note	€'000	€'000
Cash flows from operating activities			
Financial and other income received		4,358	717
Financial interest and related expenses paid		(9,085)	(3,159)
Cash used in operating activities	31	(4,727)	(2,442)
Tax refundable		54	-
Net cash used in operating activities		(4,673)	(2,442)
Cash flows from investing activities			
Payments to acquire property, plant and equipment	14	(112)	(51)
Payments to acquire shares in subsidiary companies	7	(11,106)	-
Net loans advanced to subsidiary companies	19.1, 22.1	(27,000)	(2,551)
Net cash used in investing activities		(38,218)	(2,602)
Cash flows from financing activities			
Proceeds from the issue of share capital	23.2	178,000	8,048
Bonus shares re-acquired	23.8	(398)	-
Bonus shares re-issued	23.8	398	-
Repayment of bank borrowings	25	(1,433)	(1,433)
Proceeds from issue of Euro bond		-	12,367
Loans advanced by subsidiary company		915	-
Repayment of loans advanced by parent company		(3,285)	(3,035)
Net cash from financing activities		174,197	15,947
Net increase in cash and cash equivalents		131,306	10,903
Cash and cash equivalents at 1 January		10,751	(152)
Cash and cash equivalents at 31 December	32	142,057	10,751
Non-cash transactions			
Acquisition of subsidiary companies:			
Shares in group companies	17.1	85,765	-
Loan advanced to subsidiary	17.1	113,012	-
Amount offset against loan due to parent company	17.1	(3,902)	-
Amount due to parent company	7	(6,777)	-
Amount receivable from subsidiary company previously included with current assets	17.1	1,427	-
Net loan advanced to subsidiary company capitalised as part of investment	17.1	-	9,982
Acquisition of subsidiary company		-	15,000
Issued share capital			
Issue of ordinary shares as part of purchase consideration	7	192,000	-
Issue of bonus shares	23.8	4,961	-
Conversion of bonds into shares	26.2	37	-

The notes on pages 59 to 109 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

1 Reporting entity

International Hotel Investments p.l.c. ("IHI" or the "Company") is a public limited liability company domiciled and incorporated in Malta. The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates.

2 Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared and presented in accordance with the provisions of the Companies Act, 1995 enacted in Malta (the "Act"), which requires adherence to International Financial Reporting Standards (IFRSs).

In the case of the Group, Article 4 of Regulation 1606/2002/EC (the "IAS Regulation") requires that, for each financial year starting on or after 1 January 2005, companies governed by the law of an EU Member State shall prepare their consolidated financial statements in conformity with IFRS as adopted by the EU if, at their balance sheet date, their securities are admitted to trading on a regulated market of any EU Member State. The IAS Regulation prevails over the relevant provisions of the Act, to the extent that the said provisions are incompatible with the requirements of the IAS Regulation.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following, which are measured at fair value:

- hotel properties;
- investment properties;
- financial instruments designated as "fair value through profit or loss"; and
- derivative financial instruments.

The methods used to measure fair values are discussed further in note 4.

2.3 Functional and presentation currency

These financial statements are presented in Euro (€), which is the Company's functional currency. All financial information presented in Euros has been rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 7 - determination of fair values on acquisition of subsidiary companies
- Note 13 - measurement of tax provisions
- Note 14 - valuation of hotel properties
- Note 7 and 15 - measurement of intangible assets
- Note 15 - measurement of the recoverable amounts of cash-generating units containing goodwill
- Note 16 - valuation of investment property
- Note 17 - determination of fair values of investments in subsidiary companies

3 Significant accounting policies

The accounting policies set out below have been applied consistently by all Group entities and to all periods presented in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

3 Significant accounting policies (continued)

3.1 Basis of consolidation

3.1.1 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

3.1.2 Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3.1.3 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

3.2.1 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

3.2.2 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Euro at the exchange rates prevailing on the reporting date. The income and expenses of foreign operations are translated to Euro at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

3 Significant accounting policies (continued)

3.3 Financial instruments

3.3.1 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash held on deposit, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at “fair value through profit or loss”, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3.14.

3.3.1.1 Financial assets at “fair value through profit or loss”

An instrument is classified at “fair value through profit or loss” if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at “fair value through profit or loss” are measured at fair value, and changes therein are recognised in profit or loss.

Investments in subsidiaries are shown in the balance sheet of the Company at “fair value through profit or loss”.

3.3.1.2 Other

Loans advanced by the Company to its subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future, are treated as an extension to the Company’s net investment in those subsidiaries and included as part of the carrying amount of investments in subsidiaries.

Other loans receivable by the Group, which do not have a fixed maturity date, but which are repayable after more than twelve months from the balance sheet date, are initially measured at the fair value of the consideration given, and subsequently measured at amortised cost less any impairment losses, and are included within non-current assets.

Loans payable by the Group, which do not have a fixed maturity date, but which are repayable after more than twelve months from the balance sheet date, are measured at the fair value of the consideration received and are included within non-current liabilities.

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

3.3.2 Derivative financial instruments

The Group holds derivative financial instruments in the form of interest rate swaps to hedge its exposure to interest rate risks. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at “fair value through profit or loss”.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

3 Significant accounting policies (continued)

3.3.3 Compound financial instruments

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. All other convertible notes in respect of which the number of shares issued varies with changes in their fair value or which are issued in a foreign currency are classified as a liability and measured at amortised cost using the effective interest method.

3.3.4 Share capital

3.3.4.1 Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

3.3.4.2 Repurchase of Share Capital (Treasury Shares)

When share capital recognised as equity is purchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

3.4 Property, plant and equipment

3.4.1 Recognition and measurement

Items of property, plant and equipment are initially measured at cost. Subsequent to initial recognition, land and buildings are revalued periodically, such that their carrying amount does not differ materially from that which would be determined using fair value at balance sheet date. Any surpluses arising on revaluation are credited to a revaluation reserve. Any deficiencies resulting from decreases in value are deducted from this reserve to the extent that it is sufficient to absorb them, with any excess charged to the income statement.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised as part of the cost of such assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income/expense" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

3.4.2 Reclassification to investment property

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is re-measured to fair value and reclassified as investment property. Any gain or loss arising on re-measurement is recognised in profit or loss.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognised directly in equity. Any loss is recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

3 Significant accounting policies (continued)

3.4 Property, plant and equipment (continued)

3.4.3 Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3.4.4 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land and assets in the course of construction are not depreciated. Crockery and utensils are accounted for on a replacement basis.

The estimated useful lives for the current and comparative periods are as follows:

- freehold buildings 50 years
- hotel, plant and equipment 3-15 years
- fixtures and fittings 3-10 years
- motor vehicles 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

3.5 Intangible assets

3.5.1 Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

3.5.1.1 Acquisitions

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

3.5.1.2 Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

3.5.1.3 Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

3.5.2 Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

3.5.3 Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

3.5.4 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, other than goodwill, from the date they are available for use. The estimated useful life of the Group's rights under management contracts, treated as an intangible asset, is twenty years.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

3 Significant accounting policies (continued)

3.6 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value (see note 4) with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3.7 Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. (see note 3.4 and 3.6 as the case may be).

Other leases are operating leases and, except for investment property, the leased assets are not recognised on the Group's balance sheet.

3.8 Inventories

Inventories of food, beverage and consumables are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.9 Impairment

3.9.1 Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

3.9.2 Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows 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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

3 Significant accounting policies (continued)

3.9 Impairment (continued)

3.9.2 Non-financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Any uplifts exceeding such carrying amount is accounted for as a revaluation surplus (see note 3.4.1).

3.10 Employee benefits

Employee benefits comprise wages, salaries, social security contributions, short-term compensated absences, bonuses and non-monetary benefits. All such short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

3.11 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3.12 Revenue

3.12.1 Services

Revenue from services rendered is recognised when the outcome of the transactions can be estimated reliably and there are no significant uncertainties concerning the derivation of consideration or associated costs.

3.12.2 Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

3.13 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

3 Significant accounting policies (continued)

3.14 Finance income and expenses

Finance income comprises interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at "fair value through profit or loss", and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis.

3.15 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

3.16 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes.

3.17 Operating segments

A segment is a distinguishable component of the Group that is engaged in either providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3.18 Unrealised profits

Part II of the Third Schedule to the Act requires that only profits realised at the balance sheet date may be included as part of retained earnings available for distribution. Any unrealised profits at this date, initially taken to the credit of the income statement, are transferred to non-distributable reserves within equity.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

3 Significant accounting policies (continued)

3.19 New standards and interpretations not yet adopted

Currently there are a number of new standards, amendments to standards and interpretations, that are not yet effective for the year ended 31 December 2007, and which are not expected to have any application or impact on the Company's financial statements in the period of initial application. In addition, there are a number of standards, such as those set out below which may or may not have a bearing on the consolidated financial statements issued by the Group in future:

- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. IFRS 8 is not expected to have any effect on the consolidated financial statements.
- IFRS 3 Business Combinations (2008) and IAS 27 Consolidated and Separate Financial Statements (2008) are applicable to annual periods beginning on or after 1 July 2009. The Group has yet to determine the potential effect of these revised standards on the consolidated financial statements.
- The revisions to IAS 23 Borrowing Costs mandatory for the Group's 2009 financial statements will have no impact on the Group's accounting policies. The principal changes to the standard, which is to eliminate the previously available option to expense all borrowing costs when incurred, will have no impact on these financial statements because it has always been the Group's accounting policy to capitalise borrowing costs incurred on qualifying assets.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

4.1 Property, plant and equipment

The Directors have relied on an independent expert valuer in order to determine the fair value of various hotel properties within the Group. Fair values have been determined using an income approach.

4.2 Intangible assets

The fair value of intangible assets is based on an arm's length transaction with a third party. The fair value of such an intangible is supported through the enterprise value of these subsidiary companies.

4.3 Investment property

Investment property is stated at fair value, determined annually by the Directors, relying on an independent expert opinion. External, independent valuation companies, having appropriate recognised professional qualifications and experience in the location and category of property being valued, value the Group's investment properties at each reporting date. The fair values are determined by considering the aggregate of the estimated cash flows expected to be received from renting out the properties. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

4.4 Investments in equity and debt securities

The fair value of "financial assets at fair value through profit or loss" is determined by reference to the fair value of the underlying net assets of each entity within the Group.

4.5 Trade and other receivables

The fair value of trade and other receivables, other than short-term receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

4.6 Derivatives

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date taking into account current interest rates and the current creditworthiness of the swap counterparties.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

4 Determination of fair values (continued)

4.7 Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Financial risk management

5.1 Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by the Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

5.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

5.2.1 Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

The subsidiary companies within the Group have over the years conducted business with various corporates, tour operators and individuals located in different jurisdictions and, due to the spread of the Group's debtor base, there is no concentration of credit risk.

The Group has a credit policy in place under which new customers are analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references. Customers that fail to meet the Group's benchmark creditworthiness may only transact with the Group on a cash basis.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

5 Financial risk management (continued)

5.2 Credit risk (continued)

5.2.1 Trade and other receivables (continued)

In monitoring customer credit risk, customers are grouped according to their credit characteristics, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are only made on a prepayment basis.

The Group does not require collateral in respect of trade and other receivables. The Group establishes an allowance for doubtful recoveries that represents its estimate of losses in respect of trade and other receivables.

5.2.2 Cash at bank

The Group's cash is placed with quality financial institutions, such that management does not expect such institution to fail to meet repayments of amounts held in the name of the companies within the Group.

5.2.3 Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2007 the Company had given a bank guarantee amounting to €5 million (2006: €5 million) in respect of Five Star Hotels Limited for a bank loan advanced to this subsidiary as well as a project-related cost overrun guarantee (refer to note 5.3) in respect of IHI Benelux BV.

5.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group actively manages its cash flow requirements. Each subsidiary company within the Group updates its monthly cash flow forecasts. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit:

- €10 million loan facility (not yet drawn-down) made available to the Company to part finance the development of the Corinthia Nevskij Palace Hotel in St Petersburg (see below). This loan will be subject to interest at the rate of 1.5% per annum over the 6-month EURIBOR and repayable in half-yearly capital repayments of €500,000 each over a period of 10 years commencing six months after date of first drawdown.
- €1.5 million secured overdraft facility available to IHI Hungary Rzt. Interest would be payable at the variable, overnight EURIBOR plus 1.4% interest margin per annum.
- €72.5 million syndicated loan agreement available to IHI Benelux B.V. to finance the development of the two sites adjacent to the Corinthia Nevskij Palace Hotel in St Petersburg with a final maturity date of 2016, of which €17 million have been applied towards the repayment of a balance of an original loan secured to acquire the hotel in 2002. Over the past two years, the scope of the Nevskij Palace project was extended, with a consequential increase in cost. This subsidiary is in the process of concluding a revised loan agreement for an additional €10 million which has already been approved by the lenders.

The interest payable on the current loan facility is at the three-month Euribor rate plus a margin of 3.25% per annum during the construction period, a margin of 3% per annum on project completion, and then a further reduction of 0.25% (to end with a margin of 2.75% per annum) on the achievement of pre-agreed financial covenants.

Repayments of the €72.5 million loan commence on the expiry of a 24-month moratorium from first draw-down, following which the capital sum is to be paid in 32 quarterly instalments, the individual instalment payments increasing over the years in line with pre-determined income expectation. There is also a balloon payment at the end of the term, equivalent to 8% of the total loan facility.

The security provided on this loan facility is totally project-related and, apart from a first ranking mortgage on the properties, also includes an assignment of rents receivable, a pledge on bank accounts and insurance policies, as well as a pledge on the shares held by IHI in IHI Benelux B.V. During the construction phase of the project, IHI as the parent company, is also providing a project-related cost overrun guarantee to cover project costs above the €75 million budget.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

5 Financial risk management (continued)

5.4 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

5.4.1 Currency risk

The Group operates internationally and is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, the Euro. The currencies giving rise to this risk are the Hungarian Forint, the Russian Rouble, the Czech Crown and the Libyan Dinar. In addition, the Group does not hedge its investments in its foreign subsidiaries and is similarly exposed to currency risk arising on the translation of the assets and liabilities of such subsidiaries where the functional currency at the subsidiary company level is other than the Euro.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates, when necessary, to address short-term mismatches.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge and no derivatives are entered into.

5.4.2 Interest rate risk

The Group adopts a policy of ensuring adequate hedging against its exposure to changes in interest rates on interest-bearing borrowings due by the Parent Company and its subsidiaries, by entering into financial arrangement subject to fixed rates of interest.

In addition, with a view of mitigating interest rate risk, the Company entered into an interest rate swap agreement with a local financial institution. Swaps are over-the counter agreements between the two parties to exchange future cash flows based upon agreed notional amounts. Under this interest rate swap agreement, the Company agreed with the counter-party to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts.

5.5 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as the profit for the year divided by total equity.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group seeks to maximise the return on shareholders' equity and to reduce the incidence of interest expense. The interest expense expressed as a percentage of interest-bearing borrowings was 4.85 percent (2006: 5.47 percent).

The lower interest expense for 2007 resulted from the reduction in interest margins on bank loans against which a corresponding amount of pledged funds was placed on deposit with the respective financial institutions (see note 32.3).

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6 Segmental reporting

6.1 Segment disclosures

The Group is principally engaged in one specific business segment, namely the ownership, development, and operation of hotels and other leisure facilities. The Group operates primarily in four geographical areas, namely the Mediterranean basin, European member countries, other countries situated in Europe, and in North Africa. Segment information is only presented for the Group's geographical segments.

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the geographical location of the hotels and other leisure facilities. Segment results, assets and liabilities include those directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans and other borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

6 Segmental reporting (continued)

6.2 Information about reportable segments

	Hotel properties situated in														The Group	
	Corporate office		Hotel management company*	Malta		Other European Union countries		Other European countries		North Africa		Consolidation adjustments				
				2007	2006	2007	2006	2007	2006	2007	2006					
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Total external revenues	226	920	2,936	590	10,642	8,265	51,768	33,576	17,917	17,964	20,725	-	(32)	(920)	104,182	60,395
Inter-segment revenue	1,047	2,344	5,784	369	-	-	-	-	-	-	-	-	(6,831)	(2,713)	-	-
Total segment revenue	1,273	3,264	8,720	959	10,642	8,265	51,768	33,576	17,917	17,964	20,725	-	(6,863)	(3,633)	104,182	60,395
Segment result - Results from operations before finance costs and after uplifts/ (impairments) in property values	32,268	5,017	2,989	(159)	(54)	(585)	3,840	(7,100)	10,938	7,238	9,170	-	(35,296)	(6,258)	23,855	(1,847)
Finance income															3,924	471
Finance expense															(13,720)	(9,819)
Share of (loss) profit of equity accounted investees	(34)	459	-	-	-	-	-	-	-	-	-	-	-	-	(34)	459
Income tax (expense) credit															(4,016)	216
Profit (loss) for the year															10,009	(10,520)

* The 2006 results reflect a two-month operation since CHI Limited became a subsidiary company on 31 October 2006.

6.2 Information about reportable segments (continued)

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

7 Acquisitions of subsidiaries

7.1 Business combinations

On 29 May 2007, in terms of the Subscription Agreement (the "Agreement") dated 5 December 2006 entered into between IHI, Corinthia Palace Hotel Company Limited ("CPHCL") and Istithmar Hotels FZE ("Istithmar"), IHI completed the acquisition of Corinthia Towers Tripoli Limited ("CTTL"), owner of the Corinthia Bab Africa Hotel and Commercial Centre in Tripoli, and IHI Towers s.r.o. ("ITP"), owner of Corinthia Towers Hotel in Prague, from CPHCL, in return for a consideration made up of shares in IHI, a cash consideration and a loan (including further Adjustments as later determined), as set out below. As a result, IHI gained control of these companies with effect from 29 May 2007.

Acquired entity	Note	Shares issued in IHI €'000	Cash payment €'000	Loan payable €'000	Total €'000
Corinthia Towers Tripoli Limited					
Ordinary shares of €1 each		142,000			142,000
As per Agreement			8,500		
Adjustment			2,606		
			11,106		11,106
					153,106
IHI Towers s.r.o.					
Ordinary shares of €1 each		50,000			50,000
As per Agreement				5,000	
Adjustment				1,778	
	27.1			6,778	6,778
					56,778
		192,000	11,106	6,778	209,884

In the seven month period ending 31 December 2007, these subsidiaries contributed the following amounts to the consolidated profit after tax:

	€'000
Corinthia Towers Tripoli Limited	5,894
IHI Towers s.r.o.	1,413
	7,307

Had these acquisitions taken place on 1 January 2007, management estimates that consolidated revenue and profit after tax would have been €126.3 million and €13.4 million, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

7 Acquisitions of subsidiaries (continued)

7.1 Business combinations (continued)

These acquisitions had the following effect on the Group's assets and liabilities at acquisition date:

		Corinthia Towers Tripoli Limited	IHI Towers s.r.o.	Total
	Note	€'000	€'000	€'000
Property, plant and equipment	14	138,800	105,496	244,296
Investment property	16.1	68,200	-	68,200
Inventories		2,259	422	2,681
Trade and other receivables		5,426	3,994	9,420
Cash at bank		1,618	2,793	4,411
Trade and other payables		(6,697)	(5,431)	(12,128)
Bank borrowings		(56,500)	(50,496)	(106,996)
Deferred tax liabilities	21	(17,895)	(16,861)	(34,756)
Net identifiable assets and liabilities		135,211	39,917	175,128
Goodwill on acquisition	15	17,895	16,861	34,756
Consideration	17.1	153,106	56,778	209,884
Consideration paid other than in cash				(198,778)
Cash acquired (see above)				(4,411)
Net cash outflow				6,695

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values.

The goodwill recognised on these acquisitions is attributable to the recognition of deferred tax liabilities on the taxable temporary differences arising in respect of the hotel properties of the acquired entities (see note 15.4.2). Under IAS 12.51, the measurement of such liabilities should reflect the tax consequences that would follow from the manner in which the entity (IHI) expects, at the end of the reporting period (31 December 2007), to recover the carrying amount of those assets (hotel properties) that give rise to such differences. On the basis that IHI expects to recover the carrying amounts of these hotel properties through use, the deferred tax liabilities have been measured at the tax rate applicable to the taxable amounts to be derived from use.

7.2 Indemnification of potential tax liabilities assumed on acquisition

In view of the fact that, at the date of transfer of the shares in CTTL and ITP by CPHCL to IHI referred to in note 7.1, CPHCL owned and controlled more than 50% of the ordinary and voting share capital of IHI, for Maltese income tax purposes it is deemed, by virtue of the intra-group relief provisions, that no gain chargeable to tax arises on the transfer of such shares.

However, in the event that IHI subsequently sells the shares it now holds in CTTL and/or ITP, or the hotel properties owned by these two companies, IHI may, directly or indirectly, suffer tax in Malta and/or in Libya and the Czech Republic, by reference to the cost of acquisition of the shares in the hands of CPHCL or, in the case of the hotel properties, at their cost of acquisition in the hands of CTTL/ITP, instead of on the basis of the amount effectively paid by IHI.

An Indemnity Agreement has, therefore, been entered into whereby CPHCL has agreed to indemnify IHI for any additional tax that IHI might suffer as a consequence of the fact that IHI's tax would be computed by reference to CPHCL's/CTTL's/ITP's lower cost of acquisition. This indemnity covers the extra tax that IHI would suffer if either:

- it had to sell the shares in CTTL and/or ITP; or
- CTTL and/or ITP had to sell the hotel properties.

This indemnity has no time limit and is for a maximum amount of €45 million.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

7 Acquisitions of subsidiaries (continued)

7.2 Indemnification of potential tax liabilities assumed on acquisition (continued)

On the basis that the indemnification does not meet the definition of a financial asset, in that, at balance sheet date, it does not confer rights on IHI to receive cash, no amount has been recognised in these financial statements as a receivable from CPHCL. Also, this indemnity is not being disclosed as a contingent asset by way of a note to these financial statements, on the grounds that such assets will, by definition, be confirmed only by the occurrence or non-occurrence of an uncertain future event not wholly within the control of the reporting entity (IHI), when IHI is in fact able to decide if and the manner in which it disposes of such property. Conversely, the tax liability that will crystallise on sale is not being recorded as such or disclosed as a contingent liability as it does not meet the related definitions that would qualify it for recognition or disclosure, consistent with the view that IHI expects to recover the carrying amounts of such properties through use (see note 7.1).

8 Revenue

8.1 The Group

	2007	2006
	€'000	€'000
Hospitality services	97,611	59,522
Rental income from investment property	3,635	283
Management and other fees receivable	2,936	590
	<u>104,182</u>	<u>60,395</u>

Management and other fees receivable represent income that is derived by one of the subsidiary companies for operating other hotel properties not owned by IHI.

8.2 The Company

	2007	2006
	€'000	€'000
Interest receivable on:		
Loans advanced to group companies	1,182	677
Loan advanced to related company	76	59
Bank deposits	3,198	165
	<u>4,456</u>	<u>901</u>
Management fee charged to parent company	226	-
Management fees charged to subsidiaries	1,046	634
Interest rate differential of interest rate swap	64	19
Dividend received from associated company	-	1,710
	<u>5,792</u>	<u>3,264</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

9 Administrative expenses

9.1 Administrative expenses include the following charges:

	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Operating lease charges:				
Cancellable	386	237	-	-
Non-cancellable	108	105	-	-
Depreciation	16,084	9,803	5	-
Exchange differences	40	38	1	11

9.2 Auditors' remuneration included with administrative expenses amounts to €332,752 for the Group and €15,000 for the Company.

10 Other net operating charges

10.1 The Group

		2007	2006
	Note	€'000	€'000
Charges			
Operating net exchange differences		(40)	(23)
Amortisation of intangible asset	15	(1,167)	(194)
Other charges		-	(2)
		<u>(1,207)</u>	<u>(219)</u>
Income			
Other income		193	8
		<u>(1,014)</u>	<u>(211)</u>

11 Personnel expenses

11.1 Personnel expenses incurred during the year are analysed as follows:

	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Directors' emoluments	367	197	355	181
Wages and salaries	25,589	15,380	485	12
Compulsory social security contributions	4,025	2,714	18	-
	<u>29,981</u>	<u>18,291</u>	<u>858</u>	<u>193</u>

11.2 Weekly average number of persons

	The Group		The Company	
	2007	2006	2007	2006
	No.	No.	No.	No.
Operating	344	195	-	-
Management and administration	1,366	997	12	-
	<u>1,710</u>	<u>1,192</u>	<u>12</u>	<u>-</u>

With effect from 1 June 2007, a number of executives and employees previously employed with CPHCL were engaged as full-time executives and employees with IHI.

The weekly average number of persons for 2007 includes those for the Corinthia Towers Tripoli Limited and IHI Towers s.r.o. since the date of these two companies' acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

12 Finance income and expense

12.1 The Group

	2007	2006
	€'000	€'000
Interest receivable on:		
Loans advanced to related companies	149	59
Other balances	29	33
Bank deposits	3,682	303
Interest rate differential of interest rate swap	-	19
Fair value gain on interest rate swap	64	-
Exchange differences	-	57
Finance income	3,924	471
Interest payable on:		
Bank borrowings	(10,042)	(5,663)
Bonds	(2,775)	(2,588)
Loans advanced by parent company and its subsidiaries	(1,106)	(868)
Capital and other creditors	-	(181)
Less interest capitalised within property, plant and equipment*	921	-
Imputed interest on convertible bonds and amortisation	(270)	(249)
Interest rate differential of interest rate swap	(78)	-
Fair value loss on interest rate swap	-	(101)
Exchange differences	(370)	(169)
Finance expense	(13,720)	(9,819)
Net finance expense recognised in profit or loss	(9,796)	(9,348)

* The capitalised interest represents 7.16% of the borrowings utilised in the financing of the qualifying assets.

12.2 Following the subscription at par of 178 million shares of a nominal value of €1 each by Istithmar in cash, the Company entered into a number of "offsetting" arrangements with some of its financing banks until such time that such funds are used for its stated strategic growth and development plans.

Through such banking arrangements, the Company deposited funds equivalent to the relevant outstanding bank loan balances and thus benefited from offsetting arrangements through which the interest margins on these loans were reduced to nil apart from a small interest shading. As a result of these special arrangements the Company reduced its interest expense by €384,000.

13 Income tax (expense) credit

13.1

	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Current taxation				
Current period	(4,099)	(916)	(417)	(391)
Deferred taxation				
Origination and reversal of temporary differences	1,482	(110)	(11,887)	(2,559)
Impairment (reversal) of hotel properties	-	1,966	-	-
Revaluation to fair value of land and buildings	-	444	-	-
Revaluation to fair value of investment property	(1,753)	(531)	-	-
Benefit (reversal) of tax losses	354	(637)	499	(380)
	83	1,132	(11,388)	(2,939)
Total income tax (expense) credit	(4,016)	216	(11,805)	(3,330)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

13 Income tax (expense) credit (continued)

13.2 Reconciliation of effective tax rate

	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Profit (loss) for the period	10,009	(10,520)	20,463	1,687
Total income tax expense (credit)	4,016	(216)	11,805	3,330
Profit (loss) excluding income tax	14,025	(10,736)	32,268	5,017
Income tax using the Company's domestic tax rate	(4,909)	3,758	(11,293)	(1,756)
Effect of income subject to different jurisdictions *	2,034	(276)	-	-
Non-tax deductible expenses	(168)	(1,485)	-	-
Current year losses for which no deferred tax asset was recognised	(1,856)	(1,484)	(648)	(1,184)
Effect of other consolidation adjustments	(78)	23	-	-
Change in unrecognised temporary differences	(543)	(236)	136	(192)
Effect of movement in exchange rates in opening deferred tax liability of subsidiary acquired	(884)	-	-	-
Effect of reduction in foreign tax rates on opening temporary differences	2,388	-	-	-
Tax over provided in prior periods	-	(84)	-	(198)
Total income tax (expense) credit	(4,016)	216	(11,805)	(3,330)

* certain subsidiaries operate in tax jurisdictions with a tax rate different to the Company's domestic tax rate of 35%.

13.3 Income tax recognised directly in equity

		2007	2006
	Note	€'000	€'000
Relating to revaluation of property, plant and equipment	23.6	5,887	1,885

13.4 Sources of estimation uncertainty

In order to establish the taxation provisions, management exercises significant judgement in view of the fact that the Group operates in various jurisdictions and as a result there are diverse transactions for which the ultimate tax determination is somewhat uncertain. In the event that the amount of actual tax due differs from the original amounts provided for, such variances will have an impact on the taxation charges for future periods.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

14 Property, plant and equipment

14.1 The Group

	Note	Revalued amount	Cost				Total
		Land and buildings	Hotel plant and equipment	Furniture, fixtures and fittings	Motor vehicles	Payments on account and buildings in the course of construction	
		€'000	€'000	€'000	€'000	€'000	€'000
Cost/revalued amount							
Balance at 1 January 2006		296,908	29,847	23,418	320	10,560	361,053
Acquisitions through business combinations		-	142	378	89	-	609
Additions		92	642	622	174	10,925	12,455
Reallocations		6,193	736	197	-	(7,126)	-
Transfer from investment property		-	-	-	-	11,213	11,213
Disposals		-	(157)	(7)	(24)	-	(188)
Revaluation surplus		6,565	-	-	-	-	6,565
Balance at 31 December 2006		309,758	31,209	24,608	559	25,572	391,707
Balance at 1 January 2007		309,758	31,209	24,608	559	25,573	391,707
Acquired through business combinations	7.1	220,275	32,850	26,007	232	1,317	280,681
Additions		1,704	3,253	4,397	81	25,608	35,043
Transfer to investment property		-	-	-	-	(1,877)	(1,877)
Disposals		-	(565)	(106)	(58)	-	(729)
Revaluation surplus	23.6	22,825	-	-	-	-	22,825
Balance at 31 December 2007		554,562	66,747	54,906	814	50,621	727,650
Depreciation and impairment losses							
Balance at 1 January 2006		16,624	12,198	13,613	246	-	42,681
Acquisitions through business combination		-	112	255	86	-	453
Depreciation for the year		4,551	3,146	2,059	47	-	9,803
Impairment loss		7,150	-	-	-	-	7,150
Disposals		-	(69)	(5)	(16)	-	(90)
Revaluation surplus		(1,292)	-	-	-	-	(1,292)
Balance at 31 December 2006		27,033	15,387	15,922	363	-	58,705
Balance at 1 January 2007		27,033	15,387	15,922	363	-	58,705
Acquisitions through business combination	7.1	13,234	13,772	9,216	163	-	36,385
Depreciation for the year		7,219	5,290	3,868	74	-	16,451
Disposals		-	(354)	(23)	(12)	-	(389)
Revaluation surplus	23.6	(4,987)	-	-	-	-	(4,987)
Balance at 31 December 2007		42,499	34,095	28,983	588	-	106,165
Carrying amounts							
At 1 January 2006		280,284	17,649	9,805	74	10,560	318,372
At 31 December 2006		282,725	15,823	8,686	195	25,573	333,001
At 1 January 2007		282,725	15,823	8,686	195	25,573	333,001
At 31 December 2007		512,063	32,652	25,923	226	50,621	621,485

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

14 Property, plant and equipment (continued)

14.1 The Company

	Equipment	Furniture, fixtures and fittings	Motor vehicles	Total
	€'000	€'000	€'000	€'000
Cost				
Additions	18	64	30	112
Balance at 31 December 2007	18	64	30	112
Depreciation				
Depreciation charge for the year	1	1	3	5
Balance at 31 December 2007	1	1	3	5
Carrying amounts				
Balance at 31 December 2007	17	63	27	107

14.2 Security

- Land underlying the hotel belonging to Five Star Hotels Limited, a subsidiary company, comprises costs attributable to the acquisition, on temporary emphytheusis for a period of 99 years commencing on 1 September 1992, of a site situated in St George's Bay, limits of St Julian's, Malta. The land and buildings are subject to hypothecs in favour of the Group's bankers for funds borrowed (see note 25.2). In addition, this property has been hypothecated in favour of the Parent Company's bankers in connection with borrowing facilities availed of by this company (see note 35.5). These hypothecs rank after a special hypothec in favour of the Commissioner of Lands.
- IHI Benelux B.V. owns a hotel complex (hotel, retail shops and offices) and adjacent sites, located in St Petersburg. The hotel complex is mortgaged in favour of a syndication of banks as collateral for funds borrowed (see note 25.2). The land underlying the hotel complex is held on a long-term lease basis. The initial lease is for 49 years with the option to renew for a further period of 49 years.
- Corinthia Tripoli Towers Limited owns the Corinthia Bab Africa Hotel, together with the adjacent investment property (see note 16.3). This property is mortgaged in favour of a bank as collateral for funds borrowed (see note 25.2). The land underlying these properties is owned on a freehold basis.
- The Corinthia Grand Hotel Royal, the Corinthia Hotel & Spa Lisbon and the Corinthia Hotel Prague, which are all held on freehold title and operated by the Group, have been hypothecated as collateral in favour of credit institutions for funds borrowed (see note 25.2).

14.3 Impairment losses

At 31 December 2007, the Directors, using the work of independent valuers, assessed the Group's hotel properties for impairment. The assessment focused on the Corinthia Hotel St. George's Bay Malta and the Corinthia Hotel & Spa Lisbon. No factors arose in the course of the year which would necessitate an impairment review of the Corinthia Grand Hotel Royal, Corinthia Nevskij Palace Hotel, the Corinthia Bab Africa Hotel and the Corinthia Hotel Prague (see note 14.4).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

14 Property, plant and equipment (continued)

14.3 Impairment losses (continued)

Impairment losses, reflecting lower than expected economic performances of the hotel properties, were recognised as follows:

Hotel property	Recognised 1 Jan 2006	Change	Recognised 31 Dec 2006
	€'000	€'000	€'000
Corinthia Hotel St. George's Bay Malta	703	-	703
Corinthia Hotel & Spa Lisbon	6,500	7,150	13,650
	<u>7,203</u>	<u>7,150</u>	<u>14,353</u>

Hotel property	Recognised 1 Jan 2007	Change	Recognised 31 Dec 2007
	€'000	€'000	€'000
Corinthia Hotel St. George's Bay Malta	703	-	703
Corinthia Hotel & Spa Lisbon	13,650	-	13,650
	<u>14,353</u>	<u>-</u>	<u>14,353</u>

In assessing the recoverable amounts of the above hotel properties by reference to their value in use, the future cash flows to be derived from the continuing use and ultimate disposal were estimated in the currency in which they will be generated, and discounted by applying a pre-tax discount rate of 8.93% (2006: 8.75%) and 8.44% (2006: 8.60%) respectively. These discount rates reflect the current market assessment of the time value of money and the risks specific to these hotel properties for which the future cash flow estimates used in arriving at their carrying amount have not been adjusted.

14.3.1 Key assumptions and sources of estimation uncertainty

Key judgements and assumptions concerning the future and other key sources of estimation uncertainty which materially impacted the impairment assessment at the reporting date, include the projection of room revenue in the coming years and the execution risk associated with the attainment of the projected capabilities (including projected room revenue), of the hotel properties.

The Directors are satisfied that the judgements made are appropriate to the circumstances but, as with all projections relating to future events, there is a degree of uncertainty inherent in the figures and, it is reasonably possible, based on existing knowledge, that actual results may differ from assumptions. Sustained variations from expectations would have a material impact on the impairment assessment, and hence, the carrying amounts at which the hotel properties are stated on the balance sheet (see note 14.1).

14.4 Revaluation to fair value of hotel properties

The "value in use" calculations resulting from the impairment reviews of the Group's hotel properties (see note 14.3) were also considered appropriate for the purpose of determining their fair value. This same basis was also used in arriving at the fair value of the Corinthia Nevskij Palace Hotel, the Corinthia Bab Africa Hotel and the Corinthia Hotel Prague, which values exceeded their respective carrying amounts. The resulting excess was accounted for as a revaluation surplus (see note 23.6).

In arriving at the projected operating cash flows, a detailed analysis of the facilities and performance capabilities of the hotel properties, their expectations and prospects in the various jurisdictions in which they operate, and ten-year projections of the cash flows of their operations, based on this analysis was carried out.

These fair value assessments do not include a review of other factors such as, market liquidity, the possible outlook of potential acquirers and the value at which other comparable transactions may have been executed, which factors, may also impact the open market values of these properties.

14.5 Historic cost of hotel properties

The carrying amounts of the land and buildings that would have been included in these financial statements had these assets been carried at cost less accumulated depreciation thereon would amount to €446 million (2006: €244 million).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

15 Intangible assets

15.1		Goodwill	Other	Total
	Note	€'000	€'000	€'000
Cost				
Goodwill arising on existing 20% holding in CHI Limited		608	-	608
Business combination:				
Acquisition of additional 50% holding in CHI Limited	15.2	9,119	23,334	32,453
Balance at 31 December 2006		9,727	23,334	33,061
Balance at 1 January 2007		9,727	23,334	33,061
Business combination:				
Acquisition of Corinthia Towers Tripoli Limited and IHI Towers s.r.o.	7	34,756	-	34,756
Balance at 31 December 2007		44,483	23,334	67,817
Amortisation				
Amortisation for the year		-	194	194
At 31 December 2006		-	194	194
At 1 January 2007		-	194	194
Amortisation for the year		-	1,167	1,167
At 31 December 2007		-	1,361	1,361
Carrying amount				
At 31 December 2006		9,727	23,140	32,867
At 1 January 2007		9,727	23,140	32,867
At 31 December 2007		44,483	21,973	66,456
15.2			€'000	€'000
Fair value of acquired CHI based on the acquisition price of a minority interest stake of 30% by Wyndham Hotels Group International Inc. ("WHGI")				41,363
Net assets of CHI as at date of acquisition of 50% interest				(6,896)
Value attributable to rights acquired under existing management contracts				34,467
Assumed value thereof arising on the operation of IHI's hotel properties				(11,133)
Intangible asset - assumed value thereof arising on the operation of other hotel properties				23,334
Consideration for IHI's 50% interest in CHI				20,150
Net assets of CHI as above			6,896	
Fair value adjustment - intangible asset recognised as above			23,334	
Deferred taxation on fair value adjustment			(8,167)	
			22,063	
Attributable to IHI's 50% interest				(11,031)
Goodwill - arising on 50% interest acquired				9,119

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

15 Intangible assets (continued)

15.3 Amortisation charge

The amortisation charge is recognised in other net operating charges in the income statement (see note 10).

15.4 Impairment testing for cash generating units containing goodwill

15.4.1 CHI Limited

For the purpose of impairment testing of the goodwill arising on the acquisition of CHI Limited ("CHI") in 2006, the Directors have relied on the expert opinion of an independent third party, who has carried out an indicative valuation of the equity share capital of this subsidiary. The indicative valuation of CHI is based on the Discounted Cash Flows ("DCF") approach. The projected cash flows used in this valuation are largely derived from operating projections for the IHI properties prepared by HVS International, specialists in Hotel Consulting and Valuations ("HVS"), in connection with the impairment review of these properties as at 31 December 2007.

Value in use was determined by discounting the budgeted future cash flows generated by CHI for a five year explicit period 2008 – 2012, with a growth rate in EBITDA of 6.3%.

The following are the principal assumptions underlying the projections:

- revenue derived from IHI properties is based on operational projections prepared by HVS. This accounts for 75% of the total revenue in the explicit period;
- revenue from other properties are assumed to grow at 2% per annum on 2008 budget (in-perpetuity growth rate of 2% per annum applied subsequently to the five year period covered by the explicit projections);
- the rates charged by CHI and the royalties payable to CPHCL, Wyndham and Ramada are assumed to remain unchanged at current levels;
- no new major properties are expected to be added to CHI portfolio;
- inflationary growth in operating expenses on 2008 budget are as follows - payroll (+5%) and other operating expenses (+2%); and
- a pre-tax discount rate of 13.25% was applied to the operating projections of CHI, based on a debt to equity ratio of 30:70.

Based on the assumptions set out above, the recoverable amount of goodwill exceeds its carrying amounts.

15.4.2 Corinthia Towers Tripoli Limited and IHI Towers s.r.o.

The deferred tax liabilities arising on the net assets acquired through the acquisition of Corinthia Towers Tripoli Limited and IHI Towers s.r.o. (see note 7.1), have been offset against the goodwill that is their balancing figure in order to test that goodwill for impairment. No impairment losses arise as a result of an impairment test on this basis.

16 Investment property

16.1

		2007	2006
	Note	€'000	€'000
Balance at 1 January	16.2	26,800	35,800
Acquisition through business combinations	7.1, 16.3	68,200	-
Change in fair value	16.4	7,723	2,213
Transfer from (to) property, plant and equipment		1,877	(11,213)
Balance at 31 December		104,600	26,800

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

16 Investment property (continued)

- 16.2** Investment property owned by a subsidiary company, IHI Benelux B.V. at balance sheet date, comprises a vacant site and an office building adjacent to the Corinthia Nevskij Palace Hotel situated in St Petersburg, also owned by this company (see note 17.2). These properties are held on lease. The initial lease is for 49 years, with the option to renew for a further period of 49 years. The Group obtained the free and unencumbered title of these properties during 2003.

The site which is being developed into an extension to the Corinthia Nevskij Palace Hotel and underlying shopping mall, was transferred from investment property to assets in the course of construction in 2006.

The other site continues to be classified as an investment property.

- 16.3** This Investment property is owned by a subsidiary company, Corinthia Tripoli Towers Limited and comprises the Commercial Centre and a vacant plot of land adjacent to the Corinthia Bab Africa Hotel.

- 16.4** At balance sheet date the Directors, relying on the expert opinion of Colliers International, a firm of international real estate consultants licensed to conduct property valuations in the Russian Federation valued the investment property held by IHI Benelux B.V. The valuation, has been prepared in conformity with International Valuation Standards (IVS) 1 - 3, taking into account information, including but not limited to, relevant market and financial data, assembled by them through direct research, as well as representations provided by the Directors.

Also at balance sheet date, the directors have relied on the expert opinion of an independent third party to value the commercial centre and a parcel of land adjacent to the Corinthia Bab Africa Hotel.

The resulting uplifts in the fair values on the respective investment properties owned by IHI Benelux B.V. and Corinthia Tripoli Towers Limited amounting to €5.7 million and €2.0 million respectively, have been recognised in the income statement.

- 16.5** The rental income and operating costs related thereto are as follows:

	Rental income		Operating costs	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Investment property held:				
IHI Benelux B.V.	329	283	(203)	(92)
Corinthia Towers Tripoli Limited	3,306	-	(146)	-
	<u>3,635</u>	<u>283</u>	<u>(349)</u>	<u>(92)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

17 Investments in subsidiaries

17.1

		Capital Subscribed	Loans receivable	Fair value changes	Total
	Note	€'000	€'000	€'000	€'000
At 1 January 2006		86,482	84,340	18,555	189,377
Transfer from equity accounted investees		846	-	-	846
Business combinations - CHI Limited		20,150	-	-	20,150
Loans capitalised		9,982	(4,225)	-	5,757
Loans advanced		-	6,267	-	6,267
Loans repaid		-	(4,716)	-	(4,716)
Net increase in fair value		-	-	7,553	7,553
At 31 December 2006		117,460	81,666	26,108	225,234
At 1 January 2007		117,460	81,666	26,108	225,234
Business combinations during the year:					
• shares in Corinthia Towers Tripoli Limited	7.1	40,094	113,012	-	153,106
• shares in IHI Towers s.r.o	7.1	56,778	-	-	56,778
Amount offset against loan due by Company to CPHCL		-	(3,902)	-	(3,902)
Amount receivable from a subsidiary company previously included with current assets		-	1,426	-	1,426
Net increase in fair value		-	-	33,974	33,974
Balance 31 December 2007		214,332	192,202	60,082	466,616

17.2 Investments in subsidiaries at "fair value through profit or loss"

The fair values of the investments of IHI in its subsidiaries, accounted for at "fair value through profit or loss" have been determined by reference to the fair values of the underlying properties held by the respective subsidiaries and in the case of CHI Limited, by reference to the Company's share in its enterprise value. Specific to the fair value of these investments, account has been taken of:

- the deferred tax liabilities arising as a result of the revaluation to fair value of such properties, on the basis that the Directors will pursue a sale of the shares held by IHI in its subsidiary companies, notwithstanding that, as the tax rules stand today, it may be more tax efficient to sell the underlying properties; and
- the tax indemnity granted by CPHCL, the previous owner of the shares now held in Corinthia Towers Tripoli Limited and IHI Towers s.r.o., details of which are set out in note 7.2 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

17 Investments in subsidiaries (continued)

17.3 Subsidiary companies

Unquoted investments	Note	Registered office	Nature of business	% ownership
Five Star Hotels Limited		22, Europa Centre Floriana Malta	Owns and operates the Corinthia Hotel St George's Bay Malta	100
Alfa Investimentos Turisticos Lda		Avenida Columbana Bardolo Pinheiro Lisboa 1099 - 031 Portugal	Owns and operates the Corinthia Hotel & Spa Lisbon Portugal	100
IHI Lisbon Limited		22, Europa Centre Floriana Malta	Investment company holding an equity stake in Alfa Investimentos Turisticos Lda	100
IHI St Petersburg LLC		57, Nevskij Prospect St Petersburg 191025 Russian Federation	Investment company	100
IHI Benelux B.V.	17.4	Frederick Roeskestraat 123,1076 EE Amsterdam PO Box 72888 1070 AC Amsterdam The Netherlands	Owns and operates the Corinthia Nevskij Palace Hotel St Petersburg	100
IHI Hungary Zrt	17.5	Erzsebet Krt 43-49 H-1073, Budapest Hungary	Owns and operates the Corinthia Grand Hotel Royal Budapest	100
IHI Zagreb d.d.		Centar Kaptol Nova Ves 11 10000 Zagreb Croatia	Investment company	100
CHI Limited	17.6	1 Europa Centre Floriana Malta	Hotel management company	70
Corinthia Tripoli Towers Limited		22 Europa Centre Floriana Malta	Owns and operates the Corinthia Bab Africa Hotel and Commercial Centre Libya	100
IHI Towers s.r.o.	17.7	Kongresová 1655/ 1 1406 / 69 Praha 4 Czech Republic	Owns and operates the Corinthia Hotel Prague Czech Republic	100

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

17 Investments in subsidiaries (continued)

- 17.4 The entire issued and paid-up share capital of IHI Benelux B.V. is pledged in favour of Raiffeisen Bank, InvestKredit and Bank Austria Creditanstalt as collateral for a bank loan (see note 25.2). The shareholders of this company will continue to exercise the voting rights attached to these shares.
- 17.5 IHI together with its subsidiary company IHI Hungary Zrt., ("the Borrower") had entered into an agreement with Kereskedelmi És Hitelbank Rt. ("K&H Bank") and Országos Takarékpénztár És Kereskedelmi Rt. ("OTP Bank") for a facility, of €49 million and which at balance sheet date amounted to €42,558 thousand (see note 25.2). In accordance with the terms of the facility, IHI, as owner of the Borrower, has deposited as a pledge the shares it holds in this subsidiary into an account held with OTP Bank.
- 17.6 Effective 31 October 2006, CHI Limited granted an option to its Minority Shareholder to subscribe for the number of shares which would increase the latter's interest in this subsidiary company to 50% at an option price linked to its earnings-based valuation. The option is subject to the achievement of pre-established financial objectives. In view of the substance and intrinsic terms of the arrangement, its fair value as at the balance sheet date is not deemed by the Directors to be determinable in a reliable manner.
- 17.7 In the case of Corinthia Towers Tripoli Limited, an amount of €28 million has been pledged as collateral in favour of this subsidiary company's bankers for funds borrowed (see note 25.2). The shareholder of this company will continue to exercise the voting rights attached to these shares.

18 Equity accounted investees

18.1	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Balance at 1 January	640	2,095	119	914
Share of (loss) profit	(34)	459	-	51
Dividend received	-	(1,249)	-	-
Effect of previously held associated company now a subsidiary	-	(665)	-	(846)
Balance at 31 December	<u>606</u>	<u>640</u>	<u>119</u>	<u>119</u>

18.2 The Group has the following investment:

	Country	Ownership interest		Nature of business
		2007	2006	
		%	%	
Quality Project Management Limited (QPM)	Malta	20	20	Project-management

This equity accounted investee owns the 100% of the equity of Corinthia Construction (Overseas) Limited (CCOL). The registered offices of these companies are situated at 22, Europa Centre, Floriana, Malta.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

18 Equity accounted investees (continued)

18.3 Summary financial information on associates - 20 per cent:

	Assets	Liabilities	Equity	Revenues	Profit (loss)
	€'000	€'000	€'000	€'000	€'000
2007					
QPM	1,300	(555)	745	1,113	88
CCOL	6,671	(4,788)	1,883	6,603	(258)
	<u>7,971</u>	<u>(5,343)</u>	<u>2,628</u>	<u>7,716</u>	<u>(170)</u>
2006					
QPM	1,529	(872)	657	1,094	41
CCOL	6,096	(3,956)	2,140	6,131	210
	<u>7,625</u>	<u>(4,828)</u>	<u>2,797</u>	<u>7,225</u>	<u>251</u>

19 Loans receivable

19.1

	Amount owed to		
	Group company	Other related company	Total
	€'000	€'000	€'000
At 1 January 2006	14,040	1,470	15,510
Loan advanced during year	1,000	-	1,000
Capitalised as part of investment in subsidiaries	(5,757)	-	(5,757)
At 31 December 2006	<u>9,283</u>	<u>1,470</u>	<u>10,753</u>
At 1 January 2007	9,283	1,470	10,753
Loan advanced during year	21,400	-	21,400
At 31 December 2007	<u>30,683</u>	<u>1,470</u>	<u>32,153</u>

19.2

	€'000	Terms		
		Interest	Repayable by	Security
Group company				
IHI Benelux B.V.	30,683	6 month EURIBOR + 3.25%	31 December 2010	None
Related company				
Corinthia Investments Limited	1,470	12 month EURIBOR + 1%	31 December 2015	None
	<u>32,153</u>			

19.3 The Group's exposure to credit, currency and interest rate risks related to the above loans receivable is disclosed in note 30.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

20 Financial assets

The Group's investments consist of term deposits, in relation to CHI's Development Fund (see note 32.3), with banks with the following terms and conditions:

	Weighted average effective interest rate	Amount
	%	€'000
Non-current		
Maturing between 1 and 2 years	4.41	1,800
Maturing between 2 and 5 years	4.43	1,800
		<u>3,600</u>
Current		
Maturing within 6 months	4.36	1,800
		<u>5,400</u>

21 Deferred tax assets and liabilities

21.1 Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of tax losses of certain subsidiaries. The tax losses expire as follows:

	2007	2006
	€'000	€'000
Expiry		
2008	105	17
2009	5,864	5,695
2010	6,169	5,953
2011	5,672	5,668
2012	3,153	3,156
Unlimited	-	2
	<u>20,963</u>	<u>20,491</u>

Deferred tax benefits arising out of certain tax losses which may become available for set-off against future taxable income have not been recognised in these financial statements as it cannot be determined with reasonable certainty whether the respective group companies would be in a position to claim the right to utilise such losses, before their expiry.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

21 Deferred tax assets and liabilities (continued)

21.2 Recognised deferred tax assets and liabilities

		Balance 1 Jan 2006	Movement	Balance 31 Dec 2006	Movement	Balance 31 Dec 2007
The Group	Note	€'000	€'000	€'000	€'000	€'000
Property, plant and equipment:						
Capital allowances in excess of depreciation		5,133	(1,435)	3,698	20,286	23,984
Revaluation of land and buildings		21,058	1,442	22,500	18,829	41,329
Intangible asset		-	8,544	8,544	(408)	8,136
Investment property		6,098	531	6,629	1,753	8,382
Investment in subsidiaries		-	5,150	5,150	-	5,150
Derivatives		8	(35)	(27)	22	(5)
Provisions		(148)	(106)	(254)	2	(252)
Other items		(35)	(284)	(319)	430	111
Tax loss carry-forwards		(5,460)	637	(4,823)	(354)	(5,177)
		<u>26,654</u>	<u>14,444</u>	<u>41,098</u>	<u>40,560</u>	<u>81,658</u>
Arising on business combinations	7		(5,150)		(34,756)	
Deferred tax relating to subsidiary acquired			72		-	
Arising on intangible asset			(8,167)		-	
Arising on increase in equity in respect of previously held 20% interest in CHI from date of initial interest to date			(445)		-	
Recognised directly in equity						
Deferred taxation on revaluation of hotel property carried out at year-end			(1,886)		(5,887)	
Recognised in profit or loss	13		<u>(1,132)</u>		<u>(83)</u>	

		Balance 1 Jan 2006	Movement	Balance 31 Dec 2006	Movement	Balance 31 Dec 2007
The Company		€'000	€'000	€'000	€'000	€'000
Investment in subsidiaries		6,474	7,794	14,268	11,891	26,159
Derivatives		8	(35)	(27)	22	(5)
Provisions		196	(4)	192	(1)	191
Other items		239	(46)	193	(25)	168
Tax loss carry-forwards		(625)	380	(245)	(499)	(744)
		<u>6,292</u>	<u>8,089</u>	<u>14,381</u>	<u>11,388</u>	<u>25,769</u>
Arising on business combination			(5,150)		-	
Recognised in profit or loss			<u>2,939</u>		<u>11,388</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

22 Trade and other receivables

22.1

	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Trade receivables	13,417	5,311	-	-
Amounts owed by:				
Parent company	762	858	-	-
Group companies	-	-	9,041	8,504
Associated companies	277	38	-	-
Related companies	1,464	909	280	204
Other related parties	446	281	-	-
Loan owed by subsidiary company	-	-	5,600	-
Recoverable VAT on Capital Expenditure	1,545	377	-	-
Other debtors	1,299	1,239	422	155
Prepayments and accrued income	2,408	3,645	745	283
	21,618	12,658	16,088	9,146

22.2 The amounts owed by the subsidiary company and by related parties are unsecured and interest free.

22.3 The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in noted 30.

23 Equity

23.1 Authorised share capital

By virtue of an extraordinary resolution dated 31 January 2007, the authorised share capital of the Company was increased from €750 million to €1,000 million and divided into two classes of ordinary shares, namely, 750 million Ordinary Listed Shares of a nominal value of €1 each share and 250 million Ordinary Unlisted Shares of a nominal value of €1 each. Ordinary unlisted shares have been automatically re-designated as Ordinary Listed Shares with effect from 31 January 2008.

23.2 Issued share capital

		Ordinary shares of €1 each	
		2007	2006
	Note	€'000	€'000
On issue at 1 January		162,101	139,053
Issued for cash	23.3	178,000	8,048
Issued on business combination	7.1	192,000	15,000
Bonus Issue	23.4	4,961	-
Conversion of convertible bonds	26.2	37	-
On issue at 31 December - fully paid up		537,099	162,101

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

23 Equity

23.3 Issued for cash

In terms of the Subscription Agreement (see note 7), Istithmar Hotels FZE (Istithmar) acquired 178 million shares payable in three instalments, including a final payment on 30 August 2007. Pending the full payment for the shares, Istithmar's shares remained unlisted, but, on receipt of full and final payment of 30 August 2007, the said shares had been converted to listed shares and admitted to the Malta Stock Exchange as from that date.

23.4 Bonus shares

By virtue of an extraordinary resolution dated 31 January 2007, the shareholders approved the capitalisation of an amount not exceeding €5 million from the reserve of the Company (see note 23.8) and to issue such number of fully paid up bonus shares of a nominal value of €1 each out of this reserve. The bonus shares were issued and allotted in a ratio of one bonus share for every six ordinary shares (subject to rounding) in issue as at 30 June 2006, less any shares held by CPHCL.

23.5 Shareholder rights

Shareholders are entitled to vote at meetings of the shareholders of the Company on the basis of one vote for each share held. They are entitled to receive dividends as declared from time to time. The shares in issue shall, at all times, rank pari passu with respect to any distribution whether of dividends or capital, in a winding up or otherwise.

23.6 Revaluation reserve

		Revaluation surplus	Deferred taxation	Net
	Note	€'000	€'000	€'000
At 1 January 2006		32,240	(7,460)	24,780
Revaluation of hotel property carried out at year end: IHI Benelux B.V.		7,856	(1,885)	5,971
At 31 December 2006		40,096	(9,345)	30,751
Revaluation of hotel property carried out at year end: IHI Benelux B.V.	14.4	11,022	(2,645)	8,377
Corinthia Towers Tripoli Limited		14,192	(2,696)	11,496
IHI Towers s.r.o.		2,598	(546)	2,052
	21.2	27,812	(5,887)	21,925
		67,908	(15,232)	52,676
Capitalisation by way of an issue of bonus shares by the Company from the reserve arising on the revaluation to fair value of its investments in its subsidiary companies	23.4			(4,961)
At 31 December 2007				47,715

23.7 Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

23 Equity (continued)

23.8 Other reserve

The reserve represents the following unrealised gains, net of related deferred taxation.

		2007	2006
	Note	€'000	€'000
The Group			
Exchange gains		-	358
Tax benefit of unused tax losses		1,382	245
		<u>1,382</u>	<u>603</u>
The Company			
Fair value gain on investments in subsidiary companies		39,053	16,970
Exchange gains		-	358
Tax benefit of unused tax losses		1,382	245
		<u>40,435</u>	<u>17,573</u>
Issue of bonus shares	23.8.1	(4,961)	-
Transfer to accumulated losses		(9,310)	-
		<u>26,164</u>	<u>17,573</u>

23.8.1 Issue of Bonus Shares and buy-back program of such shares.

Pursuant to an extraordinary resolution dated 31 January 2007, the shareholders of the Company resolved to:

- capitalise an amount not exceeding €5 million from this reserve and issue such number of fully paid up Bonus Shares of a nominal value of €1 each equivalent to the amount of the capitalisation;
- to apply such amount of this reserve as at the 31 December 2006 (net of the capitalisation) for the purpose of offsetting accumulated losses of the Company up to the financial year ended 31 December 2006;
- to authorise the Directors and grant them powers to conduct and undertake a buy-back programme of shares of the Company up to an amount not exceeding the number of bonus shares issued pursuant to the capitalisation; and
- further to authorise the Directors to re-sell the shares so acquired provided that such shares shall be acquired from members to whom bonus shares were issued in terms of this resolution and the number of shares so acquired from each relevant member shall not exceed the number of bonus shares issued to each member.

During the year, out of 4.96 million bonus shares issued, the Company re-acquired and re-issued 398,217 shares.

23.9 Reporting currency conversion difference

The reporting currency conversion difference represents the excess of total assets over the aggregate of total liabilities and funds attributable to the shareholders, following the re-denomination of the paid up share capital from Maltese Liri to Euro in 2003.

23.10 Accumulated losses

The profit for the year has been transferred to accumulated losses as set out in the statement of changes in equity for the year ended 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

23 Equity (continued)

23.11 Other equity components

	2007	2006
	€'000	€'000
The Group		
Equity component of convertible bonds	347	347
Increase in equity in respect of previously held 20% interest in CHI from date of initial interest to date of additional interest acquired, net of deferred taxation	3,859	3,859
	<u>4,206</u>	<u>4,206</u>
The Company		
Equity component of convertible bonds	<u>347</u>	<u>347</u>

23.12 Bonus share distribution

The Directors recommend a Bonus share distribution of 3% for all Company shareholders appearing on the Register of Members of the Company as at close of business on 18 April, 2008 to be distributed from its reserves. This Bonus Share Issue is subject to approval by the Company's Annual General Meeting which will be held on 15 May, 2008.

24 Earnings per share

24.1 Basic earnings per share

The calculation of the basic earnings per share at 31 December 2007 was based on the result attributable to the shareholders and the weighted average number of shares outstanding during the year, calculated as follows:

24.1.1 Profit (loss) attributable to shareholders

	2007	2006
	€'000	€'000
The Group	<u>10,009</u>	<u>(10,520)</u>
The Company	<u>20,463</u>	<u>1,687</u>

24.1.2 Weighted average number of shares

	2007		2006	
	Shares	Weighted average	Shares	Weighted average
	No'000	No'000	No'000	No'000
At beginning of year	162,101	162,101	139,053	139,053
Effect of bonus shares	4,961	4,961	-	-
Effect of shares issued in:				
July 2006	-	-	1,973	903
August 2006	-	-	2,000	805
September 2006	-	-	2,500	801
October 2006	-	-	15,000	2,548
November 2006	-	-	575	74
December 2006	-	-	1,000	68
May 2007	37	24	-	-
June 2007	192,000	112,570	-	-
June 2007	178,000	104,362	-	-
At end of year	<u>537,099</u>	<u>384,018</u>	<u>162,101</u>	<u>144,252</u>
Effect of bonus shares	-	-	4,961	4,961
	<u>537,099</u>	<u>384,018</u>	<u>167,062</u>	<u>149,213</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

24 Earnings per share (continued)

24.2 Diluted earnings (loss) per share

The calculation of the profit for the year (2006: loss) attributable to the shareholders for the purpose of calculating the diluted earnings per share is arrived at after taking into account changes in expenses that would result from the conversion of the dilutive potential ordinary shares as follows:

24.2.1 Profit (loss) attributable to ordinary shareholders (diluted)

	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Profit (loss) profit attributable to shareholders	10,009	(10,520)	20,463	1,687
After-tax effect of interest on convertible bonds	471	466	471	466
Profit (loss) attributable to the shareholders (diluted)	<u>10,480</u>	<u>(10,054)</u>	<u>20,934</u>	<u>2,153</u>

24.2.2 Weighed average number of ordinary shares (diluted)

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares arise from the convertible bonds in issue such that the weighted average number of shares outstanding is increased by the weighted average number of additional shares which would have been outstanding, assuming the conversion of all dilutive potential shares. The additional amount of shares to be issued upon conversion is dependent on the arithmetic average of the daily trade weighted average price (TWAP) arrived at as explained in note 26.2.1 to these financial statements. The effect on the fully diluted earnings per share cannot be ascertained since it is not possible to forecast this price at date of conversion.

25 Bank Borrowings

25.1 This note provides information about the contractual terms of the Group's bank borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk see note 30.

	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Non-current liabilities				
Bank loans	<u>197,721</u>	<u>112,958</u>	<u>6,700</u>	<u>8,133</u>
Current liabilities				
Bank loans	21,004	4,233	1,433	1,434
Bank overdrafts	<u>1,700</u>	<u>2,751</u>	<u>-</u>	<u>228</u>
	<u>22,704</u>	<u>6,984</u>	<u>1,433</u>	<u>1,662</u>
	<u>220,425</u>	<u>119,942</u>	<u>8,133</u>	<u>9,795</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

25 Bank Borrowings (continued)

25.2 Terms and debt repayment schedule

	Face value		Repayment				Terms	
	2007 €'000	2006 €'000	Nominal interest rate	Year of maturity	Within 1 year €'000	Between 2 - 5 years €'000		After 5 years €'000
Group company								
International Hotel Investments p.l.c.								
Bank loan	4,800	5,400	6-month EURIBOR + 2%	2015	600	2,400	1,800	General Hypothec for €10 million over all Company's assets present and future.
								General Hypothecary Guarantee over all Company's present and future assets and Special Hypothecary Guarantee over the Corinthia San Gorg
Bank loan denominated in Euro	3,333	4,167	6-month EURIBOR + 1.5%	2011	833	2,500	-	First General Hypothec for €3,750 thousand over all of the Company's assets present and future. Joint and several suretyship with a related company and a First Special Hypothec over property owned by this Company
Bank overdraft	-	228	4.924%	On Demand	-	-	-	Unsecured.
Five Star Hotels Limited								
Bank overdraft	1,117	1,512	6.25%	On demand	1,117	-	-	General hypothec over assets belonging to Five Star Hotels Limited supported by a special hypothec and privilege over the leasehold land and buildings and a pledge over the Company's comprehensive insurance policies.
Bank loan	5,912	4,621	6.10%	2015	621	2,893	2,398	
Alfa Investimentos Turisticos Lda								
Bank loan	40,850	42,091	1 - 5 years 4.96%, thereafter at 3 month EURIBOR + 1.25%	2022	1,290	6,020	33,540	Secured by a mortgage over the Corinthia Hotel & Spa Lisbon including land.
Bank loan	2,877	-	3-month EURIBOR +1.75%	2013-2015	300	2,062	515	Secured by a second ranking mortgage over the Corinthia Hotel & Spa Lisbon including land and a blank bill of exchange
Bank overdraft	71	-	EURIBOR + 3%	On demand	71	-	-	
IHI Benelux B.V.								
Bank loan	16,987	16,987	3-month EURIBOR +3.25% during construction, thereafter margin at 3%	2016	4,622	12,365	-	Secured over the Corinthia Nevskij Palace Hotel and a pledge over the shares of IHI Benelux B.V. (see note 17.4). Pledge over all present and future movable property held by this company and subordination of loans due to the parent company and by a pledge overall all bank accounts held.
Carried forward	75,947	75,006			9,454	28,240	38,253	

* Borrowings denominated in Lm: effective interest rate of 6.25%
Borrowings denominated in €: effective interest rate of 4.65%

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

25 Bank Borrowings (continued)

25.2 Terms and debt repayment schedule (continued)

Group company	Face value		Nominal interest rate	Year of maturity	Repayment		Security
	2007	2006			Within 1 year	Between 2 - 5 years	
	€'000	€'000			€'000	€'000	
Brought forward	75,947	75,006			9,454	28,240	38,253
IHI Hungary Zrt Bank loan	42,558	43,926	3 month Euribor + 1.65%	2019	1,457	6,865	34,236
							Secured by a mortgage over the Corinthia Grand Hotel Royal and by a security deposit over the shares of IHI Hungary Zrt (see note 17.5) and by a cash collateral (see note 32.3). In addition, IHI, CPHCL and Corinthia Investments Limited have provided additional financial guarantees to the bankers granting this loan. As part of this loan agreement no repayment of Group loans can be effected except with the consent of the Security Agent.
CHI Limited Bank overdraft	512	1,010	*	On demand	512	-	Secured by general hypothec over the Company's assets and by a guarantee from IHI
Corinthia Tripoli Towers Limited Bank loan	40,000	-	3 month Libor + 1.5%	2012	8,000	32,000	Secured by a general hypothec over the land and buildings of the hotel property in Tripoli
Bank loan	11,750	-	3 month Euribor + 2.25%	2013	1,500	7,400	Secured by a pledge on shares in Corinthia Towers Tripoli Limited (see note 17.7)
IHI Towers s.r.o Bank loan	49,658	-	3 month Euribor + 1.2%	2020	1,781	7,752	Secured by a mortgage over the Corinthia Hotel Prague and by a pledge on shares, moveables, bank accounts and insurance policy.
	220,425	119,942			22,704	82,257	115,464

* All bank loans have been borrowed in the Euros currency, with the exception of a part relating to Five Star Hotels Limited and CHI Limited which are denominated in Maltese Lira. With effect from 1 January 2008, such loans have been automatically converted into Euro upon Malta's accession in the Eurozone.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

26 Bonds

26.1		2007	2006
	Note	€'000	€'000
Convertible bonds	26.2	11,094	10,940
Lm bonds	26.3	13,813	13,780
Euro bonds I	26.3	8,011	7,979
Euro bonds II	26.3	12,391	12,377
		<u>45,309</u>	<u>45,076</u>

26.2 Convertible bonds

	€'000
Proceeds from issue	12,283
Transaction costs	(367)
Net proceeds	11,916
Imputed interest and amortisation of transaction costs to 31 December 2006	(340)
Exchange differences	(636)
At 31 December 2006	10,940
Conversion into shares	(37)
Imputed interest and amortisation of transaction costs for 2007	191
At 31 December 2007	<u>11,094</u>

26.2.1 Conversion terms, dates and prices

During the period ended 31 December 2000 the Company issued 50,000 bonds with a face value of Lm100 each, which, unless previously purchased and cancelled or converted in accordance with the terms of issue, shall be redeemable at par on the 29 May 2010. Any bonds purchased by the Company on the open market shall be cancelled. The Company reserves the right to purchase bonds on the open market without notice.

Bondholders shall be entitled to exercise their conversion option on a conversion date during the conversion period by converting their bonds, or part thereof, into fully paid ordinary shares of the Company at the conversion price determined as set out below. Upon conversion, the right of the converting bondholder to repayment of the bond to be converted and any interest for the period between the applicable conversion date and redemption date shall be extinguished and released, and in consideration and in exchange thereof, the Company shall issue fully paid up ordinary shares as provided in the terms and conditions of issue. A conversion of part of a bond shall not be allowed.

The bonds entitle the holders thereof to an original entitlement of 100 shares for every bond. In the event that upon conversion the conversion price is higher than the share issue price, and a bondholder wishes to retain such original entitlement, such bondholder shall pay the cash difference as determined in accordance with the terms of the issue of the bonds. A bondholder may elect not to pay such cash difference and in lieu thereof shall accept the issue of a lower number of shares than his original entitlement. Shares shall not be issued at below their nominal value.

A bondholder may exercise the conversion option during the conversion period, which commenced on the 29 November 2005 and ends on 29 November 2009. In the case of bonds converted on any of the following conversion dates during any conversion term, the conversion price shall be determined in accordance with the arithmetic average of the daily trade weighted average price (TWAP) quoted by the Malta Stock Exchange during the three months immediately preceding the reference date less a percentage, as follows:

Conversion term	Conversion dates	%
Second	29 May 2007; 29 November 2007 and 28 May 2008	15
Third	29 November 2008; 29 May 2009 and 29 November 2009	20

Conversions of such bonds took place during 2007 (see note 23.2).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

26 Bonds (continued)

26.2 Convertible bonds (continued)

26.2.2 Interest

The bonds carry an interest rate of 5% per annum payable annually in arrears on the 29 May in each year.

26.2.3 Security

The bonds constitute the general, direct, unconditional, unsecured and unsubordinated obligations of the Company and will rank pari passu, without any priority or preference, with all other present and future unsecured and unsubordinated obligations of the Company.

26.3 Lm and Euro bonds

During the year 2003, the Company offered to the general public an aggregate of Lm5.2 million Bonds maturing in 2013, subject to an over-allotment option for a further amount of Lm4.17 million in either or a combination of Bonds denominated in Maltese Lira and Bonds denominated in Euros. After the application of the over-allotment option, the bonds allotted by the Company amounted to Lm6 million (equivalent to €14.3 million) 6.3% Bonds and €8 million 6.2% - 6.8% Bonds. Also, during the year 2006 the Company issued €12.5 million 6.5% bonds 2012 - 2014.

	Lm bond	Euro bonds	
		I	II
	€'000	€'000	€'000
Proceeds from issue	14,309	8,058	-
Transaction costs	(345)	(186)	-
Net proceeds	13,964	7,872	-
Proceeds from issue	-	-	12,500
Transaction costs	-	-	(133)
Amortisation of transaction costs to 31 December 2006	108	107	10
Exchange differences	(292)	-	-
At 31 December 2006	13,780	7,979	12,377
Amortisation of transaction costs	33	32	14
At 31 December 2007	13,813	8,011	12,391

26.3.1 Terms of repayment

Unless previously purchased and cancelled, the Lm bond and the Euro I bonds will be redeemed at their nominal value (together with interest accrued to the date fixed for redemption) on 15 February 2013.

In the case of the Euro II bond, the bonds shall become due for final redemption on 27 March 2014. The Company has however the right to redeem this bond or any part thereof at any time prior to the stated maturity date on either of the interest payment dates falling in 2012 and/or 2013. Redemption of the Euro II bond shall be made at their face value.

The Company may at any time purchase Bonds in the open market or otherwise at any price. All bonds so redeemed or purchased will be cancelled forthwith and may not be re-issued or re-sold.

26.3.2 Interest

The Lm Bond carries an interest rate of 6.3% per annum whereas the Euro I Bond carries interest at the rate of 6.2% per annum for the interest payment dates falling between the years 2004 up to and including 2010 and at the rate of 6.8% for the rest of the term of the Bond. In either case interest shall be payable annually in arrears on 15 February each year between the years 2004 and 2013. The Euro II bond bears interest at the rate of 6.5% per annum payable annually in arrears on the 27 March of each year.

26.3.3 Security

The bonds constitute the general, direct, unconditional, unsecured and unsubordinated obligations of the Company and will rank pari passu, without any priority or preference, with all other present and future unsecured and unsubordinated obligations of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

27 Parent company and other interest-bearing borrowings

27.1

	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Amounts owed to:				
Parent company	12,737	10,673	12,447	10,384
Group company	-	-	915	-
Associated companies	2,147	1,765	-	-
Other related companies	2,057	2,042	-	-
	<u>16,941</u>	<u>14,480</u>	<u>13,362</u>	<u>10,384</u>
Non-current liabilities				
Amounts owed to:				
Parent company	5,670	10,384	5,670	10,384
Group company	-	-	915	-
Other related company	1,671	1,671	-	-
	<u>7,341</u>	<u>12,055</u>	<u>6,585</u>	<u>10,384</u>
Current liabilities				
Amounts owed to:				
Parent company	7,067	290	6,777	-
Associated companies	2,147	1,765	-	-
Other related companies	386	370	-	-
	<u>9,600</u>	<u>2,425</u>	<u>6,777</u>	<u>-</u>

27.2 The terms of the amounts owed to the related parties are as follows:

		Terms		
	€'000	Interest	Repayable by	Security
Parent company	5,670	6.00%	At least after more than 12 months after balance sheet date	None
Parent company	7,067	5.5%	On demand	None
Associated companies	2,147	5.0%	On demand	None
Related company	386	6.0%	On demand	None
Related company	1,671	EURIBOR + 1%	Subordinated (see note 25.2)	None
	<u>16,941</u>			

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

28 Trade and other payables

28.1

	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Trade payables	7,472	6,415	262	133
Advance deposits	5,150	2,550	-	-
Amounts owed to:				
Parent company	1,722	4,840	293	2,766
Group companies	-	-	235	148
Associated companies	474	346	46	-
Other related companies	1,157	1,150	57	128
Capital creditors	3,494	629	-	-
Other creditors	3,720	1,811	55	16
Accruals	12,928	8,745	2,219	2,495
	<u>36,117</u>	<u>26,486</u>	<u>3,167</u>	<u>5,686</u>

28.2 The amounts owed to related parties are all unsecured and interest free.

28.3 The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 30.

29 Derivative financial instrument

The interest rate swap agreement is subject to the following terms:

Notional amount maturing in 2008

€8,000,000

Interest rate:

Receive fixed interest at the rate of

6.2% per annum

Pay variable interest at the rate of

6 month EURIBOR + 2.955%

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

30 Financial instruments

30.1 Credit risk

30.1.1 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	The Group		The Company	
		2007	2006	2007	2006
		€'000	€'000	€'000	€'000
Non-current	19.1	1,470	1,470	32,153	10,753
Current	22.1	-	-	5,600	-
Trade receivables	22.1	13,417	5,311	-	-
Other receivables	22.1	2,949	2,086	9,321	8,708
		<u>17,836</u>	<u>8,867</u>	<u>47,074</u>	<u>19,461</u>

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	2007	2006
	€'000	€'000
Domestic (countries of Group companies establishment)	9,704	3,353
Eurozone countries	1,717	990
United Kingdom	907	557
Other European countries	202	164
United States	692	170
Other regions	195	77
	<u>13,417</u>	<u>5,311</u>

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying amount	
	2007	2006
	€'000	€'000
Rack	62	50
Corporate	4,339	1,141
MICE	3,403	1,393
Leisure group	1,699	367
Tour operator	1,451	1,399
Leisure individual	544	301
Air-line	1,160	65
Others	759	595
	<u>13,417</u>	<u>5,311</u>

30.1.2 Impairment losses

The aging of trade receivables at the reporting date was:

	Gross amount	Impaired amount	Gross amount	Impaired amount
	2007	2007	2006	2006
	€'000	€'000	€'000	€'000
Not past due	3,646	-	1,153	-
Past due 0-30 days	2,387	(17)	1,070	-
Past due 31-120 days	4,236	(31)	1,769	(79)
Past due 121-360 days	2,356	(55)	85	(14)
More than one year	1,474	(579)	2,088	(761)
	<u>14,099</u>	<u>(682)</u>	<u>6,165</u>	<u>(854)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

30 Financial instruments (continued)

30.1 Credit risk (continued)

30.1.2 Impairment losses

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2007	2006
	€'000	€'000
Balance at 1 January	854	754
Impairment losses recognised	192	265
Impairment losses reversals	(364)	(165)
Balance at 31 December	682	854

The impairment loss at 31 December 2007 mainly relates to specific provision for doubtful debtors that have been overdue for more than one year. Such balances were unsecured. Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or on the remaining portion of debtors which have not been provided for which are past due by up to 120 days as these amounts relate to customers that have a good track record with the Group. The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

30.2 Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2007

	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Non-derivative financial liabilities							
Bank borrowings	218,725	305,048	17,184	16,321	34,915	83,395	153,233
Bonds	45,309	60,223	2,776	-	2,776	30,652	24,019
Parent company loan and other interest-bearing borrowings	16,941	17,837	-	10,241	-	6,009	1,587
Trade and other payables	36,117	36,117	36,117	-	-	-	-
Bank overdrafts	1,700	1,802	1,751	51	-	-	-
Derivative financial liabilities							
Interest rate swaps	15	15	15	-	-	-	-
	318,807	421,042	57,843	26,613	37,691	120,056	178,839

31 December 2006

Non-derivative financial liabilities							
Bank borrowings	117,191	178,606	6,531	5,189	16,254	43,505	107,125
Bonds	45,076	62,765	2,776	-	2,776	18,687	38,526
Parent company loan and other interest-bearing borrowings	14,480	16,042	4,034	3,781	2,199	6,028	-
Trade and other payables	26,486	26,486	26,486	-	-	-	-
Bank overdrafts	2,751	2,888	2,820	68	-	-	-
Derivative financial liabilities							
Interest rate swaps	79	157	78	-	79	-	-
	206,063	286,944	42,725	9,038	21,310	68,220	145,651

30.2.1 Bank loan covenant - Five Star Hotels Limited

In view of a slight delay in the completion of the hotel refurbishment programme in 2007 Five Star Hotels Limited did not meet all the covenants agreed with its bankers. Following representations by the Company in this regard, its bankers agreed to a grace period ending 31 March 2009 by when the resultant breach of covenants are to be rectified. The Company is confident that it will honour this time limit.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

30 Financial instruments (continued)

30.3 Currency risk

30.3.1 Exposure to currency risk

Apart from Portugal and Malta, where the local currency is the Euro and the Maltese Lira (pegged to the Euro in 2007), the IHI Group operates in a number of countries where the local currency is different from the Euro, namely The Russian Federation (Russian Rouble), Libya (Libyan Dinar), Czech Republic (Czech Crown) and Hungary (Hungarian Forint).

Whereas a substantial part of the Group's revenues are based on and generated in Euros, enough revenues denominated in the respective local currencies are generated to serve as a natural hedge against expenditure also incurred in these currencies. On the other hand, the revenues generated in Euros cover the amounts payable in Euros, the Debt Service requirements relating to the bank loans financing the Group's hotel properties that are all denominated in Euros and excess cash flow which is repatriated to the holding company.

In view of the above natural hedges and the Group's presence in various countries with different currencies, the currency risk is not considered material.

30.4 Interest rate risk

30.4.1 Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2007	2006
	€'000	€'000
Fixed rate instruments		
Financial assets, other than cash at bank:		
Non-current:		
Placement of term deposit with banks	3,600	-
Current:		
Placement of term deposit with banks	1,800	-
Financial liabilities:		
Bonds	(45,309)	(45,076)
Parent company loan and other interest-bearing borrowing	(15,285)	(12,888)
	<u>(55,194)</u>	<u>(57,964)</u>
Variable rate instruments		
Financial assets other than cash at bank:		
Non-current:		
Loan to related company	1,470	1,470
Financial liabilities:		
Bank borrowings	(220,425)	(119,942)
Other interest bearing liabilities	(1,671)	(1,671)
	<u>(220,626)</u>	<u>(120,143)</u>

30.4.2 Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

30.4.3 Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis performed on the same basis for 2006.

	Profit (loss)	
	100 bp increase	100 bp decrease
<i>Effect in €'000</i>		
31 December 2007	(1,850)	1,850
31 December 2006	(1,302)	1,302

30.5 Fair values

At balance sheet date the carrying amount of financial assets and liabilities, approximated their fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

31 Cash generated from (absorbed by) operating activities

	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Profit (loss) for the year	10,009	(10,520)	20,463	1,687
Adjustments for:				
Depreciation	16,451	10,256	5	-
Provision for doubtful debts	(172)	100	-	-
Dividends	-	-	-	(51)
Loss on disposal of property, plant and equipment	340	96	-	-
Amortisation of intangible asset	1,167	194	-	-
Impairment charges	-	7,150	-	-
Fair value changes - investments in subsidiaries	-	-	(33,974)	(7,553)
Interest receivable and similar income	(3,860)	(414)	-	-
Fair value loss on interest rate swap	(64)	101	(64)	101
Interest payable and similar charges	13,002	9,300	-	-
Imputed interest and amortisation of transaction costs	270	249	270	249
Realised exchange differences	183	168	-	10
Unrealised exchange differences	418	(58)	(1)	-
Change in fair value of investment property	(7,723)	(2,213)	-	-
Income from equity accounted investees	-	(459)	-	-
Former equity accounted investee now a subsidiary	-	1,197	-	-
Income tax expense (credit)	4,016	(216)	11,805	3,330
	34,037	14,931	(1,496)	(2,227)
Change in:				
Inventories	96	(130)	-	-
Trade and other receivables	(238)	(3,075)	(3,186)	(2,576)
Advance deposits	2,600	276	-	-
Trade and other payables	(5,743)	4,236	(45)	2,361
	30,752	16,238	(4,727)	(2,442)

32 Cash and cash equivalents

32.1		The Group		The Company	
		2007	2006	2007	2006
	Note	€'000	€'000	€'000	€'000
Cash at bank and in hand	32.3	163,813	21,805	142,057	10,980
Financial assets - term deposits with banks	10	(1,800)	-	-	-
Bank overdrafts		(1,700)	(2,751)	-	(229)
Cash and cash equivalents in the statement of cash flows		160,313	19,054	142,057	10,751

32.2 The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 30.

32.3 Cash at bank includes cash held by the Company with financial institutions amounting to €33.2 million that are pledged in order to benefit from lower interest rates on bank borrowings (see note 12.2). In addition, the Group figures include an amount of €1.8 million set aside by a subsidiary company for debt servicing requirements and another amount of €0.9 million set aside by another subsidiary for capital expenditure purposes.

At 31 December 2006, included in cash at bank and in hand was an amount of €6 million held as short term bank deposits with a term of 2 months and which matured within one month from the balance sheet date. These were deemed to be cash and cash equivalents rather than investments. These amounts were subject to an effective interest rate of 3.43%.

At 31 December 2007, the Group's cash at bank and term deposits include an amount of €5.4 million that has been allocated to the Development Fund earmarked for funding future acquisitions or management agreements (see note 20).

Also, included within cash at bank and in hand is the balance remaining out of the proceeds from the share capital subscribed by Istithmar. These funds are being deposited on a short-term basis with reputable banks and at competitive interest rates.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

33 Capital commitments

Property, plant and equipment

	The Group	
	2007	2006
	€'000	€'000
Contracted for:		
Five Star Hotels Limited (Corinthia Hotel St. George's Bay)	69	2,728
Alfa Investimentos Turisticos Lda (Corinthia Hotel & Spa Lisbon)	782	-
IHI Benelux B.V. (Corinthia Nevskij Palace Hotel)	44,813	9,079
Corinthia Towers Tripoli Limited (Corinthia Bab Africa Hotel)	234	-
	<u>45,898</u>	<u>11,807</u>
Authorised but not yet contracted for:		
Five Star Hotels Limited (Corinthia Hotel St. George's Bay)	85	-
IHI Benelux B.V. (Corinthia Nevskij Palace Hotel)	-	205
Alfa Investimentos Turisticos Lda (Corinthia Hotel & Spa Lisbon)	14	4,490
Corinthia Towers Tripoli Limited (Corinthia Bab Africa Hotel)	54	-
	<u>153</u>	<u>4,695</u>
	<u>46,051</u>	<u>16,502</u>

34 Guarantees

At balance sheet date, the bankers of one of the subsidiary companies issued a guarantee for €300,000 by way of security to a third party until the final operating licence is obtained.

35 Related parties

35.1 Parent and ultimate controlling party

The Company is a subsidiary of CPHCL. The Group's ultimate parent company is CPHCL, the registered office of which is the same as that of the Company.

CPHCL prepares the consolidated financial statements of the Group of which IHI and its subsidiaries form part. These financial statements are filed and are available for public inspection at the Registrar of Companies in Malta.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

35 Related parties (continued)

35.2 Transactions with key management personnel

35.2.1 Key management personnel compensation

In addition to the remuneration paid to the Directors included in personnel expenses (see note 11), in the course of its operations, the IHI Group has a number of arrangements in place with its shareholders, officers, executives and other related parties, whereby concessions are made available for hospitality services rendered to them according to accepted industry norms. All transactions with other related parties are carried out on an arm's length basis.

35.2.2 Other transactions with key management personnel

The Chairman and CEO has a beneficial interest in IHI of 589,779 ordinary shares, through the shareholding of A & A Pisani & Company Limited in CPHCL. Details of shareholdings held by other directors are set out in the shareholder and other information section in the Annual Report.

35.2.3 Other related party transactions

During the year, the Group entered into transactions with related parties as detailed below, in addition to those as set out in the Cash Flow Statement:

	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Revenue				
Services rendered to the Parent Company and its subsidiaries by:				
IHI p.l.c.	225	-	225	-
Five Star Hotels Limited	224	107	-	-
IHI Hungary Zrt	15	8	-	-
Alfa Investimentos Turisticos Lda	4	31	-	-
IHI Benelux B.V.	-	6	-	-
CHI Limited	1,443	590	-	-
Services rendered to Associated Companies by:				
Five Star Hotels Limited	3	3	-	-
IHI Hungary Zrt	2	42	-	-
Services rendered to its subsidiaries by:				
IHI p.l.c.	-	-	1,047	-
	<u>1,916</u>	<u>787</u>	<u>1,272</u>	<u>-</u>
Direct costs				
Charged by the Parent Company and its subsidiaries to:				
Five Star Hotels Limited	526	250	-	-
IHI Hungary Zrt	14	30	-	-
Alfa Investimentos Turisticos Lda	67	-	-	-
IHI Benelux B.V.	-	2	-	-
CHI Limited	-	88	-	-
	<u>607</u>	<u>370</u>	<u>-</u>	<u>-</u>
Carried forward	607	370	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

35 Related parties

35.2 Transactions with key management personnel (continued)

35.2.3 Other related party transactions (continued)

During the year, the Group entered into transactions with related parties as detailed below, in addition to those as set out in the Cash Flow Statement:

	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Brought forward	607	370	-	-
Marketing costs				
Charged by CHI Limited to:				
Five Star Hotels Limited	-	109	-	-
IHI Hungary Zrt	-	149	-	-
Alfa Investimentos Turisticos Lda	-	116	-	-
IHI Benelux B.V.	-	152	-	-
	-	526	-	-
Administrative expenses				
Management fee charged by Parent Company to:				
IHI p.l.c.	225	582	225	582
CHI Limited	-	14	-	-
Management fee charged by CHI Limited to:				
Five Star Hotels Limited	-	145	-	-
IHI Hungary Zrt	-	319	-	-
Alfa Investimentos Turisticos Lda	-	244	-	-
IHI Benelux B.V.	-	296	-	-
Incentive fee charged by CHI Limited to:				
IHI Hungary Zrt	-	586	-	-
Consultancy and sub-licence fees charged by CHI Limited to:				
IHI Benelux B.V.	-	768	-	-
	225	2,954	225	582
Sundry expenses				
Charged/(Recharged) by/(to) the Parent Company and its subsidiary companies to:				
IHI p.l.c.	-	-	-	-
Five Star Hotels Limited	(352)	(213)	-	-
IHI Hungary Zrt	60	23	-	-
Alfa Investimentos Turisticos Lda	2	51	-	-
CHI Limited	-	179	-	-
	(290)	40	-	-
Charged by QPM Limited to:				
IHI Hungary Zrt	-	8	-	-
Alfa Investimentos Turisticos Lda	-	11	-	-
	-	19	-	-
Financing				
Interest receivable (see note 9)	(147)	(59)	(76)	(59)
Interest payable (see note 10)	1,106	868	821	669
	959	809	745	610
Expensed	1,501	4,718	970	1,192

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

35 Related parties (continued)

35.2 Transactions with key management personnel (continued)

35.2.3 Other related party transactions (continued)

	The Group		The Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Property, plant and equipment				
Construction and related services provided by QPM Limited and Corinthia Construction Overseas Limited to:				
IHI Hungary Zrt	-	196	-	-
Alfa Investimentos Turisticos Lda	265	23	-	-
IHI Benelux B.V.	818	981	-	-
Capitalised	1,083	1,200	-	-

With respect to comparative figures, related party transactions between CHI and other subsidiaries forming part of IHI relate to the period prior to date when CHI became a subsidiary.

35.3 Related party balances

Information regarding balances with related parties is set out in notes 19, 22, 27 and 28 to the financial statements.

35.4 Guarantees

Five Star Hotels Limited, a subsidiary company, is party to a joint and several guarantee, and a general and special hypothecary guarantee over the Corinthia Hotel St. George's Bay, originally for €14.4 million now standing at €9.2 million in favour of CPHCL. In addition, this subsidiary company issued general hypothecary guarantees over all its assets and special hypothecary guarantees over the Corinthia Hotel St. George's Bay in favour of CPHCL (see note 14.2).

36 Operating leases

Non-cancellable operating lease rental in relation to Five Star Hotels Limited are as follows:

	2007	2006
	€'000	€'000
Less than one year	108	105
Between one and five years	433	432
More than five years	13,129	13,239
	13,670	13,776

The above lease rentals arise on the temporary emphyteusis for a period of 99 years in relation to the land underlying the Corinthia Hotel St. George's Bay Malta (see note 14.2). During the year ended 31 December 2007, €108,000 (2006: €105,000) was recognised as an expense in the income statement in respect of operating leases (see note 9).

37 Subsequent events

37.1 London hotel development

The Company, together with LFICO and Istithmar, acting as a joint-venture, entered into an Exclusivity and Development Agreement with the Crown Estate of the United Kingdom to develop a 283-bedroom deluxe five-star hotel and a suite of adjoining luxury apartments in a central location in London. In terms of the signed agreement between the Company, LFICO and Istithmar, each of the parties agreed to subscribe to 33,000 shares of £stg1 each, initially upon formation in NLI Hotels Ltd, a newly formed company, as well as to lend to this company the sum of €4 million (£stg2.9 million). In terms of this same agreement, IHI will contribute the remainder of its committed capital amounting to £stg35 million, over a period of time as and when NLI Hotels Limited so requires.

37.2 Benghazi hotel development

The Company signed a memorandum of understanding with LFICO for a joint-venture agreement to develop a five-star hotel on a 7,000 square metre site on the waterfront in central Benghazi, Libya. It is planned to develop the site into a 360-room five-star hotel with serviced offices and retail outlets, which will be operated by CHI Limited. In terms of this memorandum of understanding the Company is to contribute €22.5 million as equity in cash in tranches to be established with LFICO as necessary for the execution of the project.

INDEPENDENT AUDITORS' REPORT

to the Members of International Hotel Investments p.l.c.



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Report on the Financial Statements

We have audited the financial statements of International Hotel Investments p.l.c. (the "Company"), and of the Group of which the Company is the parent, as set out on pages 51 to 109, which comprise the balance sheets as at 31 December 2007 and the statements of changes in equity, income statements and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

As described on page 50, the Directors are responsible for the preparation and fair presentation of the financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and of the Company 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 financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 179 of the Companies Act 1995 enacted in Malta (the "Act") and may not be appropriate for any other purpose.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in 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 principles 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 opinion.

KPMG, a Maltese civil partnership, is a member firm of
KPMG International, a Swiss cooperative.

Partners
Joseph C Schembri
Raymond Azzopardi
Mark Bamber
Juanita Bencini
David Caruana
Alfred V Cremona
Hillary Galea-Lauri

Noel Mizzi
Eric Muscat
Anthony Pace
Pierre Portelli
André Zarb
Anthony Zarb

INDEPENDENT AUDITORS' REPORT

to the Members of International Hotel Investments p.l.c.



Opinion

In our opinion, the financial statements give a true and fair view:

- of the financial position of the Group as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- of the financial position of the Company as at 31 December 2007, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also report to you our opinion as to whether the financial statements are properly prepared in accordance with the Act. In addition, we report to you if, in our opinion:

- the information given in the Directors' Report is not consistent with the financial statements; or
- the Company has not kept proper accounting records; or
- the Company's financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit, or if the information specified by Article 31(O) of the Third Schedule to the Act regarding any directors' emoluments is not disclosed, in which case we are required to include a statement in our report giving the required particulars.

We read the Directors' and Other Statutory Reports and consider the implications for our report if we become aware of any material misstatements of fact within them.

Opinion

In our opinion, the financial statements have been properly prepared in accordance with the Companies Act 1995 enacted in Malta.

Hilary Galea-Lauri (Partner) for and on behalf of

KPMG
Registered Auditors

8 April 2008



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