The Ritz Hotel, Limited
(registered number - 48125)

Report and financial statements

Year ended 31 December 2005

The Ritz Hotel, Limited

Contents

The Ritz Hotel, Limited

Directors:	Mr M Al Fayed Mr A Fayed Mr F J Klein Mr G 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 2005.

Results

The profit and loss account is set out on page 8 and reports a retained loss for the year of €5,888,000. The directors do not recommend the payment of a dividend (2004: 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 €2,262,000. The retained loss for the year has decreased from (€9,018,000) to (€5,888,000).
In spite of the worldwide economic stagnation and the weak dollar the occupancy has improved from 65.3% in 2004 to 68.4% in 2005 while the average room rate has decreased by €2.5.

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 Royal Bank of Scotland loan reducing the total outstanding balance to €117 million. The Company also repaid the €12.5m loan to its parent company and in addition, granted its parent company a €18.5m loan.

The directors believe that based on performance year to date for the year ending 31 December 2006, the financial result for financial year 2006 will report an improved performance over financial year 2005.

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 F. J. Klein 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 2005 or 31 December 2005.

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

Financial instruments

Interest rate risks

The company finances its operations partly through bank borrowings. The company borrows in the desired currency at floating rates and uses interest rate instruments to generate the desired interest rate profile and to manage the company's exposure to interest rate fluctuations.

Credit risk

The company only offers credit to a limited number of customers. The directors have policies in place which review the credit worthiness of customers before credit is granted. The directors also monitor balances due from customers where credit has been granted.

Foreign exchange risk

The company does not engage in hedging transactions to mitigate foreign exchange risk on monetary assets and liabilities. The company settles foreign denominated balances at the rate ruling on the date of the transaction.

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 384 of the Companies Act, 1985, a resolution for the re-appointment of KPMG, Chartered Accountants, Dublin as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

F.J. Klein
Director

24 October 2006

14 South Street
London
W1Y 5PJ

The Ritz Hotel, Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the company financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 2006

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 of The Ritz Hotel Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes on pages 8 to 25. These financial statements have been prepared under the accounting policies set out therein.

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

As described in the Statement of Directors' Responsibilities on page 5, the company's directors are responsible for the preparation of the Directors report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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, 1985. 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 other transactions is not disclosed.

We read the Directors' Report and consider implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

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.

KPMG

Independent auditors' report to the members of The Ritz Hotel, Limited *(continued)*

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act, 1985.

KPMG

Chartered Accountants
Registered Auditors

26 October 2006

The Ritz Hotel, Limited

Profit and loss account
for the year ended 31 December 2005

		2005		2004	
	Note	**€'000**	**€'000**	€'000	€'000
Turnover	2		**52,290**		52,366
Other operating income			**2,891**		2,307
Raw materials and consumables		**(5,244)**		(5,365)	
Staff costs	3	**(25,890)**		(25,856)	
Depreciation and amortisation	8 & 9	**(9,256)**		(9,249)	
Other operating charges		**(13,712)**		(14,734)	
Operating expenses			**(54,102)**		(55,204)
Operating profit /(loss)	4		**1,079**		(531)
Exceptional item					
Profit on sale of fixed assets	4		**652**		-
Profit/(loss) before interest			**1,731**		(531)
Interest payable and similar charges	5		**(7,925)**		(8,468)
Interest receivable	6		**325**		-
Loss on ordinary activities before taxation			**(5,869)**		(8,999)
Tax on loss on ordinary activities	7		**(19)**		(19)
Retained loss for the financial year			**(5,888)**		(9,018)

All amounts in the year arose from continuing activities.

The notes on pages 12 to 25 form part of these financial statements.

Note of historical cost profits and losses
for the year ended 31 December 2005

	2005	2004
	€'000	€'000
Reported loss on ordinary activities before taxation	**(5,869)**	(8,999)
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**1,693**	1,693
Historical cost loss for the year before taxation	**(4,176)**	(7,306)
Historical cost loss for the year after taxation	**(4,195)**	(7,325)

Statement of total recognised gains and losses
for the year ended 31 December 2005

	2005	2004
	€'000	€'000
Retained loss for the financial year	**(5,888)**	(9,018)
Tax on chargeable gain on disposal of investment property	**12, 950**	-
Utilization of tax losses offset against tax on chargeable gain	**(12,950)**	-
Unrealised revaluation gain	**-**	9,100
Total recognised gains and losses for the year	**(5,888)**	82

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2005

	2005	2004
	€'000	€'000
Total recognised gains and loss for the year	**(5,888)**	82
Opening shareholders' funds	**37,154**	37,072
Closing shareholders' funds	**31,266**	37,154

The notes on pages 12 to 25 form part of these financial statements.

The Ritz Hotel, Limited

Balance sheet
at 31 December 2005

		31 December 2005		31 December 2004	
	Note	€'000	€'000	€'000	€'000
Fixed assets					
Intangible fixed assets	8	**421**		478	
Tangible fixed assets	9	**132,187**		138,442	
Financial fixed asset – investment property	10	-		58,200	
Financial fixed asset – other	11	-		-	
			132,608		197,120
Current assets					
Stocks	12	**2,748**		3,077	
Debtors (of which falling due after more than one year €18,500,000 (2004: €Nil)	13	**23,752**		3,907	
Current investments	14	**4,235**		3,465	
Cash at bank and in hand	15	**193**		198	
Total current assets		**30,928**		10,647	
Creditors (amounts falling due within one year)	16	**(16,456)**		(16,619)	
Net current assets/(liabilities)			**14,472**		(5,972)
Total assets less current liabilities			**147,080**		191,148
Creditors (amounts falling due after more than one year)	16		**(111,966)**		(150,408)
Provisions for liabilities	17		**(3,848)**		(3,586)
Net assets			**31,266**		37,154
Capital and reserves					
Called up share capital	18		**1,830**		1,830
Share premium account			**114,210**		114,210
Revaluation reserve	19		**49,945**		82,099
Profit and loss account	19		**(134,719)**		(160,985)
Shareholders' funds			**31,266**		37,154

The financial statements on pages 8 to 25 were approved by the board of directors on 24 October 2006 and were signed on its behalf by:

F.J. Klein
Director

The notes on pages 12 to 25 form part of these financial statements.

The Ritz Hotel, Limited

Cash flow statement

for the year ended 31 December 2004

	Note	**31 December 2005**		31 December 2004	
	Note	**€'000**	**€'000**	€'000	€'000
Net cash inflow from operating activities	20		**9,835**		10,946
Returns on investments and servicing of finance					
Interest paid		**(7,744)**		(8,287)	
			(7,744)		(8,287)
Taxation			**(19)**		(19)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		**(3,020)**		(2,542)	
Payments to acquire intangible fixed assets		**(51)**		(65)	
Loan to parent company		**(18,500)**		-	
Proceeds from sale of assets		**59,152**		-	
			37,581		(2,607)
Cash inflow before use of liquid resources and financing			**39,653**		33
Management of liquid resources					
Sales/(purchases) of marketable securities			**(770)**		(1,022)
Financing					
Repayment of long term loans		**(26,465)**		(1,932)	
(Decrease)/increase in loan from parent and subsidiary undertaking		**(12,515)**		2,000	
			(38,980)		68
Decrease in cash			**(97)**		(921)

Reconciliation of net cashflow to movement in net debt	**2005**	2004
	€'000	€'000
Decrease in cash in the year	**(97)**	(921)
Cash outflow/(inflow) from reduction in debt	**38,980**	(68)
Cash inflow/(outflow) from increase/(decrease) in liquid resources	**770**	1,022
Change in net debt resulting from cash flows	**39,653**	33
Net debt at the beginning of the year	**(149,589)**	(149,622)
Net debt at the end of the year	**(109,936)**	(149,589)

The notes on pages 12 to 25 form part of these financial statements.

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 16, reflecting the terms and conditions attaching to 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 during the year the final payment has reduced to €109 million. 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.

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 11).

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

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.

Post retirement benefit

French-resident companies are obliged to pay a one time cessation of employment benefit to employees on their retirement. The obligation only arises 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 obligation 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 2005.

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.

Financial instruments

Hedging instruments principally interest rate swaps are matched with the underlying hedged transaction. Interest rate swap agreements are used where appropriate to manage interest rate exposures. Amounts payable or receivable in respect of these deliverables are recognised as an adjustment to interest payable over the period of the contract.

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.

3. Employees and staff costs

The average number of persons employed including part time workers and trainees during the year, was 525 (2004: 548).

	2005 Number	2004 Number
Management	**5**	4
Administration	**59**	62
Other	**461**	482
	525	548

	2005 €'000	2004 €'000
Staff costs:		
Wages and salaries	**17,246**	16,182
Social security	**7,837**	7,799
Other	**788**	1,831
Provision for retirement indemnity obligation	**19**	44
	25,890	25,856
Directors' emoluments:		
Remuneration of the highest paid Director:		
Salary	**222**	207
Provision for retirement indemnity obligation	**3**	3
Benefits in kind	**185**	164
	410	374

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

Mr M Al Fayed received advances and / or payments were made on his behalf by the company during the year in respect of personal expenditure. All amounts were reimbursed in full by 31 December 2005 and no interest accrues on the outstanding balance. The balance outstanding at 1 January 2005 was a credit of €1,312 and at 31 December 2005 was a credit of €73,008 as a result of payments in advance. The maximum amount outstanding during the year ended 31 December 2005 was €79,201 (2004: €23,790).

4. Operating profit

	2005	2004
	€'000	€'000
The operating loss is stated after:		
Depreciation of tangible fixed assets	**9,149**	9,137
Amortisation of intangible assets	**107**	112
Profit on disposal of fixed assets	**652**	-
Auditor's remuneration for audit work	**125**	106
Operating lease expense - plant & machinery	**372**	307
- other	**131**	53
Operating lease income	**(798)**	(795)

5. Interest payable

	2005	2004
	€'000	€'000
On bank loans and overdrafts	**7,744**	8,285
Deferred finance costs recognised during the year	**181**	181
Interest payable to parent company	**-**	2
Net interest payable	**7,925**	8,468

6. Interest receivable

	2005	2004
	€'000	€'000
Interest receivable from parent company	**325**	-

7. Tax on loss on ordinary activities

	2005	2004
	€'000	€'000
Minimum French income tax	**19**	19

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:

	2005	2004
	€'000	€'000
Loss on ordinary activities	**(5,869)**	(8,999)
Loss on ordinary activities at income tax rate (33.33%)	**(1,956)**	(3,000)
Effects of		
Tax losses carried forward	**-**	2,871
Differences between French tax accounting and UK GAAP	**12,043**	129
Decrease in tax losses carried forward	**(10,087)**	-
Minimum French income tax charge	**19**	19
Tax on loss on ordinary activities	**19**	19

7. **Tax on loss on ordinary activities (continued)**

Deferred tax asset	**2005**	2004
	€'000	€'000
Deferred tax asset at beginning of year	**28,969**	26,098
Additions during period	**2,863**	2,871
Effect of tax audit adjustment	**(8,395)**	-
Utilisation of tax losses offset against tax and chargeable gain	**(12,950)**	-
Potential deferred tax asset at end of year	**10,487**	28,969
Provision against recoverability	**(10,487)**	(28,969)
Deferred tax asset at end of year	**-**	-

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

Tax loss carryforwards	**10,487**	28,969

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

The company has claimed for additional tax deductible losses with a potential value of €6m approximately. The claim has not yet been resolved but in the event of the claim being successful the potential deferred tax asset would increase by a corresponding amount.

8. **Intangible fixed assets**

	Ritz Trademark €'000
Cost	
At 1 January 2005	4,965
Additions at cost	51
At 31 December 2005	**5,016**
Amortisation	
At 1 January 2005	4,488
Charge for the year	107
At 31 December 2005	**4,595**
Net book value	
At 31 December 2005	**421**
At 31 December 2004	**478**

9. **Tangible fixed assets**

	Freehold Hotel land & buildings €'000	Technical equipment €'000	Software €'000	Motor vehicles €'000	Furniture Fixtures & fittings €'000	**Total €'000**
Cost/revaluation						
As at 1 January 2005	288,061	44,968	764	158	1,387	335,338
Additions at cost	1,436	1,017	226	27	314	3,020
Disposals	(56)	(149)	(10)	(2)	-	(217)
As at 31 December 2005	**289,441**	**45,836**	**980**	**183**	**1,701**	**338,141**
Depreciation						
As at 1 January 2005	153,617	41,493	542	105	1,139	196,896
Charge for the year	7,979	938	82	9	141	9,149
Disposals	(35)	(54)	-	(2)	-	(91)
As at 31 December 2005	**161,561**	**42,377**	**624**	**112**	**1,280**	**205,954**
Net book value						
As at 31 December 2005	**127,880**	**3,459**	**356**	**71**	**421**	**132,187**
As at 31 December 2004	134,444	3,475	222	53	248	138,442

9. **Tangible fixed assets - continued**

	2005	2004
	€'000	€'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	**84,820**	83,384
Disposals	**(12,154)**	(12,098)
	289,441	288,061
Historical cost at 31 December	**165,752**	164,372
Depreciation on historical cost	**(87,817)**	(81,567)
Net book value historical cost at 31 December	**77,935**	82,805

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 are charged to the Royal Bank of Scotland PLC as security for the loan granted to the Company under the refinancing referred to in note 16.

10. **Financial fixed assets**

	2005	2004
	€'000	€'000
Opening balance	**58,200**	49,100
Revaluation gain	**-**	9,100
Disposals	**(58,200)**	-
Closing balance	**-**	58,200

11. **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 2005.

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 23. No dividends were received from the RHC or are receivable as at 31 December 2005 (2004: nil).

11. **Financial fixed assets - other (continued)**

As at 31 December 2005, the net liabilities of the RHC were (€28,896) (2004: net assets of €5,678). The net loss for the year was (€34,574) (2004: (€576)).

12. **Stocks**

	2005	2004
	€'000	€'000
Raw materials and consumables	**1,304**	1,282
Promotional articles	**944**	1,175
Stationery and office supplies	**109**	109
Linen	**1,286**	1,297
China	**314**	340
Glassware	**87**	71
Silverware	**627**	637
Sundry	**225**	209
Provision for obsolete and slow-moving stock	**(2,148)**	(2,043)
	2,748	3,077

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.

13. **Debtors**

	2005	2004
	€'000	€'000
Loan to parent company	**18,500**	-
Trade debtors	**1,623**	1,985
Other debtors	**1,283**	1,082
Prepayments and accrued income	**680**	704
Other debtors	**1,139**	1,475
Long term deposits	**179**	136
Amounts due from subsidiary (see note 10)	**23**	-
Interest receivable on loan to parent company	**325**	-
	23,752	5,382

Following the sale of the property on the Champs Elysees, and with the authorisation of Royal Bank of Scotland PLC, a loan of €18.5m has been granted to the holding company, Ritz (Paris) holdings Limited.

Included within the debtors as amounts due greater than one year is the loan to parent company €18,500,000; (2004:€Nil). The loan is interest bearing at EURIBOR plus 0.75%.

14. **Current investments**

	2005		2004	
	Net Book value	**Market value**	Book value	Market value
	€'000	**€'000**	€'000	€'000
Listed on the Paris stock exchange	**4,235**	**4,243**	3,465	3,471

15. Cash at bank and in hand

	2005 €'000	2004 €'000
Cash balances	**193**	198

16. Creditors

	2005 €'000	2004 €'000
Amounts falling due within one year:		
Bank overdraft and loans	**2,658**	2,566
Trade creditors	**4,305**	3,889
Bill of exchange payable	**70**	121
Other creditors	**531**	696
Taxation and social security	**4,196**	4,612
Accrued interest	**882**	991
Other accruals	**2,922**	2,809
Advances received	**883**	1,172
Amounts due to related party	**9**	99
	16,456	16,955
Amount falling due after more than one year:		
Bank loan	**111,706**	138,171
Amounts owed to parent undertaking	**-**	12,515
Other creditors	**260**	861
	111,966	151,547

	2005 €'000	2004 €'000
Total bank borrowings:		
Unsecured bank loans and overdrafts:		
Repayable within one year	**371**	636
Repayable between one and two years	**-**	26
Secured bank loans and overdrafts:		
Repayable within one year	**2,287**	1,932
Repayable between one and two years	**2,667**	1,905
Repayable between two and five years	**109,039**	7,812
Repayable after more than five years	**-**	128,426
	114,364	140,737

16. **Creditors (continued)**

The bank loan at 31 December 2005 represents the amount of the loan due after more than 1 year drawn from the refinancing of €141 million on 31 July 2001. In June 2005, the company applied the proceeds from the sale of the investment property of the Champs Elysees to reimburse €24,150,000.

The bank loan is repayable in ten semi-annual instalments which commenced on 17 November 2004, which total €12,194,000, and a final repayment of €104,656,000 due on 18 May 2009.

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; 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.

17. **Provisions for liabilities**

	2005
	€'000
Balance at beginning of year	**3,586**
Provisions for litigation made during year	**1,353**
Provisions for retirement indemnity obligations made during year	**19**
Retirement indemnity obligations paid during the year	**-**
Provisions for litigation released during year	**(1,110)**
	3,848

17.1 ***Provisions for litigation***

The provisions for litigation at 31 December 2005 of €3,144,000 (2004: €2,900,000) 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.

17.2 ***Provision for post retirement benefits***

The provision for post retirement benefits as at 31 December 2005, discounted at 2 % is €0.7 million (2004: €0.69 million). French-resident companies are obliged to pay a lump-sum benefit to employees on their retirement. The benefits 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 benefit 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 amount 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 obligation are as follows:

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

18. **Share capital**

	2005		2004	
	£	**€'000**	£	€'000
Authorised:				
2,000,000 ordinary shares of £1 each	**2,000,000**	**3,540**	2,000,000	3,540
Allotted, called up and fully paid:				
1,081,542 ordinary shares of £1 each	**1,081,542**	**1,781**	1,081,542	1,781
30,515 ordinary shares of £1 each	**30,515**	**49**	30,515	49
	1,112,057	**1,830**	1,112,057	1,830

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 16.

19. **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.

The reserves are analysed as follows:

	2005	2004
	€'000	€'000
Revaluation reserve		
Opening balance	**82,099**	74,692
Revaluation gain	-	9,100
Transfer to profit and loss account	**(32,154)**	(1,693)
Closing balance	**49,945**	82,099
Profit and loss account		
Opening balance	**(160,985)**	(153,660)
Realised loss for the year	**(5,888)**	(9,018)
Transfer from revaluation reserve	**32,154**	1,693
Closing balance	**(134,719)**	(160,985)
Total reserves	**(84,774)**	(78,886)

20. Reconciliation of operating profit/(loss) to net cash inflow from operating activities

	2005 €'000	2004 €'000
Operating profit/(loss)	**1,079**	(531)
Depreciation charge	**9,149**	9,137
Amortisation charge	**107**	112
Decrease in stocks	**329**	316
Increase/(decrease) in creditors	**(769)**	494
(Increase)/decrease in debtors	**119**	(137)
Increase in long term creditors	**(601)**	277
Other non-cash movements (provision movements)	**422**	1,278
Net cash inflow from operating activities	**9,835**	10,946

21. Analysis of changes in net debt

	At 1 January 2005 €'000	**Cash inflow/ ouflow €'000**	**At 31 December 2005 €'000**
Cash at bank	198	(6)	193
Overdraft and loans	(2,566)	(91)	(2,658)
	(2,368)	(97)	(2,465)
Current asset investments	3,465	770	4,235
Long term loan	(138,171)	26,465	(111,706)
Subordinated loan (from parent company)	(12,515)	12,515	-
	(147,221)	39,750	(104,471
Net debt	(149,589)	39,653	(109,936)

22. 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.

23. **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 2005 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**
Balance sheet at 31 December 2005			
Current accounts	**(9)**	**23**	**18,500**

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

24. **Commitments**

24.1 ***Operating lease commitments***

As at 31 December 2005, the Company had annual commitments under non-cancellable operating leases as set out below:

	2005		**2004**	
	Land and buildings	**Plant and equipment**	**Land and buildings**	**Plant and equipment**
	€'000	**€'000**	**€'000**	**€'000**
Leases expiring:				
Within one year	-	**4**	-	**17**
Between two and five years	-	**135**	-	**78**
Over five years	**138**	**-**	**138**	**-**
	138	**139**	**138**	**95**

24.2 ***Capital expenditure commitments***

Subsequent to the balance sheet date the directors authorised and contracted for amounts of €4.7m.

25. **Approval of financial statements**

The directors approved the financial statements on 24 October 2006.