



INTERNATIONAL HOTEL INVESTMENTS p.l.c.

# Annual Report & FINANCIAL STATEMENTS 2009







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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 (CPHCL), 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 business potential of each of the acquired hotels by way of major refurbishment and expansion projects. Typically, IHI has targeted investment opportunities in emerging markets as also established destinations, unlocking hidden value in landmark real estate. IHI's policy is to achieve the maximum benefit through capital gains in redevelopment, as also healthy operating results with ultimate appreciation of the property over the years.

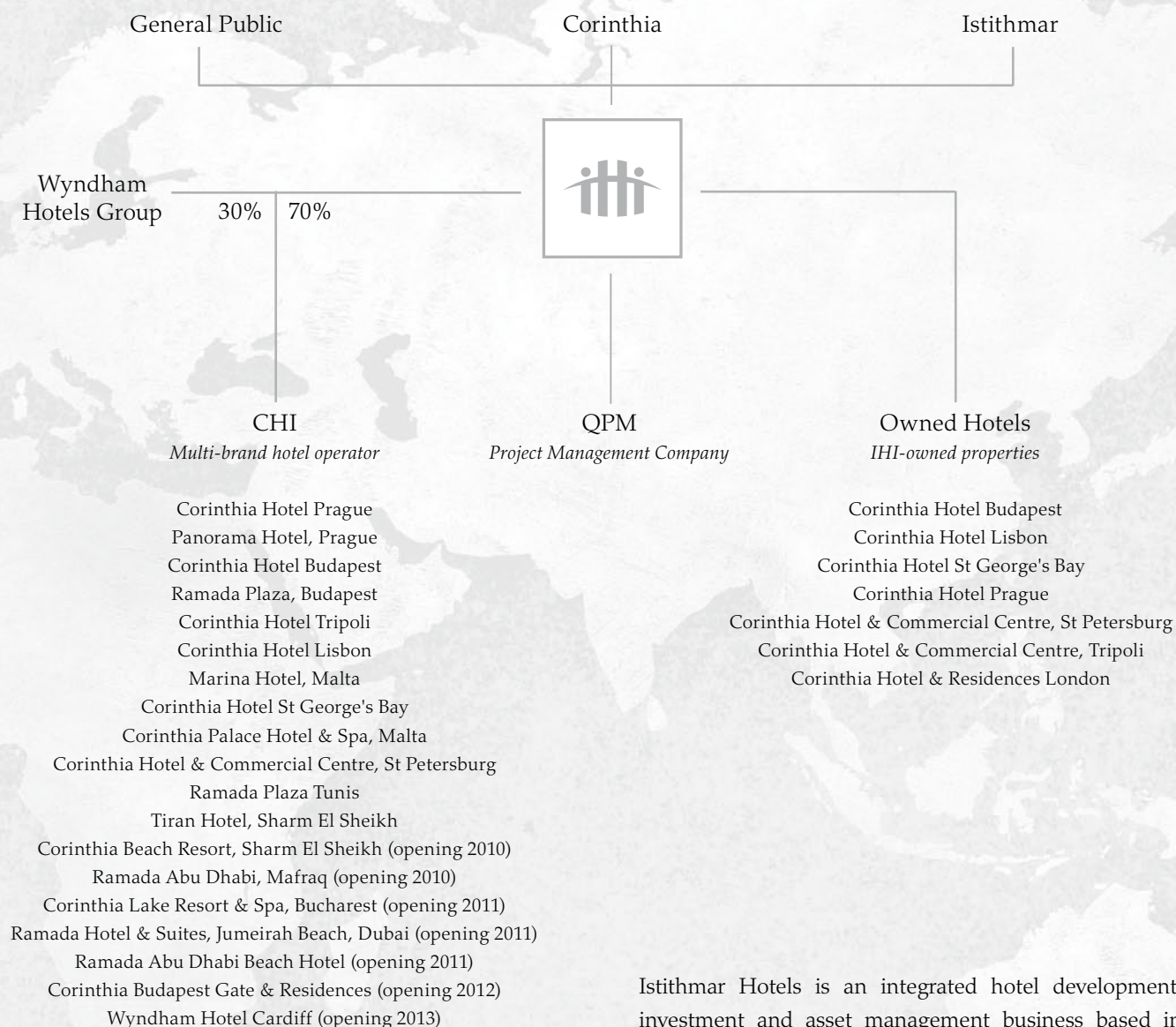
To date, IHI has acquired and developed seven landmark hotel projects, in Prague (Czech Republic), Tripoli (Libya), Lisbon (Portugal), Budapest (Hungary), St Petersburg (Russia), St George's Bay (Malta) and in London (United Kingdom).

In 2007, IHI welcomed 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 company 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.

## INTERNATIONAL HOTEL INVESTMENTS P.L.C.



Istithmar Hotels is an integrated hotel development, investment and asset management business based in Dubai, United Arab Emirates.

Wyndham Hotels Group is one of three principal divisions of Wyndham Worldwide, the others being RCI Global Vacation Network and Wyndham Vacation Ownership. Wyndham Worldwide is listed on the New York stock exchange.

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 worldwide.

LFICO is the investment arm of the Government of Libya, with investments and shareholding interests across the globe and across several sectors.

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



INTERNATIONAL HOTEL INVESTMENTS p.l.c.



*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.

**Andrew Watson** is Chief Investment Officer of Nakheel PJSC International having joined the Group in September 2007. Mr Watson has over 20 years experience in the financial services sector in the United Kingdom and Europe and more recently in the Middle East. He began his career in consultancy and risk management and prior to joining Nakheel was a director of Barclays Capital Real Estate Group undertaking structured finance for major commercial property and hotel transactions in Europe and the Middle East.

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

**Ibrahim Zletni**, who joined the Board in 2008 is Chairman and CEO of Libyan Foreign Investment Company. He has considerable experience in the banking field, having worked with British Arab Commercial Bank in London, and with the 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 and development.

**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.

Board members not present



**Binod Narasimhan** is Chief Financial Officer of Istihmar World responsible for accounting, risk management, financial and strategic planning for the business worldwide and has over 20 years of experience in consulting and financial management in the hotel and investment business.



**Hamza Mustafa** is Managing Director of Nakheel Leisure, a subsidiary of Nakheel PJSC of Dubai. He was formerly Managing Director of The World LLC responsible for design, development and marketing of The World Islands Project in Dubai.





# CHAIRMAN'S STATEMENT

*for the year ended 31 December 2009*

Dear Shareholders,

It is my pleasure to present you with the annual report of IHI which addresses our business activities during 2009.

Last year has been a difficult one for most sectors as a result of the world's financial and economic crisis. IHI's core business, namely the hotel and real estate sectors, has been no exception. The Board and executive team of IHI took on the various challenges with determination and perseverance, facing last year's turbulence by adopting timely and effective corrective action with a view to curtailing costs and creating new revenue streams. As demonstrated by international tourism statistics, less people travelled in 2009, resulting in a drop in hotel room rates, and leading to lower income and operating profit when compared to the previous year's results.



INTERNATIONAL HOTEL INVESTMENTS p.l.c.

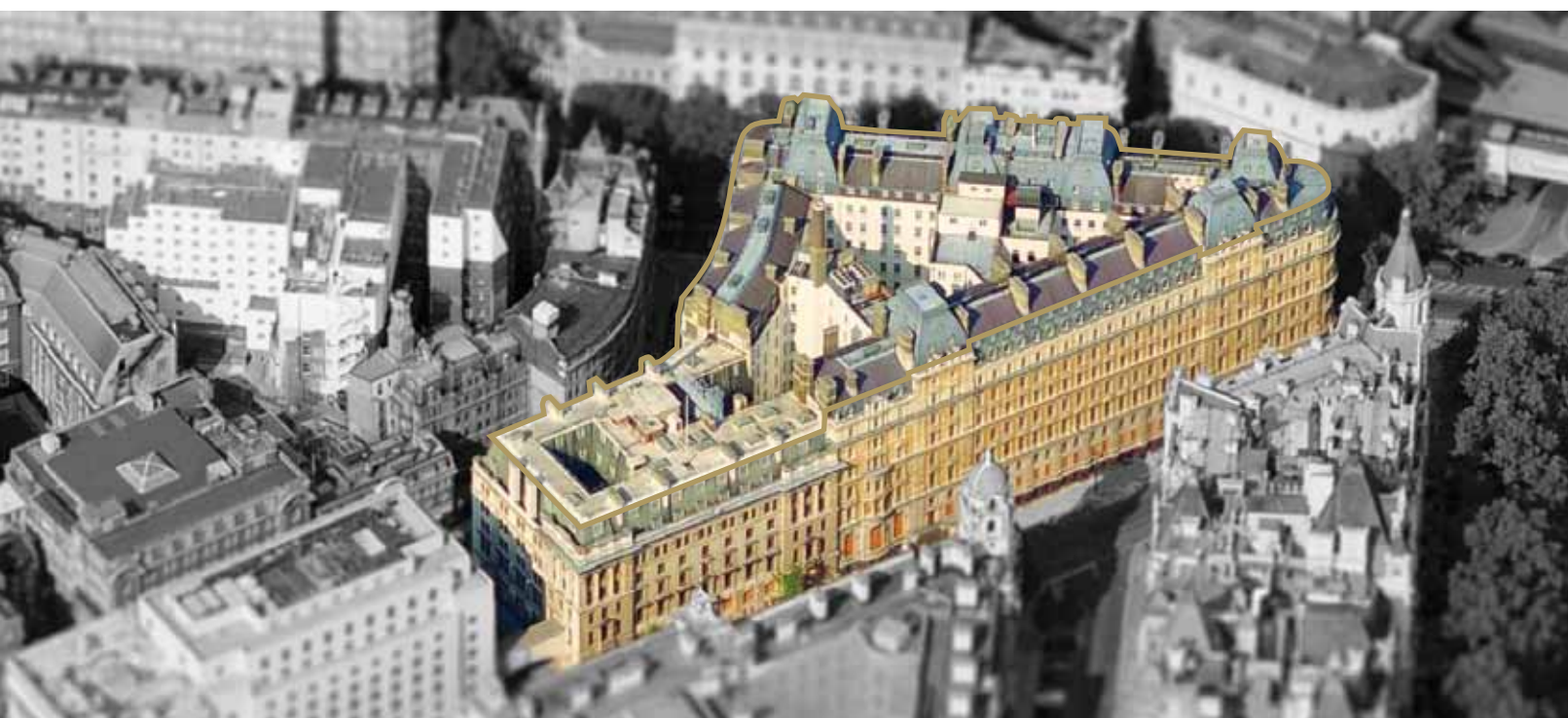
IHI fared cautiously and in a focused manner throughout 2009, and was always on the look out to identify and attract new business opportunities. I believe that despite the various odds we encountered last year, IHI, succeeded in weathering the storm and came out, possibly stronger. We also managed to streamline our operation resulting in a much leaner and more efficient structure. Whilst refraining from being overly optimistic and retaining a cautious approach, this year, 2010 is showing preliminary signs of recovery for we are seeing positive and encouraging developments in world tourism. These trends are generally visible in various parts of the world. I believe we would be correct in expecting a gradual, but definite improvement in the general business climate. We shall witness more countries growing out of recession and registering a positive GDP. We should look forward towards a brighter future, with forecasts predicting a global recovery.

These financial statements feature 2009 performance, a year of incredible challenges and characterized by a global financial crisis of unprecedented magnitude. Most of the world economies plunged into the deepest recession in living memory, severely impacting demand for hospitality services and real estate. The financial statements in this report should be interpreted within this economic context and, notwithstanding last year's challenges, I write with satisfaction and optimism.

Firstly, I would wish to note that our Company entered and will leave the global recession with a strong balance sheet. This stands in sharp contrast to most of our competitors in the international hotel and real estate arena. As a result of our healthy cash reserves and low bank debt relative to its value, IHI never faced

the remotest prospect of failing to meet its debt and development obligations. This no doubt has been a significant achievement despite the challenges posed by the recession at a time when banks were reluctant to support new developments, including committed loans. I hasten to add that our low bank debt was not the result of any inherent inability to raise loans. Quite the contrary, we have over the years raised competitive loans for all our projects. In fact, IHI, during the bleakest period of the financial meltdown succeeded to secure a loan for the development of the London Hotel and Residences. We successfully raised a €150 million loan in February 2009 at a time when banks became very reluctant to provide bank finance for the development of real estate projects around the world. The very fact that the value of this loan, being 50 per cent of the total development cost for the London property, was raised through a syndication of banks at this difficult and critical moment was a clear indication of the confidence and belief of these financial institutions in the strength of our Company's balance sheet and our sound business practices. IHI's balanced gearing was no accidental occurrence but the result of a prudent and measured approach, which I as Chairman, together with your Board, have advocated for the Company ever since its incorporation, ten years ago. Importantly, our strong balance sheet enabled us to focus on the business of running our hotels and managing our real estate portfolio in a calm and professional manner without having to seek emergency funds to sustain our business. On the contrary, we embarked on the development of the London hotel and also announced the commencement of two new projects, namely our participation in the iconic development of a residential, office and shopping mall complex in Tripoli as well as a hotel and multi-use development in Benghazi, Libya.

*Corinthia Hotel and Residences London*





*Artist's impression of a suite at Corinthia Hotel and Residences London*

In 2009, total revenues generated by our hotels and real estate businesses decreased by 19.3% as a result of lower demand in the cities where we operate. In view of this drop in revenues, we cut down our operating costs by 15.3%, thereby resulting in an EBITDA of €31.63 million. These savings were not simply the result of lower variable costs due to fluctuating occupancies, but more importantly, the consequence of a deliberate and concerted exercise to reduce and contain fixed costs across each and every operation. This was a conscientious effort to secure efficiencies without compromising Corinthia's service promise to its customers and a clear sign of our long-term commitment to our employees. We shall certainly reap the benefits of these in the short term and, at this point, on behalf of the Board, it would only be appropriate to express my appreciation and recognition for the support and total commitment of our management team and the co-operation of all our employees.

In March 2009, we awarded a turnkey contract for the development of the Corinthia Hotel and Residences in London, a €300 million investment of significant importance to the long-term future of our Company. The project features the redevelopment and reconstruction of a landmark 19<sup>th</sup> century property, the former Metropole Building, and its adjoining 10 Whitehall Place. These properties are located right in the heart of the city and occupy floor areas of over 42,000m<sup>2</sup>. The timing of this development could not have been more opportune with the downturn in real estate investment in the United Kingdom freeing up a number of major contractors who were willing to tender for our project at price levels that would have been unachievable in the earlier boom years.

As I had opportunity to inform and update you by means of our regular communications throughout the year, this project is at present among the largest ongoing real estate developments in London's city centre. It features a 300-bedroom luxury Corinthia Hotel comprising of the largest bedrooms and suites in its category in London.

This development includes a 3,500m<sup>2</sup> spa that adjoins the hotel. It also incorporates 12 deluxe residences, each having a floor area of between 300 and 500 m<sup>2</sup>, as well as a 1,000 m<sup>2</sup> penthouse. The project remains on track for completion by the end of 2010. Furthermore, our hotel management team is in place to launch and market this latest addition to London's luxury hotel scene.

Our experience and exposure to London has given us the opportunity to stage our development capabilities in such a dynamic, demanding and important market.

As I am sure you all appreciate, IHI has a track record of buying landmark assets at very competitive prices, most frequently in the context of complex scenarios such as privatizations, debt restructuring deals, third party litigation etc. We are developers who, over the years, have developed a capability for identifying promising futures in complex circumstances. We are capable of concluding deals in complicated and competitive environments.

We have been successful in this regard by retaining our entrepreneurial drive, assessing true risk, and more often than not, paying less than our competitors. Most importantly, we have developed the acumen to act in a quicker and more agile fashion than larger corporations.

In a nutshell, we make good acquisitions wherever we can create a future. Equally, IHI has a track record of property redevelopment, successfully unlocking value in all of our acquired real estate. We have done this in emerging markets - that is to say in St Petersburg, Prague, Budapest and Tripoli. Likewise we did this in developed and well-established economies, as in the case of Lisbon and now in London.

In all cases, we believe that we made the right choices. On most occasions, we acquired properties at below market values. In all instances, we have re-engineered our properties to create new opportunities and businesses. We did not restrict ourselves to luxury hotels but also broadened our perspective to include residential and commercial real estate developments wherever this was possible. Our development strategy is focused on making acquisitions at the best price and with the highest potential for capital appreciation both in emerging and established markets. The effects of the recent financial crisis have given rise to several opportunities in a number of markets. We believe these opportunities will continue to surface in many countries in the short- to medium-term. This explains our determination to take full advantage of such opportunities, and hence our present negotiations in cities as diverse as Moscow, Paris, Rome and other interesting destinations.

Therefore, London is a clear manifestation of IHI's development capabilities. We acquired the freehold title to the Metropole Building as well as the adjoining 10 Whitehall Place from The Crown Estate. Twenty-nine global and high-profile developers and investors participated in a very competitive tender process.

Our bid was certainly not the highest offer in monetary terms. However, we were ultimately adjudicated as the Company that was best qualified to be awarded this landmark property. A factor of significant importance to the seller was our core competence and track record to transform and regenerate historic properties worldwide. Another determining factor, and indeed a condition of the sale, was our strong commitment to the execution of the project and the willingness to commence construction and deliver the project within a very tight timeframe.

We are proud to inform you that we have adhered to the original project plan and we have honoured our promise to the seller. Within three months of concluding our negotiations, we had already appointed all our consultants, designed the project, consulted our neighbours and submitted all development applications. The permit to develop was granted within ten weeks and we commenced construction works within six months of the acquisition. This, by any standard, is an admirable achievement and I sincerely look forward with great enthusiasm to seeing this hotel welcoming its first guests at the end of this year and, one more time, flying the Maltese flag in a major capital city.

In May 2009, we completed the redevelopment of the Corinthia Hotel and Commercial Centre in St Petersburg, Russia. This complex project, spread over three adjoining buildings stretching over a 100 metre frontage on the main boulevard of the city, comprised of the refurbishment of our existing hotel and the demolition and reconstruction of its two adjoining properties. On the one side, we increased the number of keys to 400, and on the other we developed a shopping mall and offices.

*Artist's impression of the destination bar at Corinthia Hotel and Residences London*



This project was completed with limited bank finance as we utilised our excess cash flow to fund this investment. Today, to our great satisfaction, IHI sits proudly on the ownership of the freehold title to one of the city's finest luxury hotels and real estate developments. With the recovery of the Russian real estate market, we shall, throughout 2010, be focusing on the launch of the retail mall and offices, thereby bringing to fruition and optimizing the business potential of this multi-use development.

Dear Shareholders, I have deliberately chosen to highlight our two main projects in 2009, with the intention to articulate IHI's development capabilities, as distinct from, but complementing its core mission of investor and owner of hotels and real estate. In addition to being a developer, IHI is also a worldwide reputed hotel operator through its ownership of CHI Hotels and Resorts. IHI's comprehensive mission, as manifested by its multiple roles as owner, developer and, ultimately, operator of our hotels, provides us with considerable strength and competitive advantage. It enables us to participate throughout the value chain of hotel acquisition, development and operation. This renders the process relatively easier, quicker and less costly, thereby creating value in each and every phase of acquiring, developing and operating a hotel project. Our strategic choice to become involved in commercial real estate further balances our exposure to the more cyclical nature of hotel business. Increasingly, as we progress with future projects, we shall continue to incorporate residential, office and retail developments, with the objective of optimizing our returns through the sale or lease of such properties.

Our strategic decision to become engaged in the development of residential and commercial real estate, other than hotels, provides IHI with the future option and flexibility to distribute profits as dividend to shareholders from the sale of such properties. Alternatively, we may choose to hold on to such properties, thereby showing a healthier balance sheet, and rewarding our shareholders with bonus shares which may be retained for future appreciation or sold at the discretion of the respective shareholder.

I shall, at this stage, make reference, to our hotel management company, CHI Hotels and Resorts, of which IHI is 70% owner. This company is a specialist hotel operator, managing all Corinthia branded hotels, and also exclusively licensed as operator of the Wyndham and Ramada Plaza brands in Europe, Africa and the Middle East. CHI today manages 12 hotels under any one of these brands and has signed management agreements for eight hotels that are currently under development, several of which are owned by third parties. Over the coming years, with the joint backing and support of IHI and the world's largest hotel brand company, the Wyndham Hotels Group, we shall consistently seek to continue growing our hotel management business operating IHI-owned properties as well as those belonging to third parties. As you are well aware, the Wyndham Hotels Group owns the remaining 30% of CHI.

As far as the Corinthia brand is concerned, we are investing substantially in the creation of a world-class proprietary marketing and distribution capability that will significantly boost our revenue generation and inject added value into our owned and managed hotels.

*Lobby at Corinthia Hotel St Petersburg*



To deliver this job successfully, we brought together a team of world class individuals. I am confident now, more than ever before, that we shall in the coming years, through CHI and the Corinthia Brand, exponentially grow our hotel management activity across several countries.

Dear Shareholders, in this year's statement, I have specifically chosen to share with you our strategic direction at a time when we must refocus our efforts to ensure that the selected path is the right one for IHI. We must safeguard our business from the rough seas the world has been facing over the past 18 months, but, more importantly, we must be on the look out to take advantage of the opportunities that such turmoil has brought about. I am sure that those of you who, 10 years ago, became shareholders of IHI, will no doubt take pride in their association with a Company that, from humble origins with ownership of one hotel in Malta evolved into a €1 billion company. Yet, we look forward to further growth, through enhanced performance in our existing operations as well as the acquisition of new properties.

Our investment in the Corinthia brand and our global marketing and distribution system is part and parcel of this holistic scenario. In this process of growing our Company, we have, during 2009, given considerable attention to the consolidation and growth of our existing team of loyal and dedicated executives by recruiting a number of individuals with extensive international hotel development and management experience. This family of first class executives will continue to provide the constant support and resources so critical to our Company's success in the accomplishment of its vision and mission for growth. We want to make sure that as the economies, in which we have our investments, gradually continue to recover, we would be rightly positioned to take full advantage and to claim our rightful share in this coming upswing.

Equally, we would wish to grow through further acquisitions and developments, and, in this regard, our strong balance sheet and fund raising strategies will continue to come into play. We also recognize the desire of our Malta-based public shareholders to trade our shares in a larger, more liquid stock market. We committed ourselves to this strategy three years ago and, as a matter of fact, we had embarked on a project for a second listing and flotation of new shares on the London Stock Exchange. This work was justifiably put on hold at the onset of the global financial crisis, but given a more positive outlook on the horizon, we are once again considering all our options.

I would wish to bring my review to a close by thanking all our executives and employees - our colleagues - for their incessant support and hard work throughout 2009. I would also like to take the opportunity to express my gratitude to the members of the Board of IHI for their invaluable guidance. Finally, I turn to our shareholders to thank you for believing in IHI - an organization that will continue to grow, flourish and go places - a Company that will give value and bring pride to all our shareholders.

Thank you.



**Alfred Pisani**

Chairman and Chief Executive Officer



INTERNATIONAL HOTEL INVESTMENTS p.l.c.



# MANAGING DIRECTOR'S REPORT

*for the year ended 31 December 2009*

As predicted last year, 2009 has been a challenging year for business in general. Despite this global economic downturn, IHI managed to weather the storm and is well positioned to face the future with courage, determination and optimism. Our geographical and sectoral business mix, backed by our strong financial position, was instrumental in mitigating the downward pressures on revenues and operating profits experienced in such challenging times.



INTERNATIONAL HOTEL INVESTMENTS p.l.c.



## Review of income statement

The income statement of the Group is summarized in the following table:

	2009 € million	2008 € million
Revenues	103.32	127.96
Direct Costs	(48.18)	(57.45)
Marketing, administrative and other expenses	(23.51)	(27.15)
Earnings before interest, tax and depreciation (EBITDA)	31.63	43.36
Depreciation and amortisation	(24.78)	(22.66)
Net revaluation uplifts and write-off of goodwill	4.21	14.68
Net finance costs including loss on interest rate swaps	(12.12)	(13.64)
Other (expense) income	(0.51)	0.54
(Loss) profit before taxation	(1.57)	22.28
Tax expense	(0.05)	(8.28)
(Loss) profit after tax	(1.62)	14.00

In reviewing these results, it is important to make particular reference to EBITDA, depreciation and amortisation, revaluation uplifts, and finance costs as these line items are not only material in their own right but also give a better understanding of the way we conduct our business.

## EBITDA

EBITDA represents total revenue generated by the Group less operating expenses. Revenues for 2009 amount to €103.32 million compared to €127.96 million in 2008. The 19.3% decrease in revenue was mainly due to lower occupancies and lower average room rates achieved in our hotel properties located in Central Europe. According to a report published by STR Global on the operating performances of hotels in 2009 analysed by European Region, the average European drop in occupancy was of 7.3% whilst that of Central Europe was of 13.7%. The drop in average room rate in Europe was of 12.2% whilst that of Central Europe was of 25.1%, resulting in a reduction in revenue per available room of 18.6% across Europe and 35.4% in Central Europe. Viewed against this background and the fact that three of our six hotel properties are located in Central Europe, IHI's overall reduction of 19.3% in revenue against the 35.4% average drop in Central Europe shows that our geographical spread of hotels, particularly our operation in North Africa, has helped us to minimise the impact of the recession and economic downturn in Europe which is the main source of our feeder markets.

Notwithstanding the drop in turnover of €24.64 million, the reported figures show that there was a corresponding saving in operating costs of €12.91 million. This is no mean feat when one considers that the bulk of the reduction in turnover resulted from a drop in average room rates.





Normally, positive and negative fluctuations in average room rates are reflected in their entirety in EBITDA as there are practically no operating costs associated with this component of revenue. The reduction in operating costs reflects the Group's pro-active efforts in rationalising operations without compromising standards. This resulted in an EBITDA conversion of 30.61% in 2009 that compares well with 33.89% achieved in 2008.

## Depreciation and amortisation

The depreciation charge for the year under review increased to €24.78 million, representing a €2.12 million increase over the corresponding charge for 2008. This is a significant amount and represents 23.98% of total revenue for 2009 as compared to 17.71% for 2008. Whilst this charge is very significant and is a reflection of the value of the Group's asset base which is now nearing the one billion euro mark, it must be pointed out that it does not affect liquidity as it is an accounting entry without any corresponding cash outflow. Over and above this charge, substantial amounts are incurred every year in maintaining our properties in a good condition.

The increase of over €2 million for the year under review mainly results from an increase in the depreciation charge on the enlarged Corinthia Hotel, St Petersburg. In prior years, whilst this development was still under construction, no depreciation charge was being provided on the investment costs incurred.

## Revaluation adjustments

The economic downturn prevalent during 2009 had a double impact on our income statement in terms of a reduction in earnings from our Central European properties, as well as a reduction in the carrying value of these same properties. The current year's performance of our hotel properties in Prague and Budapest also had an adverse effect on their future earnings expectations. The discounted cash flows of the relevant future income streams compared to the book value of these assets, gave rise to an impairment of €13.68 million and €7.94 million in Prague and Budapest respectively.

In addition to the impairment charged in the income statement for the Budapest property, an additional amount of €7.4 million was off-setted against revaluation reserves in equity. Against this reversal, there were uplifts in the value of the Corinthia Hotel in Tripoli and the Corinthia Hotel in St Petersburg. The above movements confirm the hedging provided by the Group's geographical spread.

The following is a detailed breakdown of revaluation adjustments on hotel assets and investment properties:

	2009 €000's	2008 €000's
<b>Hotel assets</b>		
Corinthia Hotel Budapest	(7,938)	-
Corinthia Hotel Prague	(13,680)	(8,067)
Corinthia Hotel Lisbon	(2,500)	12,844
Corinthia Hotel St George's Bay, Malta	1,784	(1,234)
	<b>(22,334)</b>	<b>3,543</b>
<b>Investment properties</b>		
Apartment Block - Lisbon	1,367	-
Commercial Centre - St Petersburg	5,743	3,453
Commercial Centre - Tripoli	4,954	5,000
Garden Site - Tripoli	-	17,800
Residential Apartments - London	14,489	-
	<b>26,553</b>	<b>26,253</b>
Impairment of goodwill	-	(15,114)
Total	<b>4,219</b>	<b>14,682</b>

More importantly, it is also worth noting that the sectoral diversification is also serving the Group well. Other than being a hotel developer and operator, the Group is increasingly benefitting from its development activities and is earning steady rental income and registering capital gains through the construction and refurbishment of such investment properties.

These factors are evidently clear from this year's results where we registered uplifts on the revaluation of the Commercial Centre in St Petersburg following its completion, and on the Commercial Centre in Tripoli which is leased out in its entirety to blue chip international companies. It is even more noteworthy to observe that we are booking a revaluation uplift of €14.49 million on our 50% share in the residential development in London which is scheduled to be completed later on this year.

## Finance costs

A breakdown of the net finance costs appearing in the income statement is as follows:

	2009 €000's	2008 €000's
Finance income	2,071	5,512
Finance costs	(12,590)	(15,854)
Net fair value loss on interest rate swaps	(1,604)	(3,294)
Net finance costs	<b>(12,123)</b>	<b>(13,636)</b>



It will be noted that both in the case of finance costs and finance income, we are reporting lower figures for 2009 in consequence of the prevailing lower interest rate scenario. Most of our loan facilities at the subsidiary level are tied to the 3-month euribor rate and, given the historical low levels of the euribor rate, this resulted in a positive impact on our finance costs and conversely in lower finance income on the investment of our excess funds. The reduction in our finance income has also been influenced by the reduction in our cash balances between the two balance sheet dates in view of the increase in investments made by the Group in the St Petersburg and London developments.

During the time when the euribor rates were on the increase, the Group had entered into two interest rate swaps on the loan facilities for its hotels in Prague and Lisbon through which it replaced its floating rate of interest with a fixed rate. Given the current environment of low interest rates, the fair value measurement of these swap agreements gave rise to an impairment loss in both 2008 and 2009. As it is the intention of the Group to hold on to these instruments, this negative fair value adjustment will reverse over time and in particular once they reach their maturity.

The interest cover ratios achieved this year were encouraging. On the basis of net finance costs of €12.12 million, the current year's EBITDA of €31.63 million, provided a 2.61 times cover. This confirms the Group's prudent gearing policy through which, total debt net of cash reserves at year-end, stood at €223.69 million representing only 26.5% of the combined value of debt and equity.

## Conclusion

2009 has been a challenging year for most companies and one that has witnessed many large organisations facing difficulties as a result of inadequate financial resources to withstand the business downturn. In view of the prudent strategies adopted by IHI's board of directors, our Group managed to withstand the recessionary effects of the economic downturn.

The Group has also implemented timely and effective corrective measures to reduce its operating cost base without affecting its operating standards. We will ensure that these cost efficiencies will be retained and shall serve us well when there is an improvement in business activities.

We have also made significant strides in our development strategy. We have completed the development of the two adjoining properties in St Petersburg which comprise an additional 104 executive bedrooms and state-of-the-art conference facilities, apart from 12,000 square metres of office and retail accommodation. Significant progress has also been achieved in the development of the Corinthia Hotel and Residences in London which are scheduled to be completed towards the end of this year. Not only have we acquired these two properties at a very competitive price but also benefitted from the soft market conditions in negotiating keen prices for their redevelopment and reconstruction. On completion, the London Hotel will be one of the leading luxury hotels in London, and equally, the twelve residential apartments adjoining the hotel property will also be at the top end of the residential market in London.

We shall remain vigilant, and our perseverance and hard work will serve us well as one sees early signs of a recovery. With the inspiring vision of our Chairman, the strategy of our board of directors, and the unbending support of our executives, we look towards the future with confidence.



**Joseph Fenech**  
Managing Director





OUR OWNED  
PROPERTIES



  
**CORINTHIA™**  
HOTEL  
BUDAPEST

The Corinthia Hotel Budapest is a landmark, deluxe property, originating in the grand architectural epoch of the late 19<sup>th</sup> century. The hotel was acquired by IHI as a vacant building in April 2000 and subsequently demolished to make way for a 60,000m<sup>2</sup> reconstruction that retained the historic façade and the 19<sup>th</sup> century classical ballroom.

Today, the hotel consists of 414 executive bedrooms, as well as support facilities. These include extensive conference facilities covering 3,600m<sup>2</sup> of meeting and exhibition areas; the fully restored 19<sup>th</sup> century ballroom; 26 luxury apartments; a multi-storey 260-vehicle carpark and coach park; a spectacular 19<sup>th</sup> century spa, a nightclub; various restaurants and dining outlets. The hotel was officially opened in April 2003.





  
**CORINTHIA™**  
HOTEL  
ST PETERSBURG

The 285-room five-star Corinthia Hotel St Petersburg, Russia, was acquired by IHI in January 2002. The hotel is located on the main boulevard, Nevskij Prospekt in the city centre.

The hotel also features a range of Russian and international restaurants and extensive conference facilities.

Furthermore, in 2009, the property was further expanded by developing two large adjacent sites on either side of the hotel, which had also been acquired by IHI at the time of the hotel acquisition. One building includes a convention centre plus 105 additional executive bedrooms bringing the total inventory to 400 keys. The other building comprises a 12,000m<sup>2</sup> mixed-use commercial centre featuring a retail mall and offices for rent to third parties.





The high-rise Corinthia Hotel Lisbon 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 now comprises 517 bedrooms, a 280-cover main restaurant, a 120-cover Portuguese restaurant and a lobby bar. The hotel has recently completed a 2,000m<sup>2</sup> spa and fitness facility – the largest in the city.

Above all, the hotel is fully equipped for the meetings, conference and incentive markets. Its 3,000m<sup>2</sup> 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 24<sup>th</sup> floor executive lounge affording spectacular views of Lisbon, complete with boardrooms, executive check-in, dining and business facilities.





  
**CORINTHIA™**  
HOTEL  
ST GEORGE'S BAY, MALTA

The Corinthia Hotel St George's Bay is a modern development sitting on 28,000m<sup>2</sup> of prime site land, right at the water's edge in St. Julians, by far Malta's premier location for hotel and commercial real estate.

This hotel was the first IHI acquisition, having been taken over soon after the company's inception in 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. The hotel's lobby, public areas and bedrooms have been fully refurbished in 2006.





The Corinthia Hotel Tripoli and 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.

The hotel component is housed in two, spectacular concave towers, and is one of the most deluxe and up-market accommodation facilities 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 facility adjoining the hotel towers are an integral component of the project, and house 10,000m<sup>2</sup> of lettable top quality offices, fully occupied by a select number of blue chip companies operating in the oil and gas sector.





The Corinthia Hotel Prague was acquired by IHI in 2007.

The hotel is a landmark high-rise 550-room property overlooking the city's historic centre, and adjoining the national congress hall of the Czech Republic.

The property is one of the leading hotels in the country, and has been fully refurbished over the past years.

The Corinthia Hotel Prague is a landmark conference hotel in its own right, having over 3,000m<sup>2</sup> of meeting space, besides extensive food & beverage operations, a spa and indoor swimming pool as well as an executive business lounge floor, all affording dramatic views of the city.





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

Developed in the late 19<sup>th</sup> 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 were purchased by IHI in 2008 from The Crown Estate and is being re-developed into London's premier luxury hotel. When completed, the hotel will include 300 luxury bedrooms of 45 square metres each, a historic ballroom together with conference and meeting facilities, a fish specialty restaurant, a destination bar and an all-day dining facility. The hotel will also have London's largest luxury suites ranging from 80 to 200 square metres and also included are five magnificent duplex suites ranging from 300 to 400 square metres.

The hotel will have London's largest and most up-to-date luxury spa covering an area of 3,500 square metres which includes 17 treatment rooms, a large gym, together with a hydro and swimming pool. Also connected to the hotel, though having a separate entrance with its own concierge, are 12 top of the range luxury apartments ranging from 300 to 500 square metres each, together with a penthouse commanding magnificent views of the Thames and having a floor area of 1,000 square metres.

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  
2009



## DIRECTORS' REPORT

*For the Year Ended 31 December 2009*

The directors present their report of International Hotel Investments p.l.c. (the "Company") and the Group of which it is parent for the year ended 31 December 2009.

### 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 associate companies (as detailed in the notes to the financial statements), through which it furthers the business of the Group.

### Review of performance

The results of the operations for the year are as set out in the income statement. The Managing Director's report reviews the business of the Group for the year and the financial position at 31 December 2009.

### Further developments

The Chairman's report 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 9.44e.13, that they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

### Board of directors

The following have served as directors of the company during the year under review:

Mr Alfred Pisani	(Chairman and Chief Executive Officer)
Mr Joseph Fenech	(Managing Director)
Mr Ibrahim Zletni	
Mr Andrew Watson	
Mr Hamza Mustafa	(appointed on 5 February 2009)
Mr Binod Narasimhan	(appointed on 17 December 2009)
Mr Simon Naudi	
Dr Joseph J Vella	
Mr Frank Xerri de Caro	
Mr Giuseppe (Joe) Sita	(resigned on 20 November 2009)
Mr David Nicholson	(resigned on 5 February 2009)

### Principal risks and uncertainties faced by the Group

The Group started trading in 2000, undertaking a strategy of rapid expansion. 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, bigger name recognition, larger customer basis 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-orientated economy as known in other developed markets.

The global economic recession had an impact on the demand for the Group's services with a consequential negative effect on occupancies and average room rates. To counteract this difficult period the Group took all the necessary measures to tap new markets, streamline operations and reduce costs without impinging on the quality of service provided by its hotels.



## DIRECTORS' REPORT

*For the Year Ended 31 December 2009*

### Statement of directors' responsibilities

The Companies Act, 1995 requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss of the Company and Group for that period in accordance with International Financial Reporting Standards as adopted by the European Union. In preparing those financial statements, the directors are required to:

- adopt the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items; and
- report comparative figures corresponding to those of the preceding accounting period.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the Companies Act, 1995.

They are also responsible for safeguarding the assets of the Company and Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors, through oversight of management, are responsible for ensuring that the Group designs, implements and maintains internal controls 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, for establishing a control environment and maintaining 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 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.

Approved by the board of directors on 14 April 2010 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 9.44c, 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 European Union, 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 14 April 2010 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 minimised. 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>
Mr Ibrahim Zletni		25 August 2008
Mr Andrew Watson		15 May 2008
Mr Hamza Mustafa		5 February 2009
Dr Joseph J. Vella		29 March 2000
Mr Frank Xerri de Caro		2 July 2004
Mr Binod Narasimhan		17 December 2009
Mr David Nicholson		15 May 2008 (resigned 5 February 2009)
Mr Giuseppe (Joe) Sita		5 December 2006 (resigned 20 November 2009)

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 Ibrahim Zletni, Dr Joseph J. Vella, Mr Simon Naudi, Mr Andrew Watson, Mr Hamza Mustafa, Mr Giuseppe (Joe) Sita and Mr Frank Xerri de Caro, lapsed at the Annual General Meeting held on 28 May 2009, at which date they were re-appointed for a further term. Following the resignation of Mr Giuseppe (Joe) Sita on 20 November 2009, Mr Binod Narasimhan was appointed director on 17 December 2009.

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 5 times during the period under review. The number of board meetings attended by directors for the year under review in terms of Principle 5.4 is as follows:

Mr Alfred Pisani	5
Mr Joseph Fenech	5
Mr Ibrahim Zletni	2
Mr Giuseppe (Joe) Sita	2 (resigned 20 November 2009)
Mr Andrew Watson	2
Mr Hamza Mustafa	0
Mr Simon Naudi	5
Dr Joseph J Vella	5
Mr Frank Xerri de Caro	5
Mr Binod Narasimhan	0 (appointed 17 December 2009)

### 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 any 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 Chairman and of the Managing Director, none of the other directors of the Company has 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 2009, the Group paid an aggregate of €599,000 to its directors as board members of the Company, and in certain cases, as board members of its subsidiaries and committees, as set out below:

The Articles of Association set out that the maximum limit of aggregate emoluments of the directors is to be established by the shareholders in Annual General Meeting. The Annual General Meeting held on 28 May 2009 increased the aggregate amount of emoluments to directors to a maximum of €600,000 per annum. 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 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, set up in 2002, is made up of a majority of non-executive directors and reports directly to the board of directors. 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 5 times. The internal and external auditors were invited to attend these meetings.

Mr Frank Xerri de Caro, a non-executive director, acts as Chairman, whilst Mr Joseph Fenech, Dr Joseph J.Vella 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 board of directors, in terms of Listing Rule 8.56a has indicated Mr Frank Xerri de Caro as the independent non-executive member of the audit committee who is considered to be competent in accounting and/or auditing in view of his considerable experience at a senior level in the banking field.

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 2009, 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 and remuneration package of senior executives of IHI and its subsidiaries, together with those of the executive directors. The members of the committee are Mr Frank Xerri de Caro acting as chairman and non-executive director, Dr Joseph J. Vella as member. Mr Alfred Fabri acts as secretary to the committee.

### *Monitoring committee*

The committee is responsible for ensuring that proper budgets are set by management for every hotel owned by the Company 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 Ms Valerie Vella as members. Ms Vella acts as secretary to the monitoring committee. The committee reports directly to the directors of the Company. In 2009, 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.

### **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 14 April 2010 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 9.44e5

Mr Alfred Pisani has a beneficial interest in the Company of 542,962 ordinary shares through the shareholding of A&A Pisani & Company Limited in Corinthia Palace Hotel Company Limited.

#### Other directors' interests in the shareholding of the Company

	Number of shares held	
	31 December 2009	12 April 2010
Mr Joseph Fenech	88,307	88,307
Mr Ibrahim Zletni	-	-
Mr Andrew Watson	-	-
Mr Hamza Mustafa	-	-
Mr Simon Naudi	-	-
Dr Joseph J. Vella	59,609	59,609
Mr Frank Xerri de Caro	-	-
Mr Binod Narasimhan	-	-

### Pursuant to Listing Rule 9.44e6

Shareholders holding 5% or more of the equity share capital as at 31 December 2009:

	Number of shares	Percentage holding (%)
Corinthia Palace Hotel Company Limited	325,777,026	58.89
Istithmar Hotels FZE	183,340,000	33.14

There were no changes in shareholders holding 5% or more of the equity share capital as at 12 April 2010.

#### Number of shareholders and shareholding details:

Range	Number of shareholders	
	31 December 2009	12 April 2010
1 to 1,000	341	341
1,001 to 5,000	1,685	1,685
5,001 and over	1,044	1,044
	<u>3,070</u>	<u>3,070</u>

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



## OTHER DISCLOSURES IN TERMS OF LISTING RULES

### Pursuant to Listing Rule 9.43

#### Share capital structure

The Company's issued share capital is five hundred and fifty three million and two hundred and twenty five thousand six hundred and forty three (553,225,643) 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:

<b>Dividends:</b>	The shares carry the right to participate in any distribution of dividend declared by the Company;
<b>Voting rights:</b>	Each share shall be entitled to one vote at meetings of shareholders;
<b>Pre-emption rights:</b>	Subject to the limitations contained in the Memorandum and Articles of Association, shareholders in the Company shall be entitled, in accordance with the provisions of the Company's Memorandum and Articles of Association, to be offered any new shares to be issued by the Company a right to subscribe for such shares in proportion to their then current shareholding, before such shares are offered to the public or to any person not being a shareholder;
<b>Capital distributions:</b>	The shares carry the right for the holders thereof to participate in any distribution of capital made whether on a winding up or otherwise;
<b>Transferability:</b>	The shares are freely transferable in accordance with the rules and regulations of the Malta Stock Exchange, applicable from time to time;
<b>Other:</b>	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 2009, Corinthia Palace Hotel Company Limited and Istithmar Hotels FZE hold 325,777,026 and 183,340,000 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:

- 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;
- All directors may be removed from their post by the shareholder appointing them, or by any 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 LISTING RULES

### Pursuant to Listing Rule 9.43 (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 aggregate:
  - (i) not less than 75% in nominal value of the shares represented and entitled to vote at the general meeting and either;
  - (ii)
    - (a) at least 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) 80% in nominal value of the issued share capital entitled to vote at a meeting during which Shareholders 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 (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 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 9.44e.2

During the year the Group capitalised interest amounting to €828,130

### Pursuant to Listing Rule 9.44e.10

#### Contracts of significance with parent company

##### *Management agreements between CHI Limited and CPHCL*

CHI Limited ("CHI") has been appointed by CPHCL 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 2% 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.



## OTHER DISCLOSURES IN TERMS OF LISTING RULES

### Pursuant to Listing Rule 9.44e.12

#### Related party transactions

##### *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 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 administrative 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 €600,000 per annum.

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 2% shall also accrue on any outstanding amounts.

##### *Management agreement between IHI and its subsidiaries*

By virtue of various agreements entered into between IHI and its 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 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 €285,000 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 European Central Bank shall also be due on any amount that remains outstanding.

##### *Support services agreement with associate*

During the year under review the Company entered into a support services agreement with its associate company, NLI Holdings Limited to the effect that the Company would provide support services for the acquisition, financing, development and launch of the Corinthia Hotel and Residences in London. The agreement contemplates a total payment of GBP 3 million payable pro-rata for a period of 36 months as from 1 January 2008.

### Pursuant to Listing Rule 9.44e.14

#### 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 14 April 2010 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.



Tower Business Centre  
Tower Street  
Swatar BKR 3013  
Malta

T (+356) 21320134  
F (+356) 21331161  
www.gtmalta.com

### **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.

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.

Mark Bugeja (Partner) for and on behalf of

**GRANT THORNTON**  
Certified Public Accountants

14 April 2010

Partners and Directors  
Martin Bonello-Cole  
Margaret Bonello-Cole  
Kenneth Bonnici  
Mark Bugeja  
Austin Demajo  
Wayne Pisani  
Joseph Pullicino  
Mario Vella

**Certified Public Accountants**  
Member of Grant Thornton International Ltd



INTERNATIONAL HOTEL INVESTMENTS p.l.c.

# FINANCIAL STATEMENTS 2009

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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



## INCOME STATEMENT – THE GROUP

For the Year Ended 31 December 2009

	Notes	2009 €'000	2008 €'000
Revenue	5	103,320	127,966
Direct costs		(48,184)	(57,449)
		<u>55,136</u>	<u>70,517</u>
Marketing costs		(4,441)	(5,059)
Administrative expenses		(19,118)	(21,524)
Other income (expenses)		48	(570)
		<u>31,625</u>	<u>43,364</u>
Depreciation and amortisation		(24,779)	(22,664)
Impairment of goodwill	11	-	(15,114)
Increase in fair value of investment property	13	12,064	26,253
Net impairment (losses) reversals on hotel properties	14.1	(22,334)	3,543
<b>Results from operating activities</b>	6	<b>(3,424)</b>	<b>35,382</b>
Share of profit from equity accounted investments	16.1	14,483	622
Finance income	8	2,071	5,512
Finance costs	8	(12,590)	(15,854)
Net fair value loss on interest rate swaps		(1,604)	(3,294)
Movement in reimbursement assets	12	(505)	(81)
<b>(Loss) profit before tax</b>		<b>(1,569)</b>	<b>22,287</b>
Tax expense	9	(47)	(8,284)
<b>(Loss) profit for the year</b>		<b>(1,616)</b>	<b>14,003</b>
<b>Attributable to:</b>			
Owners of the parent		(1,620)	13,602
Non-controlling interest		4	401
		<u>(1,616)</u>	<u>14,003</u>
<b>Basic earnings per share</b>	10	<b>0.00</b>	<b>0.03</b>
<b>Diluted earnings per share</b>	10	<b>-</b>	<b>0.03</b>



## STATEMENT OF COMPREHENSIVE INCOME – THE GROUP

For the Year Ended 31 December 2009

	Note	2009 €'000	2008 €'000
<b>(Loss) profit for the year</b>		<b>(1,616)</b>	14,003
<b>Other comprehensive income:</b>			
Revaluation of hotel properties	22	2,671	36,320
Translation difference		74	-
Share of other comprehensive income of equity accounted investments		(1,192)	-
Income tax relating to components of other comprehensive income		(1,297)	(11,790)
<b>Other comprehensive income for the year, net of tax</b>		<b>256</b>	24,530
<b>Total comprehensive income for the year</b>		<b>(1,360)</b>	38,533
<b>Attributable to:</b>			
Owners of the parent		(1,364)	38,132
Non-controlling interest		4	401
		<b>(1,360)</b>	38,533



## BALANCE SHEET– THE GROUP

As at 31 December 2009

	Note	2009 €'000	2008 €'000	2007 €'000
<b>ASSETS</b>				
<b>Non-current</b>				
Intangible assets	11	29,366	30,533	46,814
Reimbursement assets	12	23,171	23,676	23,757
Investment property	13	178,876	149,349	104,600
Property, plant and equipment	14	636,216	674,538	621,485
Investments accounted for using the equity method	16.1	93,584	44,391	606
Loan receivable		-	-	1,470
Cash at bank	20	-	-	3,600
		<u>961,213</u>	<u>922,487</u>	<u>802,332</u>
<b>Current</b>				
Inventories	18	5,201	4,877	4,953
Trade and other receivables	19	20,521	24,127	21,618
Current tax assets		359	1,235	614
Cash and cash equivalents	20	50,386	69,908	163,813
		<u>76,467</u>	<u>100,147</u>	<u>190,998</u>
<b>Total assets</b>		<u><b>1,037,680</b></u>	<u><b>1,022,634</b></u>	<u><b>993,330</b></u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Equity attributable to owners of the parent:				
Share capital	21	553,225	553,213	537,099
Revaluation reserve	22	57,506	56,132	47,715
Translation reserve	23	(994)	(1,068)	(1,068)
Other reserve	24	-	378	1,382
Reporting currency conversion difference	25	443	443	443
Retained earnings (accumulated losses)	26	2,157	3,399	(11,207)
Other equity components	27	3,014	4,206	4,206
		<u>615,351</u>	<u>616,703</u>	<u>578,570</u>
Non-controlling interest		7,394	7,390	6,989
<b>Total equity</b>		<u><b>622,745</b></u>	<u><b>624,093</b></u>	<u><b>585,559</b></u>
<b>Liabilities</b>				
<b>Non-current</b>				
Borrowings	29	159,979	182,240	197,720
Bonds	30	68,784	45,591	45,309
Other interest bearing borrowings	31	-	290	7,341
Taxation		3,362	2,110	3,052
Deferred tax liabilities	32	102,277	102,669	85,774
Provision for charges		272	435	139
Derivatives	34	4,913	3,309	-
		<u>339,587</u>	<u>336,644</u>	<u>339,335</u>
<b>Current</b>				
Borrowings	29	33,821	20,026	22,704
Bonds	30	11,493	-	-
Other interest bearing borrowings	31	293	835	9,600
Trade and other payables	33	29,149	40,182	36,117
Taxation		592	854	-
Derivatives	34	-	-	15
		<u>75,348</u>	<u>61,897</u>	<u>68,436</u>
<b>Total liabilities</b>		<u><b>414,935</b></u>	<u><b>398,541</b></u>	<u><b>407,771</b></u>
<b>Total equity and liabilities</b>		<u><b>1,037,680</b></u>	<u><b>1,022,634</b></u>	<u><b>993,330</b></u>

The financial statements on pages 51 to 109 were approved by the board of directors, authorised for issue on 14 April 2010 and signed on its behalf by:

Alfred Pisani  
Chairman and Chief Executive Officer

Joseph Fenech  
Managing Director



# STATEMENT OF CHANGES IN EQUITY – THE GROUP

For the Year Ended 31 December 2009

	Share capital €'000	Revaluation reserve €'000	Translation reserve €'000	Other reserve €'000	Reporting currency conversion difference €'000	Retained earnings (accumulated losses) €'000	Other equity components €'000	Total attributable equity to owners of the parent €'000	Non- controlling interest €'000	Total equity €'000
Balance at 1 January 2007	162,101	30,751	(1,068)	603	443	(20,022)	4,206	177,014	6,574	183,588
Profit for the year	-	-	-	-	-	9,594	-	9,594	415	10,009
Other comprehensive income	-	21,925	-	-	-	-	-	21,925	-	21,925
Total comprehensive income	-	21,925	-	-	-	9,594	-	31,519	415	31,934
Issue of bonus shares	4,961	(4,961)	-	-	-	-	-	-	-	-
Conversion of bonds	37	-	-	-	-	-	-	37	-	37
Issue of ordinary shares	370,000	-	-	-	-	-	-	370,000	-	370,000
Cost of bonus shares re-acquired	(398)	-	-	-	-	-	-	(398)	-	(398)
Proceeds from re-issue of bonus shares re-acquired	398	-	-	-	-	-	-	398	-	398
Transfer from accumulated losses	-	-	-	779	-	(779)	-	-	-	-
<b>Balance at 31 December 2007</b>	<b>553,099</b>	<b>47,715</b>	<b>(1,068)</b>	<b>1,382</b>	<b>443</b>	<b>(11,207)</b>	<b>4,206</b>	<b>578,570</b>	<b>6,989</b>	<b>585,559</b>
Balance at 1 January 2008	553,099	47,715	(1,068)	1,382	443	(11,207)	4,206	578,570	6,989	585,559
Profit for the year	-	-	-	-	-	13,602	-	13,602	401	14,003
Other comprehensive income	-	24,530	-	-	-	-	-	24,530	-	24,530
Total comprehensive income	-	24,530	-	-	-	13,602	-	38,132	401	38,533
Issue of bonus shares	16,113	(16,113)	-	-	-	-	-	-	-	-
Conversion of bonds	1	-	-	-	-	-	-	1	-	1
Transfer from other reserve	-	-	-	(1,004)	-	1,004	-	-	-	-
<b>Balance at 31 December 2008</b>	<b>553,213</b>	<b>56,132</b>	<b>(1,068)</b>	<b>378</b>	<b>443</b>	<b>3,399</b>	<b>4,206</b>	<b>616,703</b>	<b>7,390</b>	<b>624,093</b>
Balance at 1 January 2009	553,213	56,132	(1,068)	378	443	3,399	4,206	616,703	7,390	624,093
Loss for the year	-	-	-	-	-	(1,620)	-	(1,620)	4	(1,616)
Other comprehensive income	-	1,374	74	-	-	-	(1,192)	256	-	256
Total comprehensive income	-	1,374	74	-	-	(1,620)	(1,192)	(1,364)	4	(1,360)
Conversion of bonds	12	-	-	-	-	-	-	12	-	12
Transfer from other reserve	-	-	-	(378)	-	378	-	-	-	-
<b>Balance at 31 December 2009</b>	<b>553,225</b>	<b>57,506</b>	<b>(994)</b>	<b>-</b>	<b>443</b>	<b>2,157</b>	<b>3,014</b>	<b>615,351</b>	<b>7,394</b>	<b>622,745</b>



## STATEMENT OF CASH FLOWS – THE GROUP

For the Year Ended 31 December 2009

	Notes	2009 €'000	2008 €'000
<b>(Loss) profit before tax</b>		<b>(1,569)</b>	22,287
Adjustments	35	33,765	21,206
Working capital changes:			
Inventories		(325)	76
Trade and other receivables		1,173	(8,666)
Advance payments		(356)	(684)
Trade and other payables		(5,802)	14,286
<b>Cash from operating activities</b>		<b>26,886</b>	48,505
Tax paid		(76)	(4,291)
<b>Net cash from operating activities</b>		<b>26,810</b>	44,214
<b>Investing activities</b>			
Payments to acquire property, plant and equipment		(24,020)	(60,001)
Settlement in connection with acquisition of subsidiary company	15	(970)	-
Acquisition of associate		(35,926)	(43,163)
Interest received		1,236	9,623
<b>Net cash used in investing activities</b>		<b>(59,680)</b>	(93,541)
<b>Financing activities</b>			
Bank finance advanced		10,000	48
Repayment of bank borrowings		(20,586)	(16,517)
Loans repaid to parent company and its subsidiary companies		-	(14,017)
Proceeds from issue of bonds net of transaction costs		34,395	-
Interest paid		(12,582)	(16,003)
<b>Net cash from (used in) financing activities</b>		<b>11,227</b>	(46,489)
<b>Net decrease in cash and cash equivalents</b>		<b>(21,643)</b>	(95,816)
Cash and cash equivalents at 1 January	20	69,897	165,713
<b>Cash and cash equivalents at 31 December</b>	20	<b>48,254</b>	69,897
<b>Non cash transactions:</b>			
Issue of bonus shares		-	16,113
Conversion of bonds into shares		12	1



## INCOME STATEMENT – THE COMPANY

For the Year Ended 31 December 2009

	Notes	2009 €'000	2008 €'000
Interest receivable and similar income		8,846	9,958
Interest payable and similar charges		(5,609)	(3,543)
Administrative expenses		(3,286)	(3,586)
Revaluation to fair value of investments in subsidiaries		(13,720)	35,869
Other operating income (charges)		802	(582)
<b>(Loss) profit before tax</b>	6	<u>(12,967)</u>	<u>38,116</u>
Tax expense	9	4,297	(12,655)
<b>(Loss) profit for the year</b>		<u><u>(8,670)</u></u>	<u><u>25,461</u></u>
<b>Basic earnings per share</b>	10	<u>(0.02)</u>	<u>0.05</u>
<b>Diluted earnings per share</b>	10	<u>-</u>	<u>0.05</u>



## BALANCE SHEET – THE COMPANY

For the Year Ended 31 December 2009

	Notes	2009 €'000	2008 €'000
<b>ASSETS</b>			
<b>Non-current</b>			
Property, plant and equipment	14	146	138
Investments in subsidiaries	15	487,971	506,035
Investments in associates	16.2	79,208	43,282
Loans receivable	17	97,313	64,183
		<u>664,638</u>	<u>613,638</u>
<b>Current</b>			
Trade and other receivables	19	22,558	14,373
Loan receivable	17	-	5,600
Cash and cash equivalents	20	25,090	46,941
		<u>47,648</u>	<u>66,914</u>
<b>Total assets</b>		<u><u>712,286</u></u>	<u><u>680,552</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	21	553,225	553,213
Other reserve	24	23,063	32,359
Reporting currency conversion difference	25	443	443
Other equity components	27	347	347
Retained earnings		1,380	754
<b>Total equity</b>		<u>578,458</u>	<u>587,116</u>
<b>Liabilities</b>			
<b>Non-current</b>			
Bank borrowings	29	12,333	5,266
Bonds	30	68,784	45,591
Deferred tax liabilities	32	33,973	38,439
		<u>115,090</u>	<u>89,296</u>
<b>Current</b>			
Borrowings	29	2,433	1,433
Bonds	30	11,493	-
Current tax liability		105	-
Trade and other payables	33	4,707	2,707
		<u>18,738</u>	<u>4,140</u>
<b>Total liabilities</b>		<u>133,828</u>	<u>93,436</u>
<b>Total equity and liabilities</b>		<u><u>712,286</u></u>	<u><u>680,552</u></u>

The financial statements on pages 51 to 109 were approved by the board of directors, authorised for issue on 14 April 2010 and signed on its behalf by:

Alfred Pisani  
Chairman and Chief Executive Officer

Joseph Fenech  
Managing Director



## STATEMENT OF CHANGES IN EQUITY – THE COMPANY

For the Year Ended 31 December 2009

	Share capital €'000	Other reserve €'000	Reporting currency conversion difference €'000	Other equity components €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2008	537,099	26,164	443	347	(2,399)	561,654
Profit for the year	-	-	-	-	25,461	25,461
Issue of bonus shares	16,113	(16,113)	-	-	-	-
Conversion of bonds	1	-	-	-	-	1
Transfer from retained profits	-	22,308	-	-	(22,308)	-
<b>Balance at 31 December 2008</b>	<b>553,213</b>	<b>32,359</b>	<b>443</b>	<b>347</b>	<b>754</b>	<b>587,116</b>
Balance at 1 January 2009	553,213	32,359	443	347	754	587,116
Loss for the year	-	-	-	-	(8,670)	(8,670)
Conversion of bonds	12	-	-	-	-	12
Transfer from other reserve	-	(9,296)	-	-	9,296	-
<b>Balance at 31 December 2009</b>	<b>553,225</b>	<b>23,063</b>	<b>443</b>	<b>347</b>	<b>1,380</b>	<b>578,458</b>



## STATEMENT OF CASH FLOWS – THE COMPANY

For the Year Ended 31 December 2009

	Note	2009 €'000	2008 €'000
<b>(Loss) profit before tax</b>		<b>(12,967)</b>	38,116
Adjustments	35	<b>14,079</b>	(35,580)
Working capital changes:			
Trade and other receivables		<b>(8,979)</b>	(3,885)
Trade and other payables		<b>6,354</b>	82
<b>Cash used in operating activities</b>		<b>(1,513)</b>	(1,267)
Income tax paid		<b>(64)</b>	(258)
<b>Net cash used in operating activities</b>		<b>(1,577)</b>	(1,525)
<b>Investing activities</b>			
Payments to acquire property, plant and equipment		<b>(35)</b>	(52)
Settlement in connection with acquisition of subsidiary company	15	<b>(970)</b>	-
Acquisition of associate		<b>(35,926)</b>	(43,163)
Net loans advanced to subsidiary companies		<b>(22,211)</b>	(36,496)
Interest received		<b>545</b>	-
<b>Net cash used in investing activities</b>		<b>(58,597)</b>	(79,711)
<b>Financing activities</b>			
Bank finance advanced		<b>10,000</b>	-
Repayment of bank borrowings		<b>(1,933)</b>	(1,433)
Loans repaid to parent company and its subsidiary companies		-	(12,447)
Proceeds from bond issue net of transaction costs		<b>34,395</b>	-
Interest paid		<b>(4,139)</b>	-
<b>Net cash from (used in) financing activities</b>		<b>38,323</b>	(13,880)
<b>Net decrease in cash and cash equivalents</b>		<b>(21,851)</b>	(95,116)
Cash and cash equivalents at 1 January	20	<b>46,941</b>	142,057
<b>Cash and cash equivalents at 31 December</b>	20	<b>25,090</b>	46,941
<b>Non-cash transactions:</b>			
Issue of bonus shares		-	16,113
Conversion of bonds into shares		<b>12</b>	1



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## 1 Nature of operations

The Group's main business is connected with the ownership, development and operation of hotels, leisure facilities and other activities related to the tourism industry. It also owns property held for rental.

## 2 General information

International Hotel Investments p.l.c., (the 'Company'), is a public limited liability company incorporated and domiciled in Malta. The address of the company's registered office and principal place of business is 22, Europa Centre, Floriana FRN 1400, Malta. The ultimate parent company is Corinthia Palace Hotel Company Limited of the same address.

The financial statements of the Company and the consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the EU, and in accordance with the Companies Act, 1995.

The financial statements are presented in thousands of euro (€'000) which is also the functional currency of the Company and its subsidiaries.

## 3 Change in accounting policies

### 3.1 Standards, amendments and interpretations to existing standards that have been adopted by the Group

The Group has adopted the following new interpretations, revisions and amendments to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 January 2009:

- IAS 1 Presentation of Financial Statements (Revised 2007);
- IAS 23 Borrowing Costs (Revised 2007);
- Amendments to IFRS 7 Financial Instruments: Disclosures – improving disclosures about financial instruments;
- IFRS 8 Operating Segments.

Significant effects on current, prior or future periods arising from the first-time application of these new requirements in respect of presentation, recognition and measurement are described below. An overview of standards, amendments and interpretations to IFRSs issued but not yet effective is given in note 3.2.

#### *Adoption of IAS 1 Presentation of Financial Statements (Revised 2007)*

The Group has adopted IAS 1 Presentation of Financial Statements (Revised 2007) in its consolidated financial statements. This standard has been applied retrospectively. The adoption of the standard does not affect the financial position or profits of the Group but gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income, such as for example revaluation of property, plant and equipment.

IAS 1 (Revised 2007) affects the presentation of owner changes in equity and introduces a 'statement of comprehensive income' (see note 4.2). The 'statement of recognised income and expenses (SORIE)', as was presented in the 2008 consolidated financial statements is no longer required. Further, a 'statement of changes in equity' is presented.

#### *Adoption of IAS 23 Borrowing Costs (Revised 2007)*

The revised standard requires the capitalisation of borrowing costs, to the extent they are directly attributable to the acquisition, production or construction of qualifying assets that need a substantial period of time to get ready for their intended use or sale. The Group has always capitalised borrowing costs relating to qualifying assets and therefore there is no change to the existing accounting policy.



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## *Adoption of amendments to IFRS 7 Financial Instruments: Disclosures – improving disclosures about financial instruments*

The amendments require additional disclosures for financial instruments that are measured at fair value in the balance sheet. These fair value measurements are categorised into a three-level fair value hierarchy (see note 39.5), which reflects the extent to which they are based on observable market data. A separate quantitative maturity analysis (see note 39.2) has been presented for derivative financial liabilities that shows the remaining contractual maturities, since this is essential for an understanding of the timing of cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

## *Adoption of IFRS 8 Operating Segments*

This standard has been applied retrospectively. The accounting policy for identifying segments is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker.

In contrast, IAS 14 required the Group to identify two sets of segments (business and geographical) based on risks and rewards of the operating segments. Refer to note 4.22 for further information about the entity's segment reporting accounting policies under IFRS 8.

The Group has adopted early the amendment to IFRS operating segments which provided that a measure of segment assets should only be disclosed when such information is provided to the chief operating decision maker.

### **3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group**

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

#### *IFRS 3 Business Combinations (Revised 2008) (effective from 1 July 2009)*

The standard is applicable for business combinations occurring in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard introduces changes to the accounting requirements for business combinations, but still requires use of the purchase method, and will have a significant effect on business combinations occurring in future reporting periods.

#### *IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective from 1 July 2009)*

The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. These changes will be applied prospectively in accordance with the transitional provisions and so do not have an immediate effect on the Group's financial statements.

#### *Annual Improvements 2009 (effective from 1 July 2009 and later)*

The IASB has issued Improvements for International Financial Reporting Standards 2009. Most of these amendments become effective in annual periods beginning on or after 1 July 2009 or 1 January 2010. The Group does not expect the amendments to IAS 17 Leases to be relevant to the Group's accounting policies.

#### *IFRS 9 Financial Instruments (effective from 1 January 2013)*

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety by the end of 2010, with the replacement standard to be effective for annual periods beginning 1 January 2013. IFRS 9 is the first part of phase 1 of this project.

The main phases are:

Phase 1: Classification and measurement

Phase 2: Impairment methodology

Phase 3: Hedge accounting

In addition, a separate project is dealing with derecognition.

Management have yet to assess the impact that these amendments are likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of the IAS 39 replacement have been published and they can comprehensively assess the impact of all changes.



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## 4 Summary of accounting policies

### 4.1 Overall considerations

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable and reliable in the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the following notes:

- 11 Intangible assets
- 12 Reimbursement assets
- 13 Investment property
- 14 Property, plant and equipment
- 34 Derivative financial instruments

The accounting policies have been consistently applied by Group entities and are consistent with those used in previous years.

### 4.2 Presentation of financial statements

The consolidated financial statements are presented in accordance with IAS 1 Presentation of Financial Statements (Revised 2007). The Group has elected to present the 'statement of comprehensive income' in two statements: the 'income statement' and a 'statement of comprehensive income'. The Company did not have any items classified as 'other comprehensive income'.

Two comparative periods are presented for the balance sheet when the Group or the Company:

- (i) applies an accounting policy retrospectively,
- (ii) makes a retrospective restatement of items in its financial statements, or
- (iii) reclassifies items in the financial statements.

During 2009, the Group has reclassified some line items in the income statement and has adopted revised standards retrospectively as outlined in note 3.1. Therefore a further comparative balance sheet has been presented.

The above three situations did not apply to the Company and therefore the Company did not include a further comparative balance sheet.



## NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

### 4.3 Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 December 2009. Subsidiaries are all entities over which the Group has power to control the financial and operating policies. The Company obtains and exercises control through voting rights. All subsidiaries have a reporting date of 31 December.

Intra-group balances, transactions and unrealised gains and losses on transactions between the Group companies are eliminated. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment losses from the Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. If losses in a subsidiary applicable to a non-controlling interest exceed the non-controlling interest in the subsidiary's equity, the excess is allocated to the owner's interest except to the extent that the non-controlling interest has a binding obligation and is able to cover the losses.

### 4.4 Business combinations

Business combinations are accounted for using the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquiree at the date of acquisition. Any excess of identifiable net assets over acquisition cost is recognised in the profit or loss immediately after acquisition.

### 4.5 Investments in associates

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method.

Acquired investments in associates are also subject to the purchase method as explained above. However, any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognised as investment in associates.

All subsequent changes to the Group's share of interest in the equity of the associate are recognised in the carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported within 'share of profit/loss of equity accounted investments' in profit or loss. These changes include subsequent depreciation, amortisation or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from other comprehensive income of the associate or items recognised directly in the associate's equity are recognised in other comprehensive income or equity of the Group, as applicable. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognised.

Unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment losses from a Group perspective.

Amounts reported in the financial statements of associates have been adjusted where necessary to ensure consistency with the accounting policies of the Group.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 4.6 Borrowing costs

Borrowing costs incurred on specific fixed asset projects prior to their commissioning are capitalised as part of the cost of the qualifying asset. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is based on the rate of interest on bank borrowings. All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 4.7 Foreign currency translation

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the euro are translated into euro upon consolidation. The functional currency of the Maltese entities in the Group changed to the euro following Malta's adoption of the euro as its national currency on 1 January 2008.

On consolidation, assets and liabilities have been translated into euro at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to the profit or loss and recognised as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into euro at the closing rate.

### 4.8 Revenue

Revenue comprises revenue from the sale of goods and the rendering of services.

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT, rebates, and trade discounts.

Revenue is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Group's different activities has been met.

Rental income from operating leases of the Group's investment properties is recognised on a straight line basis over the lease term.

Interest income and expenses are reported on an accrual basis using the effective interest method.

Dividend income is recognised when received.

### 4.9 Lease payments

Payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

### 4.10 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 4.11 Retirement benefit costs

The Group companies contribute towards state pensions in accordance with local legislation and do not contribute to any retirement benefit plans. Related costs are recognised as an expense during the year in which they are incurred.

### 4.12 Intangible assets

Intangible assets are subject to impairment testing as described in note 4.15. Goodwill arises on the acquisition of subsidiaries and associates.

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, it is recognised immediately in profit or loss. Goodwill arising on the acquisition of a non-controlling 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. 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.

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. 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. 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.

### 4.13 Property, plant and equipment

Land and buildings held for use in production or administration are stated at revalued amounts. Revalued amounts are fair market values determined in appraisals by external professional valuers on an annual basis.

Any revaluation surplus is recognised in other comprehensive income and credited to the 'revaluation reserve'. To the extent that any revaluation decrease or impairment loss has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase recognised in other comprehensive income. Downward revaluations are recognised upon appraisal or impairment testing, with the decrease being charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and any remaining decrease recognised in profit or loss. Any revaluation surplus remaining in equity on disposal of the asset is transferred to retained earnings.

Furniture and fittings, plant and equipment and motor vehicles are initially recognised at acquisition cost. Subsequently they are carried at acquisition cost less depreciation and impairment losses.

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.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

Depreciation is recognised on a straight-line basis to write off the cost or valuation of assets less estimated residual value over their estimated useful lives. The periods generally applicable are:

	Years
- Freehold buildings	50
- Hotel plant and equipment	3-15
- Furniture, fixtures and fittings	3-10
- Motor vehicles	5

As no finite useful life for freehold land can be determined, related carrying amounts are not depreciated.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss for the year.

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment or assets in the course of construction until construction or development is complete, at which time it is reclassified as investment property and re-measured to fair value.

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 re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognised directly in other comprehensive income. Any loss is recognised immediately in profit or loss.

## 4.14 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Property that is being constructed for use as investment property is now included with investment property following the adoption of the amendments in Annual Improvements 2008.

Investment properties are revalued annually and are included in the balance sheet at their fair values. These are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property and supported by market research.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in profit or loss within 'change in fair value of investment property'.

Rental income and operating expenses from investment property are reported within 'revenue' and 'other expenses' respectively.

## 4.15 Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated are tested for impairment at least on an annual basis. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. Cash flows and discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles, see note 11 and 14.

Impairment losses on cash-generating units first reduce the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro-rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 4.16 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or when it expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

#### *Financial assets*

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held to maturity investments; and
- available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, and are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within 'finance costs', 'finance income' or 'other financial items', except for impairment of trade receivables which is presented within 'administrative expenses'.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

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.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables is presented within 'administrative expenses'.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see derivative financial instruments below). Assets in this category are measured at fair value with gains or losses recognised in profit or loss. Gains or losses on derivative financial instruments are based on changes in fair value determined by reference to active market transactions or using a valuation technique where no active market exists.

Investments in subsidiaries are presented in the statement of financial position of the Company as financial assets at fair value through profit or loss at inception.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### **Financial liabilities**

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'finance costs' or 'finance income'.

### **Derivative financial instruments**

A specific accounting treatment is required for derivatives designated as hedging instruments in cash flow hedge relationships. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness. All other derivative financial instruments are accounted for at fair value through profit or loss.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the balance sheet.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain previously recognised in equity is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognised in the statement of comprehensive income is transferred immediately to profit or loss.

### **Convertible bonds**

Bonds 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 terms for value, are accounted for as compound financial instruments, net of attributable transaction costs. The equity component of the convertible bonds is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The liability component is stated at amortised cost, with the difference between such cost and redemption value being recognised in profit or loss over the term of the bonds, using the effective interest basis.

### **4.17 Inventories**

Inventories 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 any applicable 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.



## NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

### 4.18 Income taxes

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised directly in the statement of comprehensive income or equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income. 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.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in the statement of comprehensive income or equity (such as the revaluation of land) in which case the related deferred tax is also recognised in the statement of comprehensive income or equity respectively.

### 4.19 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

### 4.20 Equity and reserves

Share capital represents the nominal value of shares that have been issued.

The revaluation reserve within equity comprises gains and losses due to the revaluation of property, plant and equipment.

Foreign currency translation differences arising on the translation of the Group's foreign entities are included in the translation reserve (see note 23).

Gains and losses on certain financial instruments are included in other reserve (see note 24).

The difference arising on the conversion of assets and liabilities from Maltese lira to euro is included in the reporting survey conversion reserve (see note 25)

Retained earnings/accumulated losses include all current and prior period losses less retained profits. (see note 26)

Other equity components include the equity component of convertible bonds, the increase in the fair value of the original shareholding in a subsidiary and the share of an associates' hedging reserve (see note 27)



## NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

### **4.21 Provisions, contingent liabilities and contingent assets**

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Where the time value of money is material, provisions are discounted to their present values.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination. In a business combination contingent liabilities are recognised in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognised, less any amortisation.

Possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets.

### **4.22 Segment reporting**

The present standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group board of Directors.

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from that of other segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to risks and returns that are different from those operating in other economic environments.

Hotel ownership, development and operations is the dominant source and nature of the Group's risks and returns. The Group is also engaged in the ownership and leasing of its investment property. Operations are based in six countries, Malta being the home of the parent and management companies.

The board of directors assesses performance based on the measure of earning before interest, tax depreciation and amortisation.

The Group is not required to report a measure of total assets and liabilities for each reportable segment since such amounts are not regularly provided to the chief operating decision maker.





## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 6 Results from operating activities

Results from operating activities are after the following charges:

	2009 €'000	2008 €'000
<b>The Group</b>		
Directors' remuneration	599	598
Loss on disposal of property, plant and equipment	25	12
Operating lease costs	459	460
Auditors' remuneration	227	221
Cost of sales	<u>7,336</u>	<u>9,616</u>

#### The Company

The profit before tax is stated after the following charges:

Directors' remuneration	574	568
Depreciation of property, plant and equipment	27	21
Auditors' remuneration	<u>21</u>	<u>20</u>

### 7 Personnel expenses

	The Group		The Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Wages and salaries	24,816	28,372	1,091	1,095
Social security contributions	3,820	4,808	34	35
Other staff costs	3,141	3,407	28	32
	<u>31,777</u>	<u>36,587</u>	<u>1,153</u>	<u>1,162</u>

Weekly average number of employees:

	No.	No.	No.	No.
Management and administrative	419	502	20	20
Operating	<u>1,311</u>	<u>1,651</u>	<u>-</u>	<u>-</u>
	<u>1,730</u>	<u>2,153</u>	<u>20</u>	<u>20</u>



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 8 Finance income and finance costs

	The Group	
	2009 €'000	2008 €'000
Interest receivable on:		
Loans advanced to related companies	160	89
Other balances	11	85
Bank deposits	957	5,338
Exchange differences	943	-
<b>Finance income</b>	<b>2,071</b>	<b>5,512</b>

	The Group	
	2009 €'000	2008 €'000
Interest payable on:		
Bank borrowings	(9,219)	(12,509)
Bonds	(3,807)	(2,780)
Loans advanced by parent company and its subsidiaries	(9)	(457)
Capital and other creditors	(55)	(22)
Less interest capitalised within property, plant and equipment	827	827
Imputed interest on convertible bonds and amortisation of bond issue costs	(327)	(280)
Exchange differences	-	(633)
<b>Finance costs</b>	<b>(12,590)</b>	<b>(15,854)</b>

In certain cases the Group deposited funds equivalent to the relevant outstanding bank loan balances thus taking benefit from offset arrangements through which the interest margins on these loans were reduced substantially. As a result of these arrangements the Group reduced its interest expense by €0.2 million (2008 - €0.8 million).

### 9 Tax expense

The charge for income tax on profits derived from local and foreign operations has been calculated at the applicable tax rates.

	The Group		The Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Current taxation	(2,157)	(2,970)	(105)	-
Overprovision in respect of previous years	642	589	-	-
Tax at source	(106)	(798)	(64)	(527)
Deferred taxation	1,574	(5,105)	4,466	(12,128)
	<b>(47)</b>	<b>(8,284)</b>	<b>4,297</b>	<b>(12,655)</b>

Refer to note 32 for information on the deferred tax assets and liabilities



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 9.1 Tax expense reconciliation

	The Group		The Company	
	2009	2008	2009	2008
	€'000	€'000	€'000	€'000
(Loss) profit before tax	<b>(1,569)</b>	22,287	<b>(12,967)</b>	38,116
Income tax using the company's domestic tax rate	<b>549</b>	(7,800)	<b>4,539</b>	(13,340)
Effect of income subject to foreign tax rates	<b>769</b>	3,168	<b>85</b>	726
Non-tax deductible expenses	<b>(1,073)</b>	(547)	<b>(327)</b>	(41)
Current year losses for which no deferred income is recognised	<b>(953)</b>	(385)	-	-
Effect of other consolidation adjustments	<b>(556)</b>	(5,916)	-	-
Change in unrecognised temporary differences	<b>314</b>	(573)	-	-
Effect of reduction in foreign tax rates on opening temporary differences	<b>(231)</b>	3,180	-	-
Overprovision in respect of previous years	<b>1,134</b>	589	-	-
<b>Tax expense</b>	<b>(47)</b>	(8,284)	<b>4,297</b>	(12,655)

### 9.2 Tax recognised in other comprehensive income

	The Group	
	2009	2008
	€'000	€'000
Tax expense effect on revaluation of hotel properties	<b>1,297</b>	11,790

## 10 Earnings per share

The calculation of earnings per share is based on the net profit for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year, calculated as follows:

Weighted average number of shares

	2009		2008	
	Shares	Weighted average	Shares	Weighted average
	No:000	No:000	No:000	No:000
At beginning of year	553,213	553,213	537,099	537,099
Effect of bonus share issue	-	-	16,113	16,113
Effect of shares issued in:				
May	<b>12</b>	<b>7</b>	<b>1</b>	<b>1</b>
	<b>553,225</b>	<b>553,220</b>	<b>553,213</b>	<b>553,213</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 10.1 Diluted earnings per share

The calculation of the profit for the year 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:

- (i) Profit attributable to ordinary shareholders (diluted)

	The Group		The Company	
	2009	2008	2009	2008
	€'000	€'000	€'000	€'000
(Loss) profit attributable to shareholders	<b>(1,616)</b>	14,003	<b>(8,670)</b>	25,461
After-tax effect of interest on convertible bonds	<b>480</b>	480	<b>480</b>	480
(Loss) profit attributable to the shareholders (diluted)	<b>(1,136)</b>	14,483	<b>(8,190)</b>	25,941

- (ii) Weighted 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 30.1 to these financial statements.

For the year ended 31 December 2008 the fully diluted earnings per share of the Group was €0.03 (€0.05 for the Company) and was ascertained on the basis of a conversion price of €1 which was the minimum price at which conversion was possible.

The last date at which bond holders could exercise their right to convert was 29 November 2009 and therefore no further dilution was possible.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 11 Intangible assets

	<b>Goodwill</b>	<b>Other</b>	<b>Total</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>Cost</b>			
Balance at 1 January 2007	9,727	23,334	33,061
Business combination	15,114	-	15,114
	<u>24,841</u>	<u>23,334</u>	<u>48,175</u>
Balance at 1 January 2008 and 31 December 2007 and 2008	<u>24,841</u>	<u>23,334</u>	<u>48,175</u>
<b>Balance at 1 January 2009 and 31 December 2009</b>	<b><u>24,841</u></b>	<b><u>23,334</u></b>	<b><u>48,175</u></b>
<b>Amortisation</b>			
At 1 January 2007	-	194	194
Amortisation for the year	-	1,167	1,167
<b>At 31 December 2007</b>	<b>-</b>	<b><u>1,361</u></b>	<b><u>1,361</u></b>
At 1 January 2008	-	1,361	1,361
Amortisation for the year	-	1,167	1,167
Impairment of goodwill	15,114	-	15,114
<b>At 31 December 2008</b>	<b><u>15,114</u></b>	<b><u>2,528</u></b>	<b><u>17,642</u></b>
At 1 January 2009	15,114	2,528	17,642
Amortisation for the year	-	1,167	1,167
<b>At 31 December 2009</b>	<b><u>15,114</u></b>	<b><u>3,695</u></b>	<b><u>18,809</u></b>
<b>Carrying amount</b>			
At 1 January 2007	9,727	23,140	32,867
At 31 December 2007	24,841	21,913	46,814
At 31 December 2008	9,727	20,806	30,533
<b>At 31 December 2009</b>	<b><u>9,727</u></b>	<b><u>19,639</u></b>	<b><u>29,366</u></b>



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## CHI Limited and IHI Towers s.r.o.

For the purpose of impairment testing of the goodwill arising on the acquisition of CHI Limited ("CHI") and IHI Towers s.r.o, the directors have relied on the expert opinion of an independent third party. The indicative valuation is based on the discounted cash flows derived from hotel operating projections as prepared by HVS International, specialists in hotel consulting and valuations ("HVS"), as at 31 December 2009.

### Key assumptions

#### CHI Limited

Value in use was determined by discounting the forecast future cash flows generated by CHI for a five year explicit period 2010 – 2014.

The following are the key assumptions underlying the projections:

- revenue derived from IHI properties is based on operational projections prepared by HVS. This accounts for 96% of the total revenue in the explicit period;
- revenue from other properties is assumed to increase by 5% per annum on 2010 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 the CHI portfolio;
- inflationary growth in operating expenses on 2010 budget is assumed to be 2%; and
- a pre-tax discount rate of 14.47% was applied to the operating projections of CHI, based on a debt to equity ratio of 30:70.

This valuation confirmed that there was no impairment.

#### IHI Towers s.r.o

In 2008 the value in use was determined by discounting the forecast future cash flows generated by Corinthia Hotel Prague for a ten year explicit period 2009 – 2018.

The following were the key assumptions underlying the projections:

- revenue was assumed to grow at an average of 3.2% per annum on 2010 budget (in-perpetuity growth rate of 2% per annum applied subsequently to the ten year period covered by the explicit projections);
- inflationary growth in operating expenses on 2009 budget was assumed to be 2%; and
- a pre-tax discount rate of 9.07 % was applied to the operating projections, based on a debt to equity ratio that varied from 50:50 to 55:45.

Based on this valuation goodwill was found to be impaired and fully written off in 2008.

## 12 Reimbursement assets

	<b>The Group</b>		
	<b>2009</b>	2008	2007
	<b>€'000</b>	€'000	€'000
At 1 January	<b>23,676</b>	23,757	-
Movement for the year	<b>(505)</b>	(81)	23,757
At 31 December	<b>23,171</b>	23,676	23,757

In view of group tax relief provisions applicable in Malta any tax due by Corinthia Palace Hotel Company Limited ("CPHCL") on the transfer of the shares in IHI Towers s.r.o ("IHIT") and Corinthia Towers Tripoli Limited ("CTTL") to IHI effected in 2007 was deferred. This tax will only become due in the eventuality that IHI sells the shares in IHIT and/or CTTL and/or their underlying properties outside the Group. In accordance with the indemnity agreement prepared at the time of the acquisition, CPHCL has indemnified the Group for future tax it may incur should the Group sell the shares or the underlying properties outside the Group. This indemnity will be equivalent to the tax that will be due by IHI on the gain that was untaxed in the hands of CPHCL, and is currently assessed at €23.2 million. The indemnity has no time limit and has a maximum value of €45 million.

The indemnity agreement provides that in the event of a sale of the shares in IHIT and/or CTTL and/or their underlying properties outside the Group, CPHCL will be liable for the tax that will be due on the gain that was exempt in the hands of CPHCL at the time of the sale. Since it is certain that reimbursements will be received from CPHCL if IHI settles the obligation, the reimbursements have been recognised and treated as separate assets.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 13 Investment property

	The Group		
	2009 €'000	2008 €'000	2007 €'000
Balance at 1 January	149,349	104,600	26,800
Acquisition through business combination (a)	-	-	68,200
Additions (b)	120	18,496	1,877
Change in fair value (c)	12,064	26,253	7,723
Transfer from property, plant and equipment (d)	17,343	-	-
Balance at 31 December	178,876	149,349	104,600

a) This investment property is owned by a subsidiary company, Corinthia Towers Tripoli Limited, and comprises the Commercial Centre and a vacant plot of land adjacent to the Corinthia Bab Africa Hotel. It was acquired on the acquisition of the subsidiary in 2007.

b) The additions of €120,000 represents the adjustment to the final price of property purchased in Lisbon.

In 2008 the Group acquired a 99-year lease on the land adjacent to the Corinthia Bab Africa Hotel for €5.3 million and also continued works amounting to €13.2 million on the investment property in St. Petersburg.

c) At the balance sheet date, the fair value of investment property held by the Group in St. Petersburg, has been increased by the directors by €5.7 million (2008 - €3.5 million, 2007 - €5.7 million), relying on the expert opinion of Colliers International, a firm of real estate consultants.

Also, at balance sheet date, the directors recognised a fair value increase of €4.6 million (2008 - €5 million, 2007 - €2 million) on the Commercial Centre in Tripoli, Libya and a further €0.35 million (2008 - €17.8 million) on a parcel of land adjacent to the Corinthia Bab Africa Hotel. In doing so the directors have relied on the expert opinions of independent valuers to support these revaluations. In addition, the fair value of the investment property owned by the Group in Lisbon was increased by €1.4 million based on the opinion of independent valuers.

d) Works completed on the investment property in St. Petersburg were transferred from property, plant and equipment.

e) The majority of the investment property is hypothecated in favour of the Group's bankers as collateral for amounts borrowed as stated in note 29.

f) Rental income earned by the Group from investment property amounted to €6.6 million (2008 - €6.3 million, 2007 - €3.6 million) and direct expenses to €0.3 million (2008 - €0.4 million, 2007 - €0.3 million).



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## 14 Property, plant and equipment

### The Group

	Note	Land and buildings €'000	Plant and equipment €'000	Furniture, fixtures and fittings €'000	Motor vehicles €'000	Assets in the course of construction €'000	Total €'000
<b>Cost/revalued amount</b>							
Balance at 1 January 2007		309,758	31,209	24,608	559	25,573	391,707
Acquired through business combinations		220,275	32,850	26,007	232	1,317	280,681
Additions		1,704	3,253	4,397	81	25,608	35,043
Reallocations		-	-	-	-	(1,877)	(1,877)
Disposals		-	(565)	(106)	(58)	-	(729)
Revaluation surplus	22	22,825	-	-	-	-	22,825
Balance at 31 December 2007		554,562	66,747	54,906	814	50,621	727,650
Balance at 1 January 2008		554,562	66,747	54,906	814	50,621	727,650
Additions		1,802	1,677	1,153	128	29,939	34,699
Reallocations		13,608	1,033	1,596	-	(16,237)	-
Disposals		-	(464)	(44)	(60)	-	(568)
Revaluation surplus	22	28,884	-	-	-	-	28,884
Balance at 31 December 2008		598,856	68,993	57,611	882	64,323	790,665
Balance at 1 January 2009		598,856	68,993	57,611	882	64,323	790,665
Additions		6,314	5,514	5,858	10	6,524	24,220
Reallocations		48,552	1,995	193	-	(50,739)	1
Transfer to investment property		-	-	-	-	(17,343)	(17,343)
Disposals		-	(3,119)	(99)	(19)	-	(3,237)
Revaluation surplus	22	7,509	-	-	-	-	7,509
<b>Balance at 31 December 2009</b>		<b>661,231</b>	<b>73,383</b>	<b>63,563</b>	<b>873</b>	<b>2,765</b>	<b>801,815</b>
<b>Depreciation and impairment losses</b>							
Balance at 1 January 2007		27,033	15,387	15,922	363	-	58,705
Acquired through business combinations		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	22	(4,987)	-	-	-	-	(4,987)
Balance at 31 December 2007		42,499	34,095	28,983	588	-	106,165
Balance at 1 January 2008		42,499	34,095	28,983	588	-	106,165
Depreciation for the year		9,800	6,692	4,911	94	-	21,497
Net reversal of impairment losses		(3,543)	-	-	-	-	(3,543)
Disposals		-	(472)	(29)	(55)	-	(556)
Revaluation surplus	22	(7,436)	-	-	-	-	(7,436)
Balance at 31 December 2008		41,320	40,315	33,865	627	-	116,127
Balance at 1 January 2009		41,320	40,315	33,865	627	-	116,127
Depreciation for the year		11,392	7,028	5,080	112	-	23,612
Impairment loss		29,741	-	-	-	-	29,741
Disposals		-	(1,236)	(69)	(7)	-	(1,312)
Revaluation surplus	22	(2,569)	-	-	-	-	(2,569)
<b>Balance at 31 December 2009</b>		<b>79,884</b>	<b>46,107</b>	<b>38,876</b>	<b>732</b>	<b>-</b>	<b>165,599</b>
<b>Carrying amounts</b>							
At 1 January 2007		282,725	15,822	8,686	196	25,573	333,002
At 31 December 2007		512,063	32,652	25,923	226	50,621	621,485
At 31 December 2008		557,536	28,678	23,746	255	64,323	674,538
<b>At 31 December 2009</b>		<b>581,347</b>	<b>27,276</b>	<b>24,687</b>	<b>141</b>	<b>2,765</b>	<b>636,216</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### The Company

	Plant and equipment €'000	Furniture, fixtures and fittings €'000	Motor vehicles €'000	Total €'000
<b>Cost/revalued amount</b>				
Balance at 1 January 2008	18	64	30	112
Additions	11	10	31	52
Balance at 31 December 2008	29	74	61	164
Balance at 1 January 2009	29	74	61	164
Additions	16	19	-	35
<b>Balance at 31 December 2009</b>	<b>45</b>	<b>93</b>	<b>61</b>	<b>199</b>
<b>Depreciation</b>				
Balance at 1 January 2008	1	1	3	5
Depreciation for the year	5	7	9	21
Balance at 31 December 2008	6	8	12	26
Balance at 1 January 2009	6	8	12	26
Depreciation for the year	6	9	12	27
<b>Balance at 31 December 2009</b>	<b>12</b>	<b>17</b>	<b>24</b>	<b>53</b>
<b>Carrying amounts</b>				
At 1 January 2008	17	63	27	107
At 31 December 2008	23	66	49	138
<b>At 31 December 2009</b>	<b>33</b>	<b>76</b>	<b>37</b>	<b>146</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 14.1 Impairment of assets

In line with the requirements of IAS 36, Impairment of Assets, the directors have assessed whether there are any indications that the value of the Group's hotel properties may be impaired. In assessing such indications, the directors considered, inter alia, evidence available from internal reporting and independent expert valuation reports.

Impairment losses reflect lower than expected economic performances of the hotel properties, whereas reversals of such losses reflect improvements in previously projected net future cash flows from operations.

Impairment losses and reversals have been recognised as follows:

	Recognised at 1.1.07 €'000	Change €'000	Recognised at 31.12.07 €'000
Hotel property			
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>
	Recognised at 1.1.08 €'000	Change €'000	Recognised at 31.12.08 €'000
Hotel property			
Corinthia Hotel St George's Bay Malta	703	1,234	1,937
Corinthia Hotel & Spa Lisbon	13,650	(12,844)	806
Corinthia Hotel Prague	-	8,067	8,067
	<u>14,353</u>	<u>(3,543)</u>	<u>10,810</u>
	Recognised at 1.1.09 €'000	Change €'000	Recognised at 31.12.09 €'000
Hotel property			
Corinthia Hotel St George's Bay Malta	1,937	(1,784)	153
Corinthia Hotel & Spa Lisbon	806	2,500	3,306
Corinthia Hotel Prague	8,067	13,680	21,747
Corinthia Hotel Budapest	-	15,345	15,345
	<u>10,810</u>	<u>29,741</u>	<u>40,551</u>
Recognised in revaluation reserve (note 22)		<u>(7,407)</u>	
Recognised in profit or loss		<u>22,334</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 the pre-tax discount rates.

In case of Corinthia Hotel St George's Bay, Malta a discount rate of 8.97% (2008 - 8.95%) was used. For the testing of Corinthia Hotel and Spa Lisbon, Corinthia Hotel Prague and Corinthia Hotel Budapest, discount rates of 8.12% (2008 - 7.14%, 2007 - 8.44%) and 8.48% (2008 - 9.07%) and 8.95% were utilised 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 for.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 14.2 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 14.1) 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 Hotel St. Petersburg and the Corinthia Bab Africa Hotel, which values exceeded their respective carrying amounts. The resulting excess was accounted for as a revaluation surplus. Refer to note 22.

In arriving at the projected operating cash flows, a detailed analysis of the facilities and performance capabilities of the hotel properties, and their expectations prospects in the various jurisdictions in which they operate, 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.

### 14.3 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.

### 14.4 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 be €536,336.

### 14.5 Security

Certain tangible fixed assets owned by the Group are hypothecated in favour of the Group’s bankers as collateral for amounts borrowed as stated in note 29.

## 15 Investments in subsidiaries

The amounts stated in balance sheet are analysed as follows:

	The Company	
	2009	2008
	€'000	€'000
Shares in subsidiary companies	297,533	310,283
Loans to subsidiary companies	190,438	195,752
	<u>487,971</u>	<u>506,035</u>

The above loans to subsidiary companies are interest free and are classified with investment in subsidiaries since they are repayable at the discretion of the borrower.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

Subsidiary company	Registered office	Nature of business	% Ownership
Alfa Investimentos Turisticos Lda	Avenida Columbana Bordalo Pinheiro Lisboa 1099 - 031 Portugal	Owns and operates the Corinthia Hotel & Spa Lisbon Portugal	100
CHI Limited	1 Europa Centre Floriana Malta	Hotel management company	70
Corinthia Towers Tripoli Limited	22 Europa Centre Floriana Malta	Owns and operates the Corinthia Hotel Tripoli and Commercial Centre Libya	100
Five Star Hotels Limited	22, Europa Centre Floriana Malta	Owns and operates the Corinthia Hotel St George's Bay Malta	100
IHI Benelux B.V.	Claude Debussylann 24 1082 MD PO Box 75288 AG Amsterdam The Netherlands	Owns and operates the Corinthia Hotel St Petersburg Russian Federation	100
IHI Benghazi Limited	22 Europa Centre Floriana Malta	Investment company	75
IHI Cyprus Limited	1 Naousis Street Karapatakis Building P.C. 6018, Larnaca Cyprus	Investment company	100
IHI Hungary Zrt	Erzsebet Korut 43-49 H-1073, Budapest Hungary	Owns and operates the Corinthia Hotel Budapest	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 Towers s.r.o.	Kongresová 1655 / 1 140 69 Praha 4 Czech Republic	Owns and operates the Corinthia Hotel Prague Czech Republic	100
IHI Zagreb d.d.	Centar Kaptol Nova Ves 11 10000 Zagreb Croatia	Investment company	100



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## 15.1 Shares in subsidiary companies

	The Company	
	2009 €'000	2008 €'000
At 1 January	310,283	274,414
Settlement in connection with the acquisition of subsidiary company	970	-
(Decrease) increase in fair value	(13,720)	35,869
<b>At 31 December</b>	<b>297,533</b>	<b>310,283</b>

In line with the terms of the share transfer agreement that had been entered into between IHI and CPHCL in 2007 for the transfer of the Towers Hotel in Prague to IHI, in 2009 IHI paid the sum of €0.97 million to CPHCL in settlement of a liability owing by IHI Towers to third parties relating to the pre-acquisition period and which became time-barred during 2009.

## 15.2 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 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 12 to the financial statements.

## 15.3 Security

Shares in certain subsidiary companies are pledged in favour of the Group's banks as collateral for loans advanced. Refer to note 29 for details.

## 16 Associates

### 16.1 Investments accounted for using the equity method

	The Group		
	2009 €'000	2008 €'000	2007 €'000
At 1 January	44,391	606	640
Additions	35,926	43,163	-
Share of (loss) profit	14,483	622	(34)
Share of other comprehensive loss	(1,118)	-	-
Dividend received	(98)	-	-
<b>At 31 December</b>	<b>93,584</b>	<b>44,391</b>	<b>606</b>

### 16.2 Investments in associates

	The Company	
	2009 €'000	2008 €'000
At 1 January	43,282	119
Additions	35,926	43,163
<b>At 31 December</b>	<b>79,208</b>	<b>43,282</b>

During the year under review the Company acquired a further 16.67% of the share capital of NLI Holdings Limited.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 16.3 Associate companies

Company name	Registered office	Nature of business	% Ownership
INI Hotels Holdings Limited	Naousis 1 Karapatakis Building, 6018, Larnaca, Cyprus	Investment company	50
INI Hotels Management Company Limited	Naousis 1 Karapatakis Building, 6018, Larnaca, Cyprus	Investment company	50
NLI Holding Limited	CTV House La Pouquelaye St Helier Jersey	Parent company of a group that owns the building of the Metropole Hotel and 10 Whitehall Place in London, UK	50
QPM Limited	22, Europa Centre Floriana Malta	Project management	20

### 16.4 Summary of financial information of associate companies

	2009 €'000	2008 €'000	2007 €'000
Total assets	191,646	189,230	7,971
Total liabilities	(44,620)	(76,250)	(5,343)
Net assets	147,026	112,980	2,628
Revenue	20,531	8,308	7,716
Profit (loss) for the year	30,704	2,164	(170)
Share of contingent liabilities of associates	24	50	250



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 17 Loans receivable

	The Group			The Company	
	2009 €'000	2008 €'000	2007 €'000	2009 €'000	2008 €'000
<b>Non-current</b>					
Group companies	-	-	-	<b>97,313</b>	64,183
Related companies	-	-	1,470	-	-
	<u>-</u>	<u>-</u>	<u>1,470</u>	<u><b>97,313</b></u>	<u>64,183</u>
Group company	-	-	-	-	5,600
	<u>-</u>	<u>-</u>	<u>1,470</u>	<u><b>97,313</b></u>	<u>69,783</u>

The carrying amount of loans receivable is considered to be a reasonable approximation of fair value.

	Terms			
	€'000	Interest	Repayable by	Security
Group companies: IHI Benelux B.V.	91,253	6 month Euribor + 3.25%	31 December 2015	None
IHI Towers s.r.o	6,060	0.10%	No repayment date	
	<u>97,313</u>			

### 18 Inventories

	The Group		
	2009 €'000	2008 €'000	2007 €'000
Food and beverages	<b>692</b>	859	756
Consumables	<b>536</b>	500	620
Goods held for resale	<b>40</b>	31	43
Other	<b>3,933</b>	3,487	3,534
	<u><b>5,201</b></u>	<u>4,877</u>	<u>4,953</u>



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 19 Trade and other receivables

	The Group			The Company	
	2009 €'000	2008 €'000	2007 €'000	2009 €'000	2008 €'000
Trade receivables	8,271	14,022	13,417	-	-
Amounts owed by:					
Parent company	1,257	881	762	140	34
Subsidiary companies	-	-	-	18,722	12,759
Associate companies	213	431	277	2,313	145
Other related companies	5,727	2,248	1,910	2	2
Other debtors	1,036	1,807	1,297	384	158
Accrued income	209	661	1,132	904	1,162
<b>Financial assets</b>	<b>16,713</b>	<b>20,050</b>	<b>18,795</b>	<b>22,465</b>	<b>14,260</b>
Recoverable VAT on capital expenditure	614	2,344	1,546	-	-
Advance payments in respect of capital creditors	1,637	468	-	-	-
Prepayments	1,557	1,265	1,277	93	113
<b>Total receivables - current</b>	<b>20,521</b>	<b>24,127</b>	<b>21,618</b>	<b>22,558</b>	<b>14,373</b>

#### 19.1 Impairment losses on trade receivables

The ageing of trade receivables at the reporting date was:

	The Group				The Company	
	Gross amount 2009 €'000	Impaired amount 2009 €'000	Gross amount 2008 €'000	Impaired amount 2008 €'000	Gross amount 2007 €'000	Impaired amount 2007 €'000
Not past due	2,442	-	2,141	-	3,646	-
Past due 0-30 days	1,533	(12)	3,035	(55)	2,387	(17)
Past due 31-120 days	1,436	(16)	4,194	(138)	4,236	(31)
Past due 121-360 days	1,963	(909)	2,032	(585)	2,356	(55)
More than one year	3,081	(1,247)	4,270	(872)	1,802	(907)
	<b>10,455</b>	<b>(2,184)</b>	<b>15,672</b>	<b>(1,650)</b>	<b>14,427</b>	<b>(1,010)</b>

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

	2009 €'000	2008 €'000	2007 €'000
At 1 January	1,650	1,010	1,182
Impairment losses recognised	942	737	192
Impairment losses reversed	(408)	(97)	(364)
<b>At 31 December</b>	<b>2,184</b>	<b>1,650</b>	<b>1,010</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

The impairment loss at 31 December 2009 mainly relates to specific provisions, 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 loss 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 360 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 considers 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.

The carrying amount of trade and other receivables is considered to be a reasonable approximation of fair value.

### 20 Cash and cash equivalents

Cash and cash equivalents include the following components:

	The Group			The Company	
	2009 €'000	2008 €'000	2007 €'000	2009 €'000	2008 €'000
Cash and bank balances:					
Non-current	-	-	3,600	-	-
Current	<b>50,386</b>	69,908	163,813	<b>25,090</b>	46,941
Cash and cash equivalents in the balance sheet	<b>50,386</b>	69,908	167,413	<b>25,090</b>	46,941
Bank overdraft	<b>(2,132)</b>	(11)	(1,700)	-	-
Cash and cash equivalents in the statement of cash flows	<b>48,254</b>	69,897	165,713	<b>25,090</b>	46,941

The bank balances include amounts of €5.4 million (2008 and 2007 – €5.4 million) that, in accordance with the provisions of the subscription for shares agreement in a group company, have been set aside for the purposes of a Development Fund.

Cash at bank includes a combined amount of €1.8 million set aside by two subsidiary companies for debt servicing requirements and another amount of €0.8 million set aside by another subsidiary for capital expenditure purposes.



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## 21 Share capital

### 21.1 Authorised share capital

The authorised share capital consists of 1,000 million ordinary shares of a nominal value of €1 each.

### 21.2 Issued share capital

	Ordinary shares of €1 each		
	2009 €'000	2008 €'000	2007 €'000
On issue at 1 January	553,213	537,099	162,101
Issued for cash	-	-	178,000
Issued on business combination	-	-	192,000
Bonus issue	-	16,113	4,961
Conversion of convertible bonds	12	1	37
On issue at 31 December – fully paid up	553,225	553,213	537,099

### 21.3 Bonus shares

During 2008, the shareholders approved the capitalisation of an amount not exceeding €16.2 million from the reserve of the Company (see note 26) 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 three bonus shares for every hundred ordinary shares.

During 2007, the shareholders approved the capitalisation of an amount not exceeding €5 million from the reserve of the company (see note 26) 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 in issue as at 30 June 2006, less any shares held by CPHCL.

The resolution approving the bonus issue in 2007 also resolved to:

- (i) 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
- (ii) further 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 2007, out of 4.96 million bonus shares issued, the company re-acquired and re-issued 398,217 shares.

### 21.4 Shareholder rights

Shareholders are entitled to vote at shareholders' meetings 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.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 22 Revaluation reserve

The Group		Revaluation surplus	Deferred taxation	Bonus share issues	Net
	Notes	€'000	€'000	€'000	€'000
At 1 January 2007		40,096	(9,345)	-	30,751
Revaluation of hotel property carried out at year end:					
Corinthia St Petersburg		11,022	(2,645)	-	8,377
Corinthia Bab Africa Hotel		14,192	(2,696)	-	11,496
Corinthia Hotel Prague		2,598	(546)	-	2,052
		27,812	(5,887)	-	21,925
Bonus share issue	21.3	-	-	(4,961)	(4,961)
		(27,812)	(5,887)	(4,961)	16,964
At 31 December 2007		67,908	(15,232)	(4,961)	47,715
Revaluation of hotel property carried out at year end:					
Corinthia Hotel St Petersburg		4,565	872	-	5,437
Corinthia Bab Africa Hotel		30,397	(12,575)	-	17,822
Corinthia Hotel Budapest		3,956	(633)	-	3,323
Corinthia Hotel Prague		(2,598)	546	-	(2,052)
		36,320	(11,790)	-	24,530
Bonus share issue	21.3	-	-	(16,113)	(16,113)
		(36,320)	(11,790)	(16,113)	8,417
At 31 December 2008		104,228	(27,022)	(21,074)	56,132
Revaluation of hotel property carried out at year end:					
Corinthia St Petersburg		2,817	-	-	2,817
Corinthia Bab Africa Hotel		7,261	(2,482)	-	4,779
Corinthia Hotel Budapest		(7,407)	1,185	-	(6,222)
		2,671	(1,297)	-	1,374
<b>At 31 December 2009</b>		<b>106,889</b>	<b>(28,319)</b>	<b>(21,074)</b>	<b>57,506</b>

### 23 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 2009

## 24 Other reserve

The reserve represents the following unrealised gains, net of related deferred taxation, and is not distributable to shareholders.

	The Group			The Company	
	2009 €'000	2008 €'000	2007 €'000	2009 €'000	2008 €'000
Fair value gain on investments in subsidiary companies	-	-	-	53,450	62,368
Tax benefit of unused tax losses	-	378	1,382	-	378
	-	378	1,382	53,450	62,746
Issue of bonus shares	-	-	-	(21,074)	(21,074)
Transfer of accumulated losses	-	-	-	(9,313)	(9,313)
	-	378	1,382	23,063	32,359

## 25 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 lira to euro in 2003.

## 26 Retained earnings (accumulated losses)

The loss for the year has been transferred to retained earnings (accumulated losses) as set out in the statement of changes in equity.

## 27 Other equity components

	2009 €'000	2008 €'000	2007 €'000
<b>The Group</b>			
Equity component of convertible bonds	347	347	347
Increase in value of original shareholding in CHI pursuant to: Independent valuation carried out on acquisition of further shareholding in 2006, net of deferred tax	3,859	3,859	3,859
Share of hedging reserve of associate company	(1,192)	-	-
	3,014	4,206	4,206
<b>The Company</b>			
Equity component of convertible bonds	347	347	347

## 28 Capital management policies and procedures

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 net interest expense expressed as a percentage of interest-bearing borrowings was 3.83% (2008 – 4.15%, 2007 – 4.85%).

The lower interest expense for 2009 mainly resulted from the reduction in the euribor rate applicable to bank loans.

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.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 29 Bank borrowings

	The Group			The Company	
	2009 €'000	2008 €'000	2007 €'000	2009 €'000	2008 €'000
Bank overdraft	2,132	11	1,700	-	-
Bank loans	191,668	202,255	218,724	14,766	6,699
	<u>193,800</u>	<u>202,266</u>	<u>220,424</u>	<u>14,766</u>	<u>6,699</u>
<b>Comprising:</b>					
<b>Non current bank borrowings</b>					
Bank loans due within 2 – 5 years	58,454	77,099	82,256	7,233	4,066
Bank loans due later than 5 years	101,525	105,141	115,464	5,100	1,200
	<u>159,979</u>	<u>182,240</u>	<u>197,720</u>	<u>12,333</u>	<u>5,266</u>
<b>Current bank borrowings</b>					
Bank overdraft	2,132	11	1,700	-	-
Bank loans due within 1 year	31,689	20,015	21,004	2,433	1,433
	<u>33,821</u>	<u>20,026</u>	<u>22,704</u>	<u>2,433</u>	<u>1,433</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## 29.1 Terms and repayment schedule

Group company	Face value and carrying amount			Nominal interest rate	Year of maturity	Repayment		Security	
	2009 €'000	2008 €'000	2007 €'000			Within 1 year €'000	Between 2 - 5 years €'000		After 5 years €'000
<b>International Hotel Investments p.l.c.</b>									
Bank loan	3,600	4,200	4,800	Bank base rate + 2.5%	2015	600	2,400	600	General hypothec for €3.6 million over all Company's assets present and future. General hypothecary guarantee over all Company present and future assets and special hypothecary guarantee over the Corinthia Hotel St George's Bay.
Bank loan	11,166	2,499	3,333	6 month Euribor + 1.5%	2011	1,833	4,833	4,500	First general hypothec for €1.66 million and third general hypothec for €9.5 million 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. Second ranking mortgage guarantee by Thermal Hotel Aquincum Rt over the Aquincum Hotel.
Sub-total – Company	14,766	6,699	8,133			2,433	7,233	5,100	
<b>Five Star Hotels Limited</b>									
Bank loan	5,228	5,921	5,912	Bank base rate +2.5%	2015	717	2,893	1,618	Company guarantee by parent company and 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 overdraft	1,162	11	1,117	Bank base rate +2.5%	On demand	1,162	-	-	
<b>Alfa Investimentos Turísticos Lda</b>									
Bank loan	24,240	25,530	40,850	3 month Euribor + 1.25%	2022	1,290	7,310	15,640	Secured by mortgages over the Corinthia Hotel & Spa Lisbon including land.
Bank loan	14,030	14,030	-	Cap 5.20% Floor 4.89%	2022	-	-	14,030	Secured by mortgages over the Corinthia Hotel & Spa Lisbon including land.
Bank loan	2,226	2,701	2,877	3 month Euribor +1.75%	2013-2015	500	1,663	63	Secured by a second ranking mortgage over the Corinthia Hotel & Spa Lisbon including land and a bill of exchange.
Bank overdraft	970	-	71	7.5% 1 month Euribor +4.95%	On demand	970	-	-	Promissory note and letter of comfort from parent company
c/f	62,622	54,892	58,960			7,072	19,099	36,451	



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## 29.1 Terms and repayment schedule (continued)

Group company	Face value and carrying amount		Nominal interest rate	Year of maturity	Within 1 year €'000	Repayment Between 2 - 5 years €'000	After 5 years €'000	Security
	2009 €'000	2007 €'000						
<b>b/f</b>	<b>62,622</b>	54,892	58,960		7,072	19,099	36,451	
<b>IHI Benelux B.V.</b>								
Bank Loan	13,687	16,987	16,987	2016	13,687	-	-	Secured over the Corinthia Hotel St Petersburg and a pledge over the shares of IHI Benelux B.V. 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 over all bank accounts held.
<b>IHI Hungary Zrt</b>								
Bank loan	38,706	40,261	42,558	2019	1,658	7,813	29,235	Secured by a mortgage over the Corinthia Hotel Budapest and by a security deposit over the shares of IHI Hungary Zrt and by cash collateral. 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.
<b>CHI Limited</b>								
Bank overdraft	-	-	512	On demand	-	-	-	Secured by general hypothec over the company's assets and by a guarantee from IHI.
<b>Corinthia Towers Tripoli Limited</b>								
Bank loan	24,000	32,000	40,000	2012	8,000	16,000	-	Secured by a general hypothec over the land and buildings of the hotel property in Tripoli.
Bank loan	8,750	10,250	11,750	2013	1,500	7,250	-	Secured by a pledge on shares in Corinthia Towers Tripoli Limited.
<b>IHI Towers sro</b>								
Bank loan	46,035	47,876	49,657	2020	1,904	8,292	35,839	Secured by mortgages over the Corinthia Hotel Prague and by a pledge on shares, moveables, bank accounts and insurance policy.
	<b>193,800</b>	202,266	220,424		33,821	58,454	101,525	



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 30 Bonds

	The Group and Company		
	2009 €'000	2008 €'000	2007 €'000
Convertible bonds	11,493	11,292	11,094
Pre-euro bonds (previously Lm bonds)	13,885	13,848	13,813
Bond I	8,082	8,045	8,011
Bond II	12,422	12,406	12,391
Bond III	34,395	-	-
	<u>80,277</u>	<u>45,591</u>	<u>45,309</u>
Non-current	68,784	45,591	45,309
Current	11,493	-	-
	<u>80,277</u>	<u>45,591</u>	<u>45,309</u>

#### 30.1 Convertible bonds

	€'000
Proceeds from issue	12,283
Transaction costs	(367)
Net proceeds	<u>11,916</u>
Imputed interest and amortisation of transaction costs to 31 December 2007	(149)
Exchange differences	(636)
Conversion into shares	<u>(37)</u>
At 31 December 2007	11,094
Imputed interest and amortisation of transaction costs for 2008	199
Conversion into shares	<u>(1)</u>
At 31 December 2008	11,292
Imputed interest and amortisation of transaction costs for 2009	213
Conversion into shares	<u>(12)</u>
<b>At 31 December 2009</b>	<b><u>11,493</u></b>

- (i) During 2000 the Company issued 50,000 bonds with a face value of Lm100 each (equivalent to €232.94), which, unless previously purchased and cancelled or converted in accordance with the terms of issue, shall be redeemable at par on 29 May 2010. Any bonds purchased by the issuing Company on the open market shall be cancelled. The Company reserves the right to purchase bonds on the open market without notice.

Bondholders were 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 was extinguished and released, and, in consideration and in exchange thereof, the Company issued fully paid up ordinary shares as provided in the terms and conditions of issue. A conversion of part of a bond was not allowed.

The bonds entitled the holders thereof to an original entitlement of 100 shares for every bond. In the event that upon conversion the conversion price was higher than the share issue price, and a bondholder wished to retain such original entitlement, such bondholder paid the cash difference as determined in accordance with the terms of the issue of the bonds. A bondholder may have elected not to pay such cash difference and in lieu thereof accepted the issue of a lower number of shares than his/her original entitlement. Shares could not be issued at below their nominal value.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

A bondholder had the right to exercise the conversion option during the conversion period which commenced on 29 November 2005 and ended on 29 November 2009. In the case of bonds converted on any of the following conversion dates during any conversion term, the conversion price was 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	%
First	29 November 2005; 29 May 2006 and 29 November 2006	10
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 bonds amounting to €11,647 took place during 2009 (2008 - €1,165, 2007 - €37,270).

(ii) The bonds carry an interest rate of 5% per annum payable annually in arrears on 29 May.

(iii) 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.

### 30.2 Pre-euro and euro bonds

During 2003, the Company offered to the general public an aggregate of Lm5.2 million bonds (equivalent to €12.1 million) maturing in 2013, subject to an over-allotment option for a further amount of Lm4.17 million (equivalent to €9.7 million) in either or a combination of bonds denominated in Maltese lira and bonds denominated in euro. After the application of the over-allotment option, the bonds allotted by the Company amounted to Lm6 million (equivalent to €14.0 million) 6.3% bonds and €8 million 6.2% – 6.8% bonds. Also, during 2006 the company issued €12.5 million 6.5% bonds 2012 – 2014. In 2009, the company issued a €35 million 6.25% bonds.

	Pre-euro bond €'000	I €'000	II €'000	III €'000
At 1 January 2007	13,780	7,979	12,377	-
Amortisation of transaction costs	33	32	14	-
At 31 December 2007	13,813	8,011	12,391	-
Amortisation of transaction costs	35	34	15	-
At 31 December 2008	13,848	8,045	12,406	-
Proceeds from issue	-	-	-	35,000
Issue costs	-	-	-	(634)
Amortisation of transaction costs	37	37	16	29
<b>At 31 December 2009</b>	<b>13,885</b>	<b>8,082</b>	<b>12,422</b>	<b>34,395</b>

(i) Terms of payment

Unless previously purchased and cancelled, the pre-euro bonds and bond I 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 bond II, 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 bond II shall be made at their face value.

The Company may at any time purchase these 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.

Bond III shall become due for final redemption on 10 July 2019. The Company has the right to redeem these bonds or any part thereof at any time prior to the stated maturity date between 2015 and 2019.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### ii) Interest

The pre-euro bond carries an interest rate of 6.3% per annum whereas bond I 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. Bond II bears interest at the rate of 6.5% per annum payable annually in arrears on 27 March of each year. Bond III bears interest at the rate of 6.25% per annum payable annually in arrears on 10 July of each year.

### (iii) 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.

## 31 Other interest bearing borrowings

	<b>The Group</b>		
	<b>2009</b>	2008	2007
	<b>€'000</b>	€'000	€'000
Amounts owed to:			
Parent company	-	290	12,737
Associate companies	<b>20</b>	394	2,147
Related companies	<b>273</b>	441	2,057
	<b>293</b>	1,125	16,941
Non current liabilities			
Amounts owed to:			
Parent company	-	290	5,670
Related companies	-	-	1,671
	-	290	7,341
Current liabilities			
Amounts owed to:			
Parent company	-	-	7,067
Associate companies	<b>20</b>	394	2,147
Related companies	<b>273</b>	441	386
	<b>293</b>	835	9,600

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

	<b>Terms</b>			
	<b>€'000</b>	<b>Interest</b>	<b>Repayable by</b>	<b>Security</b>
Associate companies	20	3 month Euribor + 2.0%	On demand	None
Related companies	273	6.0%	On demand	None
	<b>293</b>			



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 32 Deferred taxation

	The Group			The Company	
	2009 €'000	2008 €'000	2007 €'000	2009 €'000	2008 €'000
Tax effect of temporary differences relating to:					
Excess of tax base over carrying amount of tangible fixed assets	29,457	29,135	23,984	5	5
Unrelieved tax losses and unabsorbed capital allowances	(10,048)	(7,936)	(5,177)	-	(378)
Investment in intangible asset	7,320	7,728	8,136	-	-
Investment in subsidiary	5,150	5,150	5,150	33,932	38,733
Investment in associate	1,878	-	-	-	-
Tax effect on revaluation of land and buildings	50,205	53,500	45,445	-	-
Tax effect on revaluation of investment property	18,521	15,830	8,382	-	-
Convertible bonds component recognised in equity	36	92	144	36	92
Provision for exchange differences	(395)	(371)	(26)	-	(13)
Provision for doubtful debts	(288)	(266)	(252)	-	-
Derivatives	(1,028)	(730)	(5)	-	-
Accrued charges	1,469	537	(7)	-	-
	<b>102,277</b>	<b>102,669</b>	<b>85,774</b>	<b>33,973</b>	<b>38,439</b>

#### 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:

	2009 €'000	2008 €'000	2007 €'000
<b>Expiry</b>			
2008	-	-	105
2009	-	5,695	5,864
2010	5,593	5,953	6,169
2011	5,668	5,668	5,672
2012	3,153	3,153	3,153
2013	2,520	2,520	-
2014	3,085	3,085	-
2015	3,375	-	-
	<b>23,394</b>	<b>26,074</b>	<b>20,963</b>

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 2009

### 33 Trade and other payables

	The Group			The Company	
	2009 €'000	2008 €'000	2007 €'000	2009 €'000	2008 €'000
Trade payables	6,874	7,098	7,472	159	210
Amounts owed to:					
Parent company	620	481	1,722	2	-
Subsidiary companies	-	-	-	677	47
Associate companies	725	236	474	74	21
Other related parties	485	789	1,157	22	31
Capital creditors	2,100	4,937	3,494	-	-
Other creditors	2,790	4,059	3,515	45	8
Accruals	11,254	17,959	12,928	3,635	2,349
<b>Financial liabilities</b>	<b>24,848</b>	<b>35,559</b>	<b>30,762</b>	<b>4,614</b>	<b>2,666</b>
Advance payments	4,109	4,439	5,150	-	-
Statutory liabilities	192	184	205	93	41
<b>Total payables - current</b>	<b>29,149</b>	<b>40,182</b>	<b>36,117</b>	<b>4,707</b>	<b>2,707</b>

The carrying amount of trade and other payables is considered a reasonable approximation of fair value.

### 34 Derivative financial instruments

	The Group			The Company	
	2009 €'000	2008 €'000	2007 €'000	2009 €'000	2008 €'000
Interest rate swaps:					
Non-current	4,913	3,309	-	-	-
Current	-	-	15	-	-
	<b>4,913</b>	<b>3,309</b>	<b>15</b>	<b>-</b>	<b>-</b>

#### 34.1 Terms

	The Group			The Company	
	2009 €'000	2008 €'000	2007 €'000	2009 €'000	2008 €'000
Notional amount: maturing in					
2008	-	-	8,000	-	-
2013	14,030	14,030	-	-	-
2014	36,391	36,391	-	-	-

#### Interest rates:

##### Maturing in 2008

Receive fixed interest at the rate of

6.2% per annum

Pay variable interest at the rate of

6 month Euribor + 2.955%

##### Maturing in 2013

Receive variable interest at the rate of

3 month Euribor

Pay interest at the rate of

4.89% (floor) to 5.2% (cap) per quarter

##### Maturing in 2014

Receive variable interest at the rate of

3 month Euribor

Pay fixed interest at the rate of

4.15% per annum



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## 35 Cash flow adjustments

	The Group		The Company	
	2009	2008	2009	2008
	€'000	€'000	€'000	€'000
<b>Adjustments:</b>				
Depreciation	23,612	21,497	28	21
Provision for doubtful debts	-	640	-	-
Impairment of goodwill	-	15,114	-	-
Fair value adjustment on derivative instruments	1,603	3,294	-	-
Loss on disposal of property, plant and equipment	-	12	-	-
Amortisation of intangible asset	1,167	1,167	-	-
Net impairment loss (reversal)	22,334	(3,543)	-	-
Fair value adjustment on investment in subsidiaries	-	-	13,720	(35,869)
Fair value adjustment on investment properties	(12,064)	(26,253)	-	-
Share of results of associate companies	(14,483)	(622)	-	-
Movement in reimbursement of assets	505	81	-	-
Amortisation of transaction costs	315	280	331	280
Provision for exchange differences	-	406	-	-
Provision for charges	(163)	(296)	-	-
Interest receivable	(1,128)	(5,512)	-	(12)
Interest payable	12,067	14,941	-	-
	<b>33,765</b>	<b>21,206</b>	<b>14,079</b>	<b>(35,580)</b>

## 36 Commitments

	2009	2008	2007
	€'000	€'000	€'000
<b>Capital expenditure</b>			
<b>The Group</b>			
Contracted for:			
Five Star Hotels Limited (Corinthia Hotel St.George's Bay, Malta)	-	-	69
Alfa Investimentos Turisticos Lda (Corinthia Hotel & Spa Lisbon)	-	919	782
IHI Benelux B.V. (Corinthia Hotel St. Petersburg)	-	20,889	44,813
Corinthia Towers Tripoli (Corinthia Bab Africa Hotel)	-	-	234
IHI Benghazi Limited	300	-	-
NLI Holdings Limited	5,600	16,850	-
	<b>5,900</b>	<b>38,658</b>	<b>45,898</b>
Authorised but not yet contracted for:			
Five Star Hotels Limited (Corinthia Hotel St.George's Bay, Malta)	1,000	-	85
Alfa Investimentos Turisticos Lda (Corinthia Hotel & Spa Lisbon)	-	-	14
IHI Benelux B.V. (Corinthia Hotel St. Petersburg)	10,000	7,000	-
IHI Hungary zrt (Corinthia Hotel Budapest)	1,500	-	-
IHI Towers sro (Corinthia Hotel Prague)	1,000	-	-
Corinthia Towers Tripoli Limited (Corinthia Bab Africa Hotel)	2,500	-	54
IHI Benghazi Limited	12,000	-	-
Other investments	5,000	-	-
	<b>33,000</b>	<b>7,000</b>	<b>153</b>
	<b>38,900</b>	<b>45,658</b>	<b>46,051</b>
<b>The Company</b>			
Contracted for:			
NLI Holdings Limited	5,600	16,850	-



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### Operating leases

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

	<b>2009</b>	2008	2007
	<b>€'000</b>	€'000	€'000
Less than one year	<b>108</b>	108	108
Between one and five years	<b>433</b>	433	433
More than five years	<b>12,913</b>	13,021	13,129
	<b>13,454</b>	13,562	13,670

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.

During the year ended 31 December 2009, €108,000 (2008 – €108,000, 2007 – €105,000) was recognised as an expense in the income statement in respect of operating leases.

### 37 Contingent liabilities

	<b>The Group</b>			<b>The Company</b>	
	<b>2009</b>	2008	2007	<b>2009</b>	2008
	<b>€'000</b>	€'000	€'000	<b>€'000</b>	€'000
Guarantees given in the ordinary course of business	-	-	300	-	-
Bank guarantees	-	-	-	<b>5,000</b>	5,000

One of the Group's subsidiaries has not provided for Libya tax on profits registered for the period October to December 2008 and for the year ended 31 December 2009. The company has based this decision on the understanding that the 15 month period for which no tax has been provided falls within the scope of the tax holiday granted to it by the Libyan Government.

The Company has already obtained verbal agreement to this understanding from the competent authority and is at an advanced stage of concluding discussions aimed at formalising this agreement.

Should these discussions not be favourably concluded an amount of €2.733 million would become due. This amount represents tax payable in Libya less reductions that will arise in Malta tax due to the application of flat rate foreign tax credit provisions. This amount has not been provided for in these financial statements.

### 38 Related parties

The Group's related parties include its associates, key management, fellow subsidiaries and shareholders of the ultimate parent company.

None of the transactions incorporates special terms and conditions and, except as disclosed in note 12, no guarantees were given or received. Transactions with related companies are generally effected on a cost plus basis or on the basis of pre-agreed arrangements. Outstanding balances are usually settled in cash. Amounts owed by/to related parties are shown separately in notes 15, 17, 19, 31 and 33.



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## 38.1 Related parties

	The Group			The Company	
	2009 €'000	2008 €'000	2007 €'000	2009 €'000	2008 €'000
<b>Revenue</b>					
Services rendered to:					
Parent company	-	-	-	600	-
Fellow subsidiaries	2,583	2,563	1,911	1,177	2,000
Associate companies	2,338	5	5	2,251	-
	<b>4,921</b>	<b>2,568</b>	<b>1,916</b>	<b>4,028</b>	<b>2,000</b>
<b>Direct costs</b>					
Charged by:					
Parent company	(1,459)	(1,671)	(1,465)	-	-
Fellow subsidiaries	(67)	-	-	-	-
Associate companies	-	-	-	-	-
	<b>(1,526)</b>	<b>(1,671)</b>	<b>(1,465)</b>	<b>-</b>	<b>-</b>
<b>Administrative expenses</b>					
Management fee charged by parent company to IHI p.l.c.	-	-	(225)	-	-
<b>Sundry expenses</b>					
Charged (recharged) by (to):					
Parent company	(8)	-	-	-	-
Fellow subsidiaries	(12)	-	290	-	-
Associate companies	-	(8)	-	-	-
	<b>(20)</b>	<b>(8)</b>	<b>290</b>	<b>-</b>	<b>-</b>
<b>Financing</b>					
Interest receivable	127	89	147	4,207	3,550
Interest payable	(9)	(457)	(1,106)	-	(184)
	<b>118</b>	<b>(368)</b>	<b>(959)</b>	<b>4,207</b>	<b>3,366</b>
<b>Expensed</b>	<b>3,493</b>	<b>521</b>	<b>(443)</b>	<b>8,235</b>	<b>5,366</b>
<b>Property, plant and equipment</b>					
Capitalised construction and related services provided by associate companies	420	767	1,083	-	-

## 38.2 Transactions with key management personnel

In addition to the remuneration paid to the directors included in note 6, in the course of its operations the Group has a number of arrangements in place with its officers, executives and other related parties whereby concessions are made available for hospitality services rendered to them according to accepted industry norms.



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## 39 Risk management objectives and policies

The Group is exposed to various risks through its use of financial instruments. The main types of risks are market risk, credit risk and liquidity risk, which result from both its operating and investing activities. The Group's risk management is co-ordinated at its head office, in close co-operation with the board of directors and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets.

Long term financial investments are managed to generate lasting returns.

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 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.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below. See also note 39.4 for a summary of the Group's financial assets and liabilities by category.

### 39.1 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. The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	The Group			The Company	
	2009 €'000	2008 €'000	2007 €'000	2009 €'000	2008 €'000
Classes of financial assets – carrying amounts					
Reimbursement assets	23,172	23,676	23,757	-	-
Investments in subsidiaries	-	-	-	297,533	310,283
Long term loans	-	-	1,470	287,751	259,935
Short term loans	-	-	-	-	5,600
Trade and other receivables	16,713	20,050	18,795	22,465	14,260
Cash and cash equivalents	50,386	69,908	167,413	25,090	46,941
	<b>90,271</b>	113,634	211,435	<b>632,839</b>	637,019

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, owing 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 transact with the Group only on a cash basis.

In monitoring customer credit risk, customers are individually assessed. 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. See note 19.1 for further information on impairment of financial assets that are past due.



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## Cash at bank

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

## Guarantees

At 31 December 2009 the Company had given a bank guarantee amounting to €5 million (2008 and 2007 – €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 in respect of IHI Benelux BV, NLI Hotels Limited and NLI Residences Limited.

Management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. See note 19.1 for further information on impairment of financial assets that are past due.

## 39.2 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 unnecessary 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 cash flow on a monthly basis. 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.

At 31 December 2009 the Group and Company have financial liabilities, including estimated interest payments, with contractual maturities which are summarised below:

The Group	Current		Non-current	
	Within 6 months	6-12 months	2-5 years	More than 5 years
<b>31 December 2009</b>	€'000	€'000	€'000	€'000
Non-derivatives:				
Bank borrowings	17,380	23,000	124,925	124,976
Bonds	14,222	2,217	47,966	45,338
Parent company loan and other interest-bearing borrowings	311	-	-	-
Bank overdraft	2,132	-	-	-
Trade and other payables	24,886	-	-	-
Derivatives	621	1,091	3,201	-
	59,552	26,308	176,092	170,314

This compares to the maturing of the Group's financial liabilities in the previous reporting periods as follows:

The Group	Current		Non-current	
	Within 6 months	6-12 months	2-5 years	More than 5 years
<b>31 December 2008</b>	€'000	€'000	€'000	€'000
Non-derivatives:				
Bank borrowings	13,644	15,509	104,962	132,375
Bonds	2,776	-	40,928	13,212
Parent company loan and other interest-bearing borrowings	835	16	290	-
Bank overdraft	11	-	-	-
Trade and other payables	35,559	-	-	-
Derivatives	366	745	2,158	45
	53,191	16,270	148,338	145,632



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

The Group	Current		Non-current	
	Within			More than
	6 months	6-12 months	2-5 years	5 years
<b>31 December 2007</b>	€'000	€'000	€'000	€'000
Non-derivatives:				
Bank borrowings	17,184	16,321	118,310	153,233
Bonds	2,776	-	33,428	24,019
Parent company loan and other interest bearing borrowings	-	10,241	6,009	1,587
Bank overdraft	1,700	-	-	-
Trade and other payables	30,762	-	-	-
Derivatives	15	-	-	-
	52,437	26,562	157,747	178,839

The Company	Current		Non-current	
	Within			More than
	6 months	6-12 months	2-5 years	5 years
<b>31 December 2009</b>	€'000	€'000	€'000	€'000
Bank borrowings	1,532	1,513	8,785	5,601
Bonds	14,222	2,217	47,966	45,338
Trade and other payables	4,614	-	-	-
	20,368	3,730	56,751	50,939

This compares to the maturity of the Company's financial liabilities in the previous reporting period as follows:

The Company	Current		Non-current	
	Within			More than
	6 months	6-12 months	2-5 years	5 years
<b>31 December 2008</b>	€'000	€'000	€'000	€'000
Bank borrowings	813	817	4,592	1,289
Bonds	2,779	-	40,928	13,212
Trade and other payables	2,666	-	-	-
	6,258	817	45,520	14,501

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet date.

In addition the Group maintains a credit facility of a €1.5 million secured overdraft available to IHI Hungary Zrt. Interest would be payable at the variable, overnight euribor plus 2.0% interest margin per annum.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

### 39.3 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.

#### (i) Foreign 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 functional currency 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 was 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 was not the euro. As from 1 January 2008 all Group entities recognised the euro as the functional currency.

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.

#### (ii) Interest rate risk

The Group is exposed to changes in market interest rates through bank borrowings and related party loans at variable interest rates. The Group's interest bearing financial instruments at the reporting dates were as follows:

	2009 €'000	2008 €'000	2007 €'000
<b>Fixed rate instruments</b>			
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	<b>(80,277)</b>	(45,591)	(45,309)
Parent company loan and other interest-bearing borrowings	<b>(273)</b>	(732)	(15,285)
	<b><u>(80,550)</u></b>	<u>(46,323)</u>	<u>(55,194)</u>
<b>Variable rate instruments</b>			
Financial assets other than cash at bank:			
Non-current			
Loan to related company	-	-	1,470
Financial liabilities:			
Bank borrowings	<b>(193,800)</b>	(202,266)	(220,425)
Other interest-bearing liabilities	<b>(20)</b>	(393)	(1,671)
	<b><u>(193,820)</u></b>	<u>(202,659)</u>	<u>(220,626)</u>

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 arrangements subject to fixed rates of interest whenever possible.

With a view to mitigating interest rate risk, the Group entered into interest rate swap agreements with financial institutions. Swaps are over-the-counter agreements between the two parties to exchange future cash flows based upon agreed notional amounts. Under these interest rate swap agreements, the Group agreed with the counterparties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

The following table illustrates the sensitivity of profit for the year to a reasonably possible change in interest rates of +/- 1%. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the market interest rates for each period and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	The Group €'000		The Company €'000	
	+1%	-1%	+1%	-1%
<b>Interest payable -</b>				
<b>31 December 2009</b>	<b>(1,767)</b>	<b>1,767</b>	<b>(136)</b>	<b>136</b>
31 December 2008	(1,386)	1,478	(70)	70
31 December 2007	(1,850)	1,850	(168)	168
<b>Interest receivable -</b>				
<b>31 December 2009</b>	<b>256</b>	<b>(348)</b>	<b>1,171</b>	<b>(1,328)</b>
31 December 2008	1,098	(1,098)	988	(988)
31 December 2007	670	(670)	583	(583)

### 39.4 Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at balance sheet date of the reporting periods under review may also be categorised as follows. See note 4.16 for explanations about how the category of financial instruments affects their subsequent measurement.

	The Group			The Company	
	2009 €'000	2008 €'000	2007 €'000	2009 €'000	2008 €'000
<b>Non-current assets</b>					
Investments at fair value through profit and loss	-	-	-	<b>297,533</b>	310,283
Reimbursement assets	<b>23,172</b>	23,676	23,757	-	-
Loans and receivables -					
Amounts due from group and related companies	-	-	1,470	<b>287,751</b>	259,935
Cash and cash equivalents	-	-	3,600	-	-
	<b>23,172</b>	23,676	28,827	<b>585,284</b>	570,218
<b>Current assets</b>					
Loans and receivables -					
Amounts due from group companies	-	-	-	-	5,600
Trade receivables	<b>8,271</b>	14,022	13,417	-	-
Other receivables	<b>8,442</b>	6,028	5,378	<b>22,465</b>	14,260
Cash and cash equivalents	<b>50,386</b>	69,908	163,813	<b>25,090</b>	46,941
	<b>67,099</b>	89,958	182,608	<b>47,555</b>	66,801
<b>Non-current liabilities</b>					
Financial liabilities measured at amortised cost -					
Bank borrowings	<b>159,979</b>	182,240	197,720	<b>12,333</b>	5,266
Bonds	<b>68,784</b>	45,591	45,309	<b>68,784</b>	45,591
Other interest bearing borrowings	-	290	7,341	-	-
Derivatives	<b>4,913</b>	3,309	-	-	-
	<b>233,676</b>	231,430	250,370	<b>81,117</b>	50,857
<b>Current liabilities</b>					
Financial liabilities measured at amortised cost -					
Bank borrowings	<b>33,821</b>	20,026	22,704	<b>2,433</b>	1,433
Bonds	<b>11,493</b>	-	-	<b>11,493</b>	-
Other interest bearing borrowings	<b>293</b>	835	9,600	-	-
Trade payables	<b>6,874</b>	7,098	7,472	<b>159</b>	210
Other payables	<b>6,758</b>	10,502	10,362	<b>820</b>	107
Accruals	<b>11,254</b>	17,959	12,928	<b>3,635</b>	2,349
Derivatives	-	-	-	-	-
	<b>70,493</b>	56,420	63,066	<b>18,540</b>	4,099



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

## 39.5 Financial instruments measured at fair value

The Group adopted the amendments to IFRS 7 Improving Disclosures about Financial Instruments effective from 1 January 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the balance sheet. In the first year of application comparative information need not be presented for the disclosures required by the amendment. Accordingly, the disclosure for the fair value hierarchy is only presented for the 31 December 2009 year end.

The following table presents financial assets and liabilities measured at fair value in the balance sheet in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: based on information other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: information for the asset or liability that is not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the balance sheet are grouped into the fair value hierarchy as follows:

31 December 2009	Note	Level 2 €'000	Level 3 €'000	Total €'000
<b>The Group</b>				
<b>Liabilities</b>				
Interest rate swaps	(a)	(4,913)	-	(4,913)
<b>The Company</b>				
<b>Assets</b>				
Investments in subsidiaries	(b)	-	297,533	297,533
<b>Net fair value</b>		(4,913)	(297,533)	292,620

There have been no transfers between levels in the reporting period.

### Measurement of fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

#### a) Interest rate swap agreements

Where derivatives are traded either on exchanges or liquid over-the-counter markets the Group uses the closing price at the reporting date. Normally, the derivatives entered into by the Group are not traded in active markets. The fair values of these contracts are estimated using a valuation technique that maximises the use of observable market inputs, e.g. market exchange and interest rates (Level 2). Derivatives entered into by the Group are included in level 2 and consist of interest rate swap agreements.

	Interest rate swaps €'000
Balance at 1 January 2009	(3,309)
Losses recognised in profit or loss	(1,604)
<b>Balance at 31 December 2009</b>	<b>(4,913)</b>

There have been no transfers into or out of level 2 in the reporting period under review.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2009

**b) Investments in subsidiaries**

The Company's financial assets classified in level 3 uses valuation techniques based on significant information that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to closing balances as follows:

	Investments in subsidiaries €'000
At 1 January 2009	310,283
Settlement in connection with the acquisition of subsidiary company	970
Losses recognised in profit or loss	(13,720)
<b>At 31 December 2009</b>	<b>297,533</b>

Gains or losses recognised in profit or loss for the period can be attributed to changes in the net asset value of the underlying properties in each subsidiary.

Changing inputs to the level 3 valuations to reasonable possible alternative assumptions would significantly change amounts recognised in profit or loss, total assets or total liabilities or total equity. Note 14 highlights the bases of valuation and sources of estimation uncertainty.

There have been no transfers into or out of level 3 in the reporting periods under review.

#### 40 Events after the balance sheet date

No adjusting or significant non-adjusting events have occurred between the balance sheet date and the date of authorisation on 14 April 2010 by the board.

#### 41 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 Registry of Companies in Malta.



# INDEPENDENT AUDITORS' REPORT

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



Tower Business Centre  
Tower Street  
Swatar BKR 3013  
Malta

T (+356) 21320134  
F (+356) 21331161  
[www.gtmalta.com](http://www.gtmalta.com)

## Report on the financial statements

We have audited the accompanying financial statements of International Hotel Investments p.l.c. and the consolidated financial statements of its Group set out on pages 51 to 109, which comprise the balance sheets of the Company and the Group as at 31 December 2009, and their income statements, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

As described in the directors' report, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 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 internal control of the company and the group. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, 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.

Partners and Directors  
Martin Bonello-Cole  
Margaret Bonello-Cole  
Kenneth Bonnici  
Mark Bugeja  
Austin Demajo  
Wayne Pisani  
Joseph Pullicino  
Mario Vella

**Certified Public Accountants**  
Member of Grant Thornton International Ltd



# INDEPENDENT AUDITORS' REPORT

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



## Opinion

In our opinion the Group's consolidated financial statements and the Company's financial statements give a true and fair view of their financial position as at 31 December 2009 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

## Report on other legal and statutory requirements

We are also required to report as to whether the financial statements are properly prepared in accordance with the Companies Act, 1995. We are required to 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 certain information required by the Act regarding directors' remuneration is not disclosed in the financial statements, in which case we are required to include the required particulars in a statement in our report.

## Opinion

In our opinion the financial statements have been properly prepared in accordance with the requirements of the Companies Act, 1995 (Cap 386).

Mark Bugeja (Partner) for and on behalf of

**GRANT THORNTON**  
Certified Public Accountants

14 April 2010

**Certified Public Accountants**  
Member of Grant Thornton International Ltd



INTERNATIONAL HOTEL INVESTMENTS p.l.c.

22 EUROPA CENTRE · FLORIANA FRN 1400 · MALTA

TEL +356 2123 3141 · FAX +356 2123 4219

[WWW.IHIPLC.COM](http://WWW.IHIPLC.COM)