

**The Ritz Hotel, Limited**  
(registered number - 48125)

**Report and financial statements**

**Year ended 31 December 2004**



# The Ritz Hotel, Limited

## Contents

Directors and other information	2
Directors' report	3-4
Statement of directors' responsibilities	5
Independent auditors' report	6-7
Profit and loss account	8
Note of historical cost profits and losses	9
Statement of total recognised gains and losses	9
Reconciliation of movements in shareholders' funds	9
Balance sheet	10
Cash flow statement	11
Notes to the financial statements	12-27

# The Ritz Hotel, Limited

**Directors:**

Mr M Al Fayed

Mr A Fayed

Mr F J Klein

Mr Dinichert

**Secretary:**

Mrs C London

**Auditors:**

KPMG  
Chartered Accountants  
1 Stokes Place  
Dublin 2  
Ireland

**Registered office:**

14 South Street  
London  
W1Y 5PJ

**Company number:**

48125

# The Ritz Hotel, Limited

## Directors' report

The directors present their report together with the audited financial statements for the year ended 31 December 2004.

### Results

The profit and loss account is set out on page 8 and reports a loss for the year of €9,018,000. The directors do not recommend the payment of a dividend (2003: nil).

### Principal activity

The Company operates the Ritz Hotel in Paris.

### Trading review and future developments

Compared to last year, the operating result before exceptional items and interest expense has improved by €2,285,000. The net loss for the year has increased from (€8,554,000) to (€9,018,000). This is due to the fact that the prior year loss included a gain of €2.8 million on the sale of the former warehouse. In spite of the worldwide economic stagnation and the weak dollar the occupancy has improved from 60.3% in 2003 to 65.3% in 2004 with an increase of €8 in the average room rate. Total sales has increased by €3.4 million (7.5%) to €49.3 million.

The sale of the company's investment property acquired on 1 January 2000, following the acquisition of the trade and assets of Champli SA was completed on 10 June 2005. The directors considered it appropriate in view of the relatively high value of the Parisian real estate market to dispose of the property. As a result of the property disposal the Company repaid €24m of the RBS loan post the balance sheet date reducing the total outstanding balance to €117 million. For the next financial year the directors anticipate a continued improvement in trading results due to the ongoing restructuring.

### Directors

The current serving directors of the company are listed on page 1. Mr. S. Strub resigned as a director of the Company on 26 April 2005. Mr. G. Dinichert was appointed a director of the company on 15 June 2005.

In accordance with the Articles of Association, Mr M Al Fayed will retire by rotation at the Annual General Meeting and being eligible, will seek re-election.

### Directors' interests

The entire issued share capital of the Company and of the ultimate parent undertaking are under the control and held for the benefit of Mr M Al Fayed and his family.

No other director held any interest in the share capital of the Company or of its parent undertaking at 1 January 2004 or 31 December 2004.

No director has had a material interest, directly or indirectly, at any time during the year in any contract significant to the business of the Company, except as disclosed in note 3 of the financial statements.

# The Ritz Hotel, Limited

## Directors' report - continued

### Fixed assets

The directors consider the market value of the properties to be at least equivalent to their carrying value in the financial statements.

### Donations

The company made no political or charitable donations during the year.

### Auditors

In accordance with Section 385 of the Companies Act, 1985, KPMG, Chartered Accountants, Dublin will continue in office.

By order of the board

  
F.J. Klein  
Director

24 October 2005

14 South Street  
London  
W1Y 5PJ

# The Ritz Hotel, Limited

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which in accordance with applicable United Kingdom Law and accounting standards give a true and fair view of the state of affairs of the company as at the end of the financial year and of the results for that year. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



F.J. Klein  
Director

24 October 2005



**KPMG**  
**Chartered Accountants**  
1 Stokes Place  
St. Stephen's Green  
Dublin 2  
Ireland

## Independent auditors' report to the members of The Ritz Hotel, Limited

We have audited the financial statements on pages 8 to 27.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act, 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report, and as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.



## Independent auditors' report to the members of The Ritz Hotel, Limited

### *Emphasis of matter*

Our evaluation of the presentation of information in the financial statements has had regard to the disclosures set out in the accounting policy note on going concern on page 12, which deals with the financial position of the company. Our opinion is not qualified in this respect.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the company at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature of 'KPMG' in black ink, written in a stylized, cursive-like font.

*Chartered Accountants  
Registered Auditors*

25 October 2005



# The Ritz Hotel, Limited

## Profit and loss account

for the year ended 31 December 2004

		2004		Note 24 2003 (restated)	
	Note	€'000	€'000	€'000	€'000
<b>Turnover</b>	2		<b>52,366</b>		48,946
Other operating income - rent			<b>2,307</b>		2,040
Raw materials and consumables		(5,365)		(5,294)	
Staff costs	3	(25,856)		(26,654)	
Depreciation and amortisation	7 & 8	(9,249)		(7,550)	
Other operating charges		<u>(14,734)</u>		<u>(14,304)</u>	
<b>Operating expenses</b>			<b><u>(55,204)</u></b>		<b><u>(53,802)</u></b>
<b>Operating loss</b>	4		<b>(531)</b>		(2,816)
<b>Exceptional item</b>					
Profit on sale of fixed assets	8		-		2,810
Interest payable and similar charges	5		<u>(8,468)</u>		<u>(8,529)</u>
<b>Loss on ordinary activities before taxation</b>			<b>(8,999)</b>		(8,535)
<b>Tax on loss on ordinary activities</b>	6		<u>(19)</u>		<u>(19)</u>
<b>Loss for the financial year</b>			<b><u>(9,018)</u></b>		<b><u>(8,554)</u></b>

All amounts in the year arose from continuing activities.

The notes on pages 12 to 27 form part of these financial statements.

# The Ritz Hotel, Limited

## Note of historical cost profits and losses for the year ended 31 December 2004

	2004	(Restated) 2003
	€'000	€'000
<b>Reported loss on ordinary activities before taxation</b>	<b>(8,999)</b>	<b>(8,535)</b>
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	1,693	1,693
Disposal of assets - sale in January 2003 of the former warehouse Difference between the historical net book value and the net book value calculated on the revalued amount	=	<u>760</u>
<b>Historical cost loss for the year before taxation</b>	<b><u>(7,306)</u></b>	<b><u>(6,082)</u></b>
<b>Historical cost loss for the year after taxation</b>	<b><u>(7,325)</u></b>	<b><u>(6,101)</u></b>

## Statement of total recognised gains and losses

	2004	(Restated) 2003
	€'000	€'000
<b>Loss for the financial year</b>	<b>(9,018)</b>	<b>(8,554)</b>
Unrealised revaluation gain	<u>9,100</u>	—
<b>Total recognised gains and losses for the year</b>	<b><u>82</u></b>	<b><u>(8,554)</u></b>

## Reconciliation of movements in shareholders' funds

	2004	(Restated) 2003
	€'000	€'000
<b>Total recognised gains and loss for the year</b>	<b><u>82</u></b>	<b><u>(8,554)</u></b>
Opening shareholders' funds		
- as previously stated	13,791	24,265
- prior year adjustment to state investment property at valuation (Note 24)	<u>23,281</u>	<u>21,361</u>
- as restated	<u>37,072</u>	<u>45,626</u>
<b>Closing shareholders' funds</b>	<b><u>37,154</u></b>	<b><u>37,072</u></b>

The notes on pages 12 to 27 form part of these financial statements.

# The Ritz Hotel, Limited

## Balance sheet

at 31 December 2004

		31 December 2004		Note 24 31 December 2003 (restated)	
	Note	€'000	€'000	€'000	€'000
<b>Fixed assets</b>					
Intangible fixed assets	7	478		526	
Tangible fixed assets	8	138,442		145,103	
Financial fixed asset – investment property	9	58,200		49,100	
Financial fixed asset – other	10	<u>-</u>		<u>9</u>	
			197,120		194,738
<b>Current assets</b>					
Stocks	11	3,077		3,393	
Debtors	12	3,907		3,770	
Current investments	13	3,465		2,443	
Cash at bank and in hand	14	<u>198</u>		<u>203</u>	
<b>Total current assets</b>		10,647		9,809	
<b>Creditors (amounts falling due within one year)</b>	15	<u>(16,619)</u>		<u>(14,795)</u>	
<b>Net current liabilities</b>			<u>(5,972)</u>		<u>(4,986)</u>
<b>Total assets less current liabilities</b>			191,148		189,752
<b>Creditors (amounts falling due after more than one year)</b>	15		(150,408)		(149,885)
<b>Provisions for liabilities and charges</b>	16		<u>(3,586)</u>		<u>(2,795)</u>
<b>Net assets</b>			<u>37,154</u>		<u>37,072</u>
<b>Capital and reserves</b>					
Called up share capital	17		1,830		1,830
Share premium account			114,210		114,210
Revaluation reserve	18		82,099		74,692
Other reserves	18		2,655		2,655
Profit and loss account	18		<u>(163,640)</u>		<u>(156,315)</u>
<b>Shareholders' funds</b>	21		<u>37,154</u>		<u>37,072</u>

The financial statements on pages 8 to 27 were approved by the board of directors on 24 October 2005 and were signed on its behalf by:

F.J. Klein  
Director

The notes on pages 12 to 27 form part of these financial statements.

# The Ritz Hotel, Limited

## Cash flow statement

for the year ended 31 December 2004

		31 December 2004		31 December 2003	
	Note	€'000	€'000	€'000	€'000
<b>Net cash inflow from operating Activities</b>	19		10,946		8,841
<b>Returns on investments and servicing of finance</b>					
Finance costs paid		-	-	-	-
Interest paid		<u>(8,287)</u>	(8,287)	<u>(8,342)</u>	(8,342)
<b>Taxation</b>			(19)		(19)
<b>Capital expenditure and financial investment</b>					
Payments to acquire tangible fixed assets		(2,542)		(2,436)	
Payments to acquire intangible fixed assets		(65)		(91)	
Proceeds from sale of assets		<u>-</u>		<u>3,910</u>	
			<u>(2,607)</u>		<u>1,383</u>
<b>Cash inflow before use of liquid resources and financing</b>			33		1,863
<b>Management of liquid resources</b>					
Sales/(purchases) of marketable securities			(1,022)		1,339
<b>Financing</b>					
Repayment of long term loans		(1,932)		(952)	
New long term loans		-		55	
Increase/ (decrease) in loan from parent and subsidiary undertaking		<u>2,000</u>		<u>(2,961)</u>	
			<u>68</u>		<u>(3,858)</u>
<b>Decrease in cash</b>			<u>(921)</u>		<u>(656)</u>
<b>Reconciliation of net cashflow to movement in net debt</b>				2004	2003
				€'000	€'000
Decrease in cash in the year				(921)	(656)
Cash (outflow)/ inflow from reduction in debt				(68)	3,858
Cash inflow/(outflow) from increase/(decrease) in liquid resources				<u>1,022</u>	<u>(1,339)</u>
Change in net debt resulting from cash flows				33	1,863
Net debt at the beginning of the year				<u>(149,622)</u>	<u>(151,485)</u>
Net debt at the end of the year				<u>(149,589)</u>	<u>(149,622)</u>

The notes on pages 12 to 27 form part of these financial statements.

# The Ritz Hotel, Limited

## Notes to the financial statements

### 1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### *Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules, as modified by the revaluation of land and buildings, and comply with the financial reporting standards of the Accounting Standards Board.

#### *Going concern*

The Company's trading operations are financed by shareholders' funds and, in particular, bank loans that are secured on the Company's properties. The repayment profile of the bank loans is set out in Note 14, reflecting the terms and conditions attaching the loan. A final payment on the loan of €129 million is due in May 2009. As a result of the repayment of €24 million post year end the final payment has reduced to €104 million. Having regard to the difficult trading conditions in recent years, the Directors consider that the most likely scenario is that the Company will seek to refinance the facility or part thereof in advance of May 2009. The directors believe that it will be possible to renegotiate loan facilities in advance of May 2009. The directors have sought and received confirmation from the shareholders that in the event of financial support being required then such financial support will be made available to enable the Company to meet its obligations as they fall due for the foreseeable future.

#### *Tangible fixed assets and depreciation*

The company's policy is to carry all assets at historical cost except for certain freehold land and buildings which have been included in the balance sheet at a valuation on 31 December 1990. On implementation of FRS 15 in the year ended 31 December 2000, the directors decided to follow a policy of not revaluing the assets of the Company. Therefore the cost of all land and buildings remains at their revalued amount as at 31 December 2000.

#### *Depreciation*

Depreciation is provided in order to write down the cost or valuation of fixed assets, excluding land, over their estimated useful lives on a straight line basis as follows:

Freehold hotel building	50 years
Hotel improvements	10-33 years
Technical equipment	5-25 years
Furniture, fixtures, fittings and equipment	3-10 years
Motor vehicles	3-5 years
Software	5 years

#### *Leased assets*

Rentals payable under operating leases are charged on a straight line basis to the profit and loss account over the lease term.

# The Ritz Hotel, Limited

## Notes to the financial statements – continued

### 1. Accounting policies - continued

#### *Intangible fixed assets*

Intangible fixed assets comprise registration expenses incurred in relation to the protection of the Ritz trade mark worldwide. Registration expenses are payable every ten years and accordingly are amortised over this period. No assessment of the estimated market value of the trade mark has been included. Intangible fixed assets are stated at historical cost less amortisation.

#### *Financial fixed assets - investment properties*

Investment properties are re-valued annually by the directors and are not depreciated or amortised. Where the valuation indicates a permanent diminution in the value of the property, the permanent diminution is charged to the profit and loss account. All other fluctuations in value are transferred to a revaluation reserve.

This treatment is a departure from the requirement of Company Law to provide depreciation on all fixed assets which have a limited useful economic life. However, these investment properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. If depreciation were to be provided it would be provided at a rate of 2% per annum on the revalued amount.

#### *Financial fixed assets - other*

Financial fixed assets - other are represented by investments in subsidiary undertakings which are stated at cost less provision for impairment (see note 10).

#### *Current asset investments*

Current asset investments are stated at the lower of cost and net realisable value.

#### *Stocks*

Stocks are stated at the lower of average cost and net realisable value. Cost includes all expenditure incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less further costs expected to be incurred to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

#### *Foreign currency*

In accordance with SSAP 20, monetary assets and liabilities denominated in foreign currencies are converted into Euros at the rate of exchange prevailing at the balance sheet date. Transactions in foreign currencies are translated at the rate of exchange at the date of the transaction. Foreign exchange gains and losses are recorded in the profit and loss account

# The Ritz Hotel, Limited

## Notes to the financial statements - continued

### 1. Accounting policies - continued

#### *Taxation*

Current tax, including French corporation tax, is provided on the company's taxable profits, at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

#### *Pension costs*

French-resident companies are obliged to pay a lump-sum indemnity to employees on their retirement. The indemnities are due only if employees work for the company up to their date of retirement. The rights obtained by employees are not transferable should they leave the company. The indemnity is based on length of service and level of remuneration at the date of retirement. Full provision has been made for the estimated liability as at 31 December 2004.

#### *Turnover*

Turnover from the hotel's activities is recognised in the financial year in which the related services are delivered.

#### *Operating lease rentals*

Rental income from operating leases is recognised evenly over the term of the lease.

### 2. Turnover and operating profit

Turnover and operating profit arise from the hotel trade of the company and are wholly generated in France. Further segmental information, as required by SSAP 25, is not provided as the directors believe that to do so would be seriously prejudicial to the interests of the Company.

# The Ritz Hotel, Limited

## Notes to the financial statements – continued

### 3. Employees and staff costs

The average number of persons employed including part time workers and trainees during the year, was 548 (2003: 567).

	2004 Number	2003 Number
Management	4	4
Administration	62	66
Other	<u>482</u>	<u>497</u>
	<u>548</u>	<u>567</u>
	2004 €'000	2003 €'000
Staff costs:		
Wages and salaries	16,182	17,264
Social security	7,799	7,629
Other	1,831	1,731
Provision for retirement indemnity obligation	<u>44</u>	<u>30</u>
	<u>25,856</u>	<u>26,654</u>
<b>Directors' emoluments:</b>		
Remuneration of the highest paid Director:		
Salary	207	181
Provision for retirement indemnity obligation	3	2
Benefits in kind	<u>164</u>	<u>136</u>
	<u>374</u>	<u>319</u>

No other Director received emoluments for his services to the company.

Mr M Al Fayed received advances from the company during the year in respect of personal expenditure. All amounts were reimbursed in full by 31 December 2004 and no interest accrues on the outstanding balance. The balance outstanding at 1 January 2004 was a credit of €50,215 and at 31 December 2004 was a credit of €1,312 as a result of payments in advance. The maximum amount outstanding during the year ended 31 December 2004 was €23,790 (2003: €164,141).



# The Ritz Hotel, Limited

## Notes to the financial statements – continued

4.	<b>Operating loss</b>	<b>2004</b> <b>€'000</b>	<b>2003</b> <b>€'000</b>
	The operating loss is stated after:		
	Depreciation of tangible fixed assets	9,137	7,437
	Amortisation of intangible assets	112	113
	Gain on sale of assets	-	(2,813)
	Auditor's remuneration for audit work	106	90
	Operating lease expense - plant & machinery	307	309
	- other	53	50
	Operating lease income	<u>(795)</u>	<u>(784)</u>
5.	<b>Interest payable</b>	<b>2004</b> <b>€'000</b>	<b>2003</b> <b>€'000</b>
	On bank loans and overdrafts	8,285	8,349
	Deferred finance costs recognised during the year	181	181
	Other interest	<u>2</u>	<u>(1)</u>
	Net interest payable	<u>8,468</u>	<u>8,529</u>
6.	<b>Tax on loss on ordinary activities</b>	<b>2004</b> <b>€'000</b>	<b>2003</b> <b>€'000</b>
	Minimum French income tax	<u>19</u>	<u>19</u>

The effective rate of French income tax assessed for the year is different than the standard rate of income tax. The differences are explained below:

	<b>2004</b> <b>€'000</b>	<b>2003</b> <b>€'000</b>
Loss on ordinary activities	<u>(8,999)</u>	<u>(8,535)</u>
Loss on ordinary activities at income tax rate (33.33%)	(3,000)	(2,845)
<i>Effects of</i>		
Tax losses carried forward	2,871	3,122
Differences between French tax accounting and UK GAAP	129	(277)
Minimum French income tax charge	<u>19</u>	<u>19</u>
Tax on loss on ordinary activities	<u>19</u>	<u>19</u>

# The Ritz Hotel, Limited

## Notes to the financial statements - continued

### 6. Tax on loss on ordinary activities (continued)

	2004 €'000	2003 €'000
<b>Deferred tax asset</b>		
Deferred tax asset at beginning of year	26,098	22,976
Additions during period	<u>2,871</u>	<u>3,122</u>
Potential deferred tax asset at end of year	28,969	26,098
Provision against recoverability	<u>(28,969)</u>	<u>(26,098)</u>
<b>Deferred tax asset at end of year</b>	<u><u>-</u></u>	<u><u>-</u></u>

*The elements of the potential deferred tax asset are as follows:*

Tax loss carryforwards	<u>28,969</u>	<u>26,098</u>
------------------------	---------------	---------------

Deferred tax assets are calculated using the Corporation Tax rate at which they are expected to be utilised (33.33%).

7. Intangible fixed assets	Ritz Trademark €'000
<b>Cost</b>	
At 1 January 2004	4,912
Additions at cost	64
Disposals	(11)
At 31 December 2004	<u>4,965</u>
<b>Amortisation</b>	
At 1 January 2004	4,386
Charge for the year	112
Disposals	(11)
At 31 December 2004	<u>4,487</u>
<b>Net book value</b>	
At 31 December 2004	<u>478</u>
At 31 December 2003	<u>526</u>

# The Ritz Hotel, Limited

## Notes to the financial statements - continued

### 8. Tangible fixed assets

	Freehold Hotel land & buildings €'000	Other land & buildings €'000	Technical equipment €'000	Software €'000	Motor vehicles €'000	Furniture Fixtures & fittings €'000	Total €'000
<b>Cost/revaluation</b>							
As at 1 January 2004							
- as originally stated	287,844	27,739	44,883	872	127	1,711	363,176
- prior year adjustment (note 24)	—	(27,739)	—	—	—	—	(27,739)
- as restated	287,844	-	44,883	872	127	1,711	335,437
Additions at cost	1,576	-	830	35	31	72	2,544
Disposals	(1,359)	=	(745)	(143)	—	(396)	(2,643)
As at 31 December 2004	<u>288,061</u>	=	<u>44,968</u>	<u>764</u>	<u>158</u>	<u>1,387</u>	<u>335,338</u>
<b>Depreciation</b>							
As at 1 January 2004							
- as originally stated	146,887	1,920	41,346	607	100	1,394	192,254
- prior year adjustment (note 24)	—	(1,920)	—	—	—	—	—
- as restated	146,887	-	41,346	607	100	1,394	190,334
Charge for the year	8,021	-	892	78	5	141	9,137
Disposals	(1,291)	=	(745)	(143)	—	(396)	(2,575)
As at 31 December 2004	<u>153,617</u>	=	<u>41,493</u>	<u>542</u>	<u>105</u>	<u>1,139</u>	<u>196,896</u>
<b>Net book value</b>							
As at 31 December 2004	<u>134,444</u>	—	<u>3,475</u>	<u>222</u>	<u>53</u>	<u>248</u>	<u>138,442</u>
As at 31 December 2003	<u>140,957</u>	—	<u>3,537</u>	<u>265</u>	<u>27</u>	<u>317</u>	<u>145,103</u>

# The Ritz Hotel, Limited

## Notes to the financial statements - continued

### 8. Tangible fixed assets - continued

	2004 €'000	2003 €'000
Freehold hotel land and buildings comprise the following:		
Valuation at 31 December 1990 (see accounting policy note)	211,383	211,383
Transfer from technical equipment	5,392	5,392
Additions at cost	83,384	81,808
Disposals	<u>(12,098)</u>	<u>(10,739)</u>
	<b><u>288,061</u></b>	<b><u>287,844</u></b>
Historical cost at 31 December	164,372	164,155
Depreciation on historical cost	<u>(81,567)</u>	<u>(76,530)</u>
Net book value historical cost at 31 December	<b><u>82,805</u></b>	<b><u>87,265</u></b>

In accordance with FRS 15 'Tangible Fixed Assets', the company has chosen not to adopt a revaluation policy in respect of these classes of asset.

The freehold hotel land and buildings and the freehold other land and buildings are charged to the Royal Bank of Scotland PLC as security for the €141 million loan granted to the Company under the refinancing referred to in note 15.

9. Financial fixed assets	2004 €'000	2003 €'000
Opening balance		
- as originally stated	-	-
- prior period adjustment	<u>49,100</u>	<u>49,100</u>
- as restated	49,100	49,100
Revaluation gain	<u>9,100</u>	-
Closing balance	<b><u>58,200</u></b>	<b><u>49,100</u></b>

In 2004 the directors decided to re-classify certain property previously included under tangible fixed assets as investment property. In accordance with Statement of Standard Accounting Practice 19, investment property is stated at valuation (See Note 24).

### 10. Financial fixed assets - other

The company owns 100% of the ordinary share capital of the Ritz Health Club (RHC) Sarl, a company incorporated in France under French law. The gross book value of this investment is €115,802. The Company recorded a permanent impairment against the value of this investment of €115,802 as at 31 December 2004. The additional provision recorded during the year was €9,453.

The RHC and The Ritz Hotel, Limited have not been consolidated given that consolidation would have no material impact on the financial statements of The Ritz Hotel, Limited. Balances and transactions between the RHC and other group companies are detailed in note 22. No dividends were received from the RHC or are receivable as at 31 December 2004 (2003: nil).

# The Ritz Hotel, Limited

## Notes to the financial statements – continued

### 10. Financial fixed assets - other (continued)

As at 31 December 2004, the net assets of the RHC were €5,678 (2003: €6,255). The net loss for the year was (€576) (2003: loss of (€42,149)).

11. Stocks	2004 €'000	2003 €'000
Raw materials and consumables	1,282	1,373
Sundry	209	255
Promotional articles	1,175	1,123
Stationery and office supplies	109	130
Linen	1,297	1,481
China	340	327
Glassware	71	87
Silverware	637	620
Provision for obsolete and slow-moving stock	<u>(2,043)</u>	<u>(2,003)</u>
	<u>3,077</u>	<u>3,393</u>

In the opinion of the Directors there is no material difference between the replacement cost of inventories and their carrying value in the financial statements.

12. Debtors	2004 €'000	2003 €'000
Trade debtors	1,985	2,370
Other debtors	1,082	832
Prepayments and accrued income	704	418
Long term deposits	136	136
Amounts due from subsidiary (see note 10)	—	14
	<u>3,907</u>	<u>3,770</u>

With the exception of long term deposits, all the above debtors are due for repayment within one year.

13. Current investments	2004		2003	
	Net Book value €'000	Market value €'000	Book value €'000	Market value €'000
Listed on the Paris stock exchange	<u>3,465</u>	<u>3,471</u>	<u>2,443</u>	<u>2,443</u>

14. Cash at bank and in hand	2004 €'000	2003 €'000
Cash balances	<u>198</u>	<u>203</u>

# The Ritz Hotel, Limited

## Notes to the financial statements – continued

	2004 €'000	2003 €'000
<b>15. Creditors</b>		
<i>Amounts falling due within one year:</i>		
Bank overdraft and loans	2,566	1,650
Deferred loan costs	(336)	(336)
Trade creditors	3,889	3,504
Bill of exchange payable	121	59
Other creditors	696	1,073
Taxation and social security	4,612	3,436
Accrued interest	991	998
Other accruals	2,809	3,255
Advances received	1,172	1,156
Amounts due to subsidiary	99	=
	<b><u>16,619</u></b>	<b><u>14,795</u></b>
<i>Amount falling due after more than one year:</i>		
Bank loan	138,171	140,103
Deferred loan costs	(1,139)	(1,474)
Amounts owed to parent undertaking	12,515	10,517
Other creditors	<u>861</u>	<u>739</u>
	<b><u>150,408</u></b>	<b><u>149,885</u></b>
	2004 €'000	2003 €'000
<b>Total bank borrowings:</b>		
<i>Unsecured bank loans and overdrafts:</i>		
Repayable within one year	636	697
Repayable between one and two years	26	55
<i>Secured bank loans and overdrafts:</i>		
Repayable within one year	1,932	953
Repayable between one and two years	1,905	1,905
Repayable between two and five years	7,812	7,812
Repayable after more than five years	<u>128,426</u>	<u>130,330</u>
	<b><u>140,737</u></b>	<b><u>141,752</u></b>

# The Ritz Hotel, Limited

## Notes to the financial statements – continued

### 15. Creditors (continued)

The bank loan at 31 December 2004 represents the amount of the loan due after more than 1 year drawn from the refinancing of €141 million on 31 July 2001. It also includes an original gross €80,000 loan from the Société Générale.

It is repayable in ten semi-annual instalments which commenced on 17 November 2004, which total €12,194,000, and a final repayment of €128,806,000 due on 18 May 2009 (subsequent to the year end the company applied the proceeds from the sale of the investment property to reduce the final bullet payment to €104m).

The company has entered into contracts in order to hedge the interest rate risk arising from the loan.

- an 8 year interest rate swap until 17 May 2009 (6 month EURIBOR against fixed rate of 5.355%) for a notional amount of €113,050,000;
- a 3 year cap covering the risk of an increase in 6 month EURIBOR over 5.5% for a notional amount of €24,150,000 until 17 May 2004; and
- a cap covering the risk of an increase in 6 month EURIBOR to over 6% for a notional amount of €3,800,000 on 18 November 2002 floor rate of 4.61% effective as of 17 May 2003 until 17 May 2009.

### 16. Provisions for liabilities and charges

	2004 €'000
Balance at beginning of year	2,795
Provisions for litigation made during year	2,622
Provisions for retirement indemnity obligations made during year	44
Retirement indemnity obligations paid during the year	-
Provisions for litigation released during year	<u>(1,875)</u>
	<u>3,586</u>

#### 16.1 Provisions for litigation

The provisions for litigation at 31 December 2004 of €2,900,000 (2003: €2,155,000) represent management's best estimate of the likely cost to the company for litigation currently in progress with third parties. The timing of any payment of these costs is not presently known.

#### 16.2 Provision for retirement indemnities

The provision for retirement indemnities at as 31 December 2004 is €0.69 million (2003: €0.64 million). French-resident companies are obliged to pay a lump-sum indemnity to employees on their retirement. The indemnities are due only if employees work for the company up to their retirement. The rights obtained by employees are not transferable should they leave the company. The indemnity is based on length of service and level of remuneration at the date of retirement. There is no fund created for these benefits and the expected indemnity is not calculated by an actuary. The timing of the payment of these liabilities will vary by employee. The principal assumptions used to calculate the indemnity are as follows:

- Age of retirement 65 years
- Discount rate 2 %
- Expected salary increase 1.5 %
- Profile of employees to reach retirement

# The Ritz Hotel, Limited

## Notes to the financial statements – continued

17. Share capital	2004		2003	
	£	€'000	£	€'000
Authorised:				
2,000,000 ordinary shares of £1 each	<u>2,000,000</u>	<u>3,540</u>	<u>2,000,000</u>	<u>3,540</u>
Allotted, called up and fully paid:				
1,081,542 ordinary shares of £1 each	<u>1,081,542</u>	<u>1,781</u>	<u>1,081,542</u>	<u>1,781</u>
30,515 ordinary shares of £1 each	<u>30,515</u>	<u>49</u>	<u>30,515</u>	<u>49</u>
	<u>1,112,057</u>	<u>1,830</u>	<u>1,112,057</u>	<u>1,830</u>

The opening share capital was converted into French Francs at the rate of exchange at 31 December 1971, that is FF 13.32 (€2.03) to £1 sterling. As a result of the acquisition of the trade and assets of Champli S.A. during the year ended 31 December 2000, The Ritz Hotel, Limited share capital increased by 30,515 shares of £1 each. This increase in share capital was converted into French Francs at the rate of exchange of FF10.551 (€1.60849) to £1 sterling.

The total shares are charged to the Royal Bank of Scotland plc as security for the €141 million loan granted to the company under the refinancing, referred to in note 15.

## 18. Reserves

Due to its present deficit position, the company cannot distribute any dividends. Should the company absorb this accumulated deficit, certain reserves would become distributable, subject to the payment of either additional corporate income tax, in the case of the long-term capital gain reserve, or a levy on distribution ('the précompte').

The reserves are analysed as follows:

	2004 €'000	2003 €'000
<b>Reserves distributable under certain circumstances</b>		
Long-term capital gain reserve	823	823
Other reserves	39	39
Legal reserves	<u>41</u>	<u>41</u>
	<u>903</u>	<u>903</u>
<b>Non-distributable reserves other than revaluation reserve</b>		
Merger reserve	1,739	1,739
Exchange adjustment reserve	<u>13</u>	<u>13</u>
	<u>1,752</u>	<u>1,752</u>
Other reserves	<u>2,655</u>	<u>2,655</u>



# The Ritz Hotel, Limited

## Notes to the financial statements – continued

### 18. Reserves (continued)

	2004 €'000	2003 €'000
<b>Revaluation reserve</b>		
Opening balance		
- as previously stated	53,331	55,784
- prior year adjustment (Note 24)	<u>21,361</u>	<u>21,361</u>
- as restated	<u>74,692</u>	<u>77,145</u>
Revaluation gain	9,100	-
Transfer to profit and loss account	<u>(1,693)</u>	<u>(2,453)</u>
Closing balance	<u>82,099</u>	<u>74,692</u>
<b>Profit and loss account</b>		
Opening balance		
- as previously stated	(158,235)	(150,214)
- prior year adjustment (Note 24)	<u>1,920</u>	<u>-</u>
- as restated	<u>(156,315)</u>	<u>(150,214)</u>
Realised loss for the year	(9,018)	(8,554)
Transfer from revaluation reserve	<u>1,693</u>	<u>2,453</u>
Closing balance	<u>(163,640)</u>	<u>(156,315)</u>
<b>Total reserves</b>	<u>(78,886)</u>	<u>(78,968)</u>

#### 18.1 Long-term capital gain reserve

This represents realised long-term capital gains which have been taxed at a reduced rate of either 10% or 15%. Any distribution of this reserve would be subject to additional income tax equal to the difference between the common rate (33 <sup>1</sup>/<sub>3</sub>% for the year 2004) and the original rate.

### 18. Reserves - continued

#### 18.2 Other reserves

The company has chosen to allocate a portion of retained earnings to this account in previous years. Should amounts be distributed from this reserve, additional income tax would be payable.

#### 18.3 Legal reserves

The Company allocates 5% of retained profits to a legal reserve each year until the reserve represents 10% of share capital.

# The Ritz Hotel, Limited

## Notes to the financial statements – continued

19.	<b>Reconciliation of operating profit to net cash inflow from operating activities</b>	<b>2004</b> <b>€'000</b>	<b>2003</b> <b>€'000</b>
	Operating loss	(531)	8
	Gain on sale of assets	-	(2,810)
	Depreciation charge	9,137	7,421
	Amortisation charge	112	113
	Decrease in stocks	316	1,641
	Increase/(decrease) in creditors	494	(7)
	(Increase)/decrease in debtors	(137)	2,184
	Increase in long term creditors	277	184
	Other non-cash movements (provision movements)	<u>1,278</u>	<u>107</u>
	Net cash inflow from operating activities	<u>10,946</u>	<u>8,841</u>

## 20. Analysis of changes in net debt

	At 1 January 2004 €'000	Cash inflow/ (outflow) €'000	At 31 December 2004 €'000
Cash at bank	203	(4)	199
Overdraft and loans	<u>(1,650)</u>	<u>(917)</u>	<u>(2,567)</u>
	<u>(1,447)</u>	<u>(921)</u>	<u>(2,368)</u>
Current asset investments	2,443	1,022	3,465
Long term loan	(140,103)	1,932	(138,171)
Amounts owed to parent	<u>(10,515)</u>	<u>(2,000)</u>	<u>(12,515)</u>
	<u>(148,175)</u>	<u>954</u>	<u>(147,221)</u>
Net debt	<u>(149,622)</u>	<u>33</u>	<u>(149,589)</u>

## 21. Parent undertakings and controlling parties

The Company's immediate joint-parent undertakings are:

- Ritz (Paris) Holdings Limited, registered in Jersey; and
- R H Paris Holding S.A., registered in Luxembourg.

The entire share capital of the joint-parent undertakings is under the control and held for the benefit of Mr M Al Fayed and his family, the ultimate controlling parties. Consolidated financial statements, including the results of The Ritz Hotel, Limited, are not available to the public for inspection.

# The Ritz Hotel, Limited

## Notes to the financial statements – continued

### 22. Related party transactions

During the year the company entered into transactions with certain other parties which are under the common control of the company's ultimate controlling parties. These parties comprise Immazur Sarl, R.H.C. Sarl and Ritz (Paris) Holdings Limited. These transactions relate principally to payments made on behalf of the related party by the company subsequently reimbursed or, in the case of Ritz (Paris) Holdings Limited, advances on intercompany loan account. Amounts in respect of the year ending 31 December 2004 are as follows:

Related parties Dr/(Cr)	Immazur S.A.R.L. €'000	R.H.C. S.A.R.L. €'000	Ritz (Paris) Holdings Ltd €'000
<b>Balance sheet at 31 December 2004</b>			
Current accounts	2	(99)	(12,515)

Transactions with the company's ultimate controlling party are shown in note 3.

### 23. Commitments

#### 23.1 Operating lease commitments

As at 31 December 2004, the Company had annual commitments under non-cancellable operating leases as set out below:

	2004		2003	
	Land and buildings	Plant and equipment	Land and buildings	Plant and equipment
	€'000	€'000	€'000	€'000
Leases expiring:				
Within one year	-	17	-	48
Between two and five years	-	78	-	37
Over five years	<u>138</u>	<u>-</u>	<u>138</u>	<u>-</u>
	<u>138</u>	<u>95</u>	<u>138</u>	<u>85</u>

#### 23.2 Capital expenditure commitments

Capital expenditure authorised but not provided for amounts to €170k as at 31 December 2004 (2003: €2.2m).

# The Ritz Hotel, Limited

## Notes to the financial statements – continued

### 24. Prior period adjustment

The directors have re-classified a property on the Champs Elysées, previously included under tangible fixed assets as an investment property. In accordance with SSAP 19, Investment Properties, the property has been revalued at €49.1m based on an independent valuation performed by DTZ as at 31 October 2003. A prior period adjustment has been made to record the property at the re-valued amount for the year ended 31 December 2003. As a result of this the accumulated depreciation previously charged on this property has been reversed to restate it at its original cost. A re-valuation gain has been taken to the revaluation reserve as the difference between its original cost and the re-valued amount. Accordingly, the fixed asset balance has reduced by the original cost value of €27.8m, a financial fixed asset of €49.1m has been recorded and a revaluation gain of €21.3m has been taken to the revaluation reserve.

	€'000
Net book value at 31 December 2003	25,819
Reversal of depreciation charge	1,920
Revaluation gain	21,361
	<hr/>
Financial fixed asset at 31 December 2003	49,100
	<hr/>

### 25. Approval of financial statements

The directors approved the financial statements on 24 October 2005.