Stock Market Review

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IHI generates €14m profit in 2008

Strategy to diversify into other areas of real estate development

Following the preliminary results announcement of April 13, International Hotel Investments plc (IHI) held its annual review meeting for stockbrokers on May 12. IHI's chairman Alfred Pisani and managing director Joseph Fenech provided a detailed insight into the Group's performance during the last financial year and delved into the future strategy, which also entails diversification into other areas of real estate development as documented in the 2008 annual report.

During 2008, IHI's total revenue amounted to €128 million, representing a 23 per cent increase from the previous year. This improved turnover was mainly due to the inclusion of the Tripoli and Prague hotels for a full 12-month period as opposed to only a seven-month period in 2007 following their acquisition in early June 2007. The Lisbon property reportedly achieved a significant increase in turnover, while the turnover of the Malta and Budapest hotels was relatively unchanged.

In his address to stockbrokers, Mr Pisani stressed the importance of IHI's diversified portfolio of hotel properties. This clearly showed up in 2008 as the decline in the performance of the Prague hotel was more than offset by improved results from other properties. The IHI Group generated a total EBITDA of €43.3 million in 2008, 28 per cent higher than the previous year. As in previous years, the results were also impacted by a number of revaluations and impairments in line with international accounting standards.

IHI recognised a €26.2 million revaluation to the investment properties in St Petersburg (on which the office spaces and retail complex have been constructed), the Commercial Centre in Tripoli and the parcel of land adjacent to the Tripoli Hotel, acquired on a 99-year lease in 2008. A net impairment reversal of €3.5 million was taken on three of the Group's properties. This mainly related to a reversal of a previous impairment taken on the Lisbon Hotel together with a fresh impairment on the property in Prague. Also in relation to the Prague hotel, IHI recognised a goodwill impairment amounting to €15 million which dampened this year's performance.

Notwithstanding this charge, IHI generated a profit for the year of €14 million, 40 per cent higher than the profit achieved in the previous year. The Group's total assets as at December 31, 2008 exceeded €1 billion with shareholders' funds of €624 million. Following the cash injection by Nakheel Hotels in 2007, the financial situation has been greatly enhanced and at the end of 2008, the IHI Group had total borrowings of €385.5 million and a cash balance of €70 million resulting in a gearing ratio of 50.6 per cent or 0.51 times.

Regrettably, IHI did not reward its shareholders by way of a cash dividend or bonus issue. The company has yet to pay a cash dividend but in the past two years, IHI distributed bonus shares to shareholders. Mr Pisani reiterated that a dividend payment is being postponed in the light of the uncertainty surrounding the extent of the current financial crisis.

The highlight of the meeting was when the chairman explained the strategy for the near term. Apart from the current development programme in St Petersburg and London, this includes diversification into other types of property investment not solely focused on the hotel sector. This may have surprised some observers but could be seen as a natural development following IHI's recent investments.

Mr Pisani explained that the last two refurbishments also incorporated a slight diversification. In St Petersburg, IHI opted to develop a retail mall and office space in one of the buildings adjacent to the current hotel. The London development, which is expected to commence shortly, will also see the construction of 12 exclusive residences which may be leased out or sold. These new investments will help IHI diversify its cash flow and secure stable income in rents as well as some immediate capital gains should the sale of residences in London materialise.

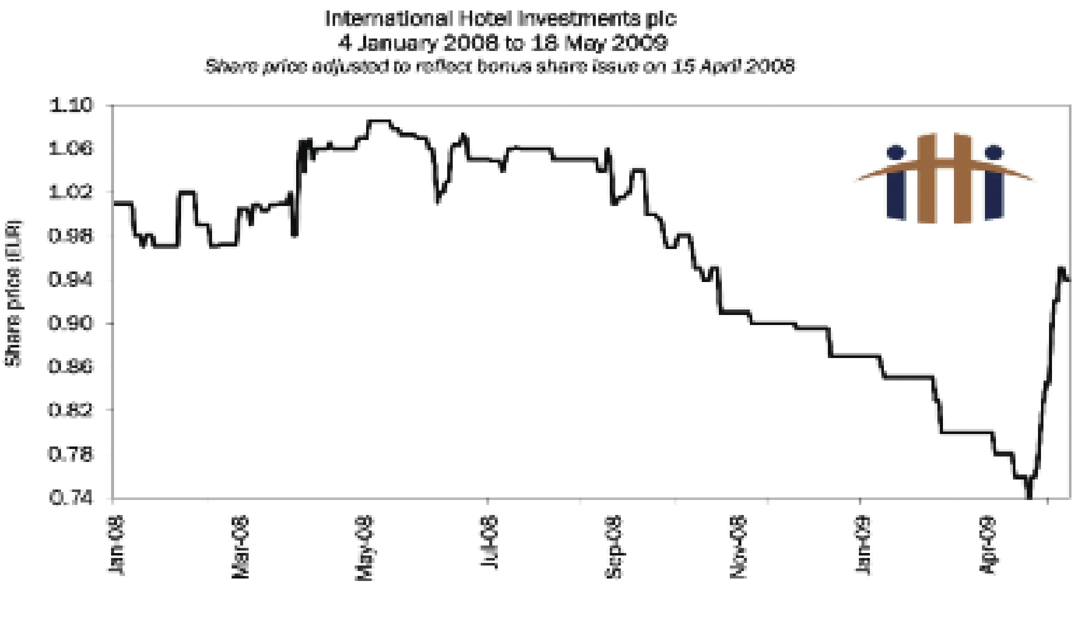
With the same aim in mind, IHI is turning increased attention to the Libyan market and the managing director announced that apart from the planned hotel in Benghazi (75 per cent owned by IHI and the balance by LFICO), IHI has agreed to take a 25 per cent shareholding in a new property development in Libya with Mediterranean Investments Holding plc (in which the Corinthia Group holds 50 per cent) and a Libyan state fund. Mr Fenech explained that this 120,000 sqm development will be targeted towards the residential market but will also include office amenities and retail and entertainment facilities. Mr Pisani and Mr Fenech both explained that this diverse property development is earmarked for immediate resale.

IHI's change in strategy entailing the development and resale of properties increases "the probability of a dividend distribution". The development in Libya had been referred to as the "Tripoli Commercial and Residential Towers" in the last prospectus published by Mediterranean Investments Holding plc. MIH had raised a total of €20 million while it was seeking to pursue three potential projects, one of which was the Tripoli Towers. At the time MIH had indicated that it had tendered to acquire a 50 per cent shareholding in the company owning the freehold site but no official announcement has yet been made by either MIH or IHI.

Mr Pisani also mentioned IHI's major achievement in recent weeks when it was granted funding of £135 million from a number of banks for the London hotel.

This showed the tremendous support IHI was receiving from the banks even in the current economic climate. This show of support had a positive effect on IHI's share price which rallied in the aftermath of this announcement. After hitting a fresh all-time low of €0.73, a sudden bout of fresh buying activity over a number of trading sessions cleared all shares on offer in the market helping the equity to jump by 30 per cent to €0.95.

Speaking about the company's planned secondary listing of its shares on the London Stock Exchange, the chairman explained that the directors are currently discussing the appropriate time for this listing, which they wish to materialise when investor sentiment is improving. This should ensure a more realistic value for the company for the benefit of all its shareholders.



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> Mr Pisani concluded the meeting by speaking about the company's planned secondary listing of its shares on the London Stock Exchange.