The Ritz Hotel, Limited
(registered number - 48125)

Report and financial statements

Year ended 31 December 2006

The Ritz Hotel, Limited

Contents

The Ritz Hotel, Limited

Directors:

Mr M Al Fayed

Mr A Fayed

Mr F J Klein

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 2006

Results

The profit and loss account is set out on page 8 and shows a loss for the year of €2,851,000 The directors do not recommend the payment of a dividend (2005 nil)

Principal activity

The principal activity of the Company is carried out overseas and consists of the business of owning and operating 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 7 million resulting in an operating profit of €3 8 million compared to an operating profit of €1 million in 2005. The net loss for the year has decreased from €5 9 million for 2005 to €2.9 million for 2006

Hotel activity has increased by €3.4 million to €55 6 million The directors expect that the turnover will also increase for the year ending 31 December 2007

Principal risks, key performance indicators and financial instruments

The principal risks that the company is exposed to, are employees litigations, competition and events that adversely effect domestic or international travel In particular the demand from US visitors is impacted by the performance of the US economy, the strength of the US Dollar versus the Euro and security concerns. The loan presently in place needs to be refinanced by May 2009
The directors are of the opinion that they have put in place necessary procedures to actively monitor the risks that the company encounters.

The key performance indicators that the directors use to review the performance of the company are the occupancy rates and the average room rates. The average occupancy rate increased by 4 7% points during the year. The average room rate for the year increased by €21 from 2005 to 2006 The directors are satisfied with the performance of the company based on the key performance indicators.

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

Principal risks, key performance indicators and financial instruments *(continued)*

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.

Directors

The directors of the Company during the year were as stated on page 2. On 31 January 2007 Mr G Dimichert resigned as a director of the company.

In accordance with the Articles of Association, Mr A 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 2006 or 31 December 2006.

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 to the financial statements.

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, will continue in office.

By order of the board

FJ Klein
Director

19 October 2007

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

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.

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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

19 October 2007

KPMG

KPMG
Chartered Accountants
1 Stokes Place
St Stephens 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 2006 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

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 2006 and of its loss for the year then ended, and
- have been properly prepared in accordance with the Companies Act, 1985

Emphasis of matter

In forming our opinion, we have considered the adequacy of the disclosures set out in the accounting policy note on going concern on page 12, which deals with the financial position of the company International Standards on Auditing (UK and Ireland) require the auditors to draw this fact to the attention of readers of the financial statements Our opinion is not qualified in this respect

KPMG

Chartered Accountants
Registered Auditors

22 October 2007

The Ritz Hotel, Limited

Profit and loss account

for the year ended 31 December 2006

	Note	2006 €'000	2006 €'000	2005 €'000	2005 €'000
Turnover	2		55,667		52,290
Other operating income			1,854		2,891
Raw materials and consumables		(5,361)		(5,244)	
Staff costs	3	(26,339)		(25,890)	
Depreciation and amortisation	8 & 9	(6,425)		(9,256)	
Other operating charges		(15,627)		(13,712)	
Operating expenses			(53,751)		(54,102)
Operating profit	4		3,770		1,079
Exceptional item					
Profit on sale of fixed assets	4		8		652
Profit before interest			3,778		1,731
Interest payable and similar charges	5		(7,489)		(7,925)
Interest receivable	6		882		325
Loss on ordinary activities before taxation			(2,829)		(5,869)
Tax on loss on ordinary activities	7		(21)		(19)
Retained loss for the financial year	18		(2,850)		(5,888)

All amounts in the year arose from continuing activities

The notes on pages 12 to 26 form part of these financial statements.

The Ritz Hotel, Limited

Note of historical cost profits and losses
for the year ended 31 December 2006

	2006 €'000	2005 €'000
Reported loss on ordinary activities before taxation	**(2,830)**	(5,869)
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**1,186**	1,693
Historical cost loss for the year before taxation	**(1,644)**	(4,176)
Historical cost loss for the year after taxation	**(1,664)**	(4,195)

Statement of total recognised gains and losses
for the year ended 31 December 2006

	2006 €'000	2005 €'000
Retained loss for the financial year	**(2,850)**	(5,888)
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	**-**	-
Total recognised gains and losses for the year	**(2,850)**	(5,888)

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2006

	2006 €'000	2005 €'000
Total recognised gains and loss for the year	**(2,850)**	(5,888)
Opening shareholders' funds	**31,266**	37,154
Closing shareholders' funds	**28,416**	31,266

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

The Ritz Hotel, Limited

Balance sheet
at 31 December 2006

	Note	31 December 2006 €'000	31 December 2006 €'000	31 December 2005 €'000	31 December 2005 €'000
Fixed assets					
Intangible fixed assets	8	337		421	
Tangible fixed assets	9	131,863		132,187	
Financial fixed asset – investment property	10	-		-	
			132,200		132,608
Current assets					
Stocks	11	2,507		2,748	
Debtors (of which falling due after more than one year €18,500,000 (2005 €Nil)	12	24,353		23,752	
Current investments	13	834		4,235	
Cash at bank and in hand	14	190		193	
Total current assets		27,884		30,928	
Creditors (amounts falling due within one year)	15	(18,661)		(16,456)	
Net current assets			9,223		14,472
Total assets less current liabilities			141,423		147,080
Creditors (amounts falling due after more than one year)	15		(109,229)		(111,966)
Provisions for liabilities and charges	16		(3,778)		(3,848)
Net assets			28,416		31,266
Capital and reserves					
Called up share capital	17		1,830		1,830
Share premium account			114,210		114,210
Revaluation reserve	18		48,759		49,945
Profit and loss account	18		(136,383)		(134,719)
Shareholders' funds			28,416		31,266

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

F J Klein
Director

19 October 2007

The notes on pages 12 to 26 form part of these financial statements

The Ritz Hotel, Limited

Cash flow statement

for the year ended 31 December 2006

	Note	31 December 2006		31 December 2005	
		€'000	€'000	€'000	€'000
Net cash inflow from operating activities	20		9,575		9,835
Returns on investments and servicing of finance					
Interest paid		(6,385)		(7,744)	
			(6,385)		(7,744)
Taxation paid			(21)		(19)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(5,991)		(3,020)	
Payments to acquire intangible fixed assets		(25)		(51)	
Loan to parent company		-		(18,500)	
Proceeds from sale of assets		8		59,152	
			(6,008)		37,581
Cash (outflow)/ inflow before use of liquid resources and financing			(2,839)		39,653
Management of liquid resources					
Sales/(purchases) of marketable securities			3,401		(770)
Financing					
Repayment of long term loans		(2,667)		(26,465)	
Repayment of long from parent undertaking		1,674		-	
Decrease in loan from parent and subsidiary undertaking		-		(12,515)	
			(993)		(38,980)
Decrease in cash			(431)		(97)

Reconciliation of net cashflow to movement in net debt (note 21)	2006	2005
	€'000	€'000
Decrease in cash in the year	(431)	(97)
Cash outflow/(inflow) from reduction in debt	2,667	38,980
Cash (outflow)/ inflow from increase/(decrease) in liquid resources	(3,401)	770
Change in net debt resulting from cash flows	(1,165)	39,653
Net debt at the beginning of the year	(109,936)	(149,589)
Net debt at the end of the year	(111,101)	(109,936)

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

The Ritz Hotel, Limited

Notes to the financial statements

1 **Accounting policies**

There have been no changes in accounting policies during the year

Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain lands and buildings, and comply with the disclosure requirements of the Companies Act 1985 and applicable Accounting Standards.

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 15 to the financial statements reflecting the terms and conditions attaching to the loan The Directors consider that the most likely scenario is that the Company will seek to re-finance the facility or part thereof in advance of May 2009. Separately, the Company has filed an application for a Global Construction Permit Permission with the relevant authorities in Paris (Planning Application) related to a renovation project and has advised its employees of that fact. When the result of the Planning Application becomes known the Company will examine the options available to it in terms of whether to proceed with the renovation project and if so the scope and timing of the project. The consideration of the options will also include the related financing requirements and in the relevant circumstances a total refinancing package may be sought to encompass both the renovation project and the refinancing of the May 2009 loan repayment

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

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 - 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

Monetary assets and liabilities denominated in foreign currencies are converted into Euro 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.

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

1 **Accounting policies – continued**

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 2006

Turnover

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

Rental income

Rental income, is accounted for on an accruals basis, taking account of lease incentives, if any.

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 the Companies Act 1985 and SSAP 25 and 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 508 (2005 525)

	2006 Number	2005 Number
Management	5	5
Administration	57	59
Other	446	461
	508	525

	2006 €'000	2005 €'000
Staff costs·		
Wages and salaries	17,702	17,246
Social security	7,966	7,837
Other	697	788
Provision for retirement indemnity obligation	(26)	19
	26,339	25,890
Directors' emoluments:		
Remuneration of the highest paid director·		
Salary	222	222
Provision for retirement indemnity obligation	3	3
Benefits in kind	186	185
	411	410

As at 31 December 2006 the pension accrual for the director above was £44,832 (2005 £41,832).

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 and business related expenditure. All amounts were reimbursed in full during the year and no interest accrues on the outstanding balance. The balance outstanding at 1 January 2006 was a credit of €73,008 and at 31 December 2006 was a credit of €2,437 During 2006 the account had a credit balance. The maximum amount outstanding during the year ended 31 December 2006 was €43,827 (2005. €79,801).

Notes to the financial statements – continued

4 Operating profit

The operating profit is stated after:

	2006 €'000	2005 €'000
Depreciation of tangible fixed assets	6,315	9,149
Amortisation of intangible assets	109	107
Profit on sale of fixed assets	8	652
Auditors remuneration for audit work	100	125
Operating lease expense - plant & machinery	340	372
- other	288	131
Rental income	(913)	(798)

5 Interest payable

	2006 €'000	2005 €'000
On bank loans and overdrafts	7,268	7,744
Deferred finance costs recognised during the year	181	181
Net interest payable	7,449	7,925

6 Interest receivable

	2006 €'000	2005 €'000
Interest receivable from parent company	882	325

7. Tax on loss on ordinary activities

	2005 €'000	2005 €'000
Minimum French income tax	21	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

	2006 €'000	2005 €'000
Loss on ordinary activities	(2,829)	(5,869)
Loss on ordinary activities at income tax rate (33 33%)	(943)	(1,956)
Effects of		
Differences between French tax accounting and UK GAAP	(36)	12,043
Increase/ (decrease) in tax losses carried forward	979	(10,087)
Minimum French income tax charge	21	19
Tax on loss on ordinary activities	21	19

The Ritz Hotel, Limited

Notes to the financial statements - continued

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

Deferred tax asset	**2006 €'000**	2005 €'000
Deferred tax asset at beginning of year	**10,487**	28,969
Additions during period	**-**	2,863
Effect of tax audit adjustment	**(36)**	(8,395)
Addition/ (reduction) in tax losses carried forward	**979**	(12,950)
Potential deferred tax asset at end of year	**11,430**	10,487
Provision against recoverability	**(11,430)**	(10,487)
Deferred tax asset at end of year	**-**	-

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

Tax loss carryforwards	**11,430**	10,487

Deferred tax assets are calculated using the corporation tax rate at which they are expected to be utilised (33.33%) The directors have not recognised the deferred tax asset due to the uncertainty as to when sufficient profits will be generated to recover the asset

8 **Intangible fixed assets**

	Ritz trademark €'000
Cost	
At 1 January 2006	5,016
Additions at cost	25
At 31 December 2006	5,041
Amortisation	
At 1 January 2006	4,595
Charge for the year	109
At 31 December 2006	4,704
Net book value	
At 31 December 2006	337
At 31 December 2005	421

The Ritz Hotel, Limited

Notes to the financial statements - continued

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 2006	289,441	45,836	980	183	1,701	338,141
Additions at cost	4,303	1,379	78	-	231	5,991
Disposals	(315)	(24)	-	-	-	(339)
As at 31 December 2006	293,429	47,191	1,058	183	1,932	343,793
Depreciation						
As at 1 January 2006	161,561	42,377	624	112	1,280	205,954
Charge for the year	5,020	1,035	88	9	163	6,315
Disposals	(315)	(24)	-	-	-	(339)
As at 31 December 2006	166,266	43,388	712	121	1,443	211,930
Net book value						
As at 31 December 2006	127,163	3,803	346	62	489	131,863
As at 31 December 2005	127,880	3,459	356	71	421	132,187

9 **Tangible fixed assets - continued**

	2006 €'000	2005 €'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	89,123	84,820
Disposals	(12,469)	(12,154)
	293,429	289,441
Historical cost at 31 December	169,740	165,752
Depreciation on historical cost	(91,336)	(87,817)
Net book value historical cost at 31 December	78,404	77,935

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 - 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 2006.

The results and net assets of the RHC 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 2006 (2005 : nil)

10 **Financial fixed assets - other (continued)**

As at 31 December 2006, net liabilities for the RHC were (€56,331) (2005 (€28,896))
The net loss for the year was (€27,435) (2005 loss: (€34,574)).

11 **Stocks**

	2006 €'000	2005 €'000
Raw materials and consumables	**1,241**	1,304
Promotional articles	**180**	944
Stationery and office supplies	**733**	109
Linen	**121**	1,286
China	**1,160**	314
Glassware	**333**	87
Silverware	**68**	627
Sundry	**637**	225
Provision for obsolete and slow-moving stock	**(1,966)**	(2,148)
	2,507	2,748

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**

	2006 €'000	2005 €'000
Amounts due within one year		
Trade debtors	**3,653**	1,623
Other debtors	**1,698**	1,283
Prepayments and accrued income	**319**	680
Other debtors	**798**	1,139
Amounts due from subsidiary (see note 10)	**-**	23
Interest receivable on loan to parent company	**882**	325
Subtotal	**7,350**	5,073
Amounts due greater than one year		
Loan to parent company	**16,826**	18,500
Long term deposits	**177**	179
Subtotal	**17,003**	18,679
	24,353	23,752

The loan to the parent company bears interest at EURIBOR + 0.75%

13 **Current investments**

	2006		2005	
	Net Book value €'000	**Market value €'000**	Book value €'000	Market value €'000
Listed on the Paris stock exchange	**834**	**840**	4,235	4,243

The Ritz Hotel, Limited

Notes to the financial statements – continued

		2006	2005
14	**Cash at bank and in hand**	**€'000**	€'000
	Cash balances	**190**	193

		2006	2005
15	**Creditors**	**€'000**	€'000
	Amounts falling due within one year:		
	Bank overdraft and loans	**3,088**	2,658
	Trade creditors	**6,280**	4,305
	Bill of exchange payable	**54**	70
	Other creditors	**824**	531
	Taxation and social security	**4,037**	4,196
	Accrued interest	**865**	882
	Other accruals	**2,349**	2,922
	Advances received	**1,104**	883
	Amounts due to related party	**60**	9
		18,661	16,456
	Amount falling due after more than one year:		
	Bank loan	**109,040**	111,706
	Amounts owed to parent undertaking	**-**	-
	Other creditors	**189**	260
		109,229	111,966

	2006	2005
	€'000	€'000
Total bank borrowings:		
Unsecured bank loans and overdrafts		
Repayable within one year	**419**	371
Repayable between one and two years	**-**	-
Secured bank loans and overdrafts		
Repayable within one year	**2,667**	2,287
Repayable between one and two years	**2,859**	2,667
Repayable between two and five years	**106,181**	109,039
Repayable after more than five years	**-**	-
	112,126	114,364

The Ritz Hotel, Limited

Notes to the financial statements – continued

15 **Creditors (continued)**

The bank loan at 31 December 2006 represents the amount of the loan due after more than 1 year drawn from the refinancing of €141 million on 31 July 2001

The company applied the proceeds from the sale of the investment property to reduce the final bullet payment to €109 million due on 18 May 2009

The company has entered into the following 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 18th November 2002 floor rate of 4 61% effective as of 17 May 2003 until 17 May 2009.

16 **Provisions for liabilities**

	Post retirements benefits €'000	Litigation provision €'000	Total €'000
Balance at beginning of year	705	3,143	3,848
Provisions for litigation made during year		1,229	1,229
Provisions for retirement indemnity obligations released during the year	(26)	-	(26)
Provisions for litigation released during year	-	(1,273)	(1,273)
	679	3,099	3,778

16 1 ***Provisions for litigation***

The provisions for litigation at 31 December 2006 of €3,099,000 represent management's best estimate of the likely cost to the company for litigation currently in progress with employees and third parties. The timing of any payment of these costs is not presently known

16.2 ***Provision for post retirement benefits***

The provision for retirement indemnities as at 31 December 2006, discounted at 2% is €0 679 million (2005 €0.705 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 2 %
- Profile of employees to reach retirement

17 **Share capital**

	2006		2005	
	£'000	€'000	£'000	€'000
Authorised				
2,000,000 ordinary shares of £1 each	2,000	3,540	2,000	3,540
Allotted, called up and fully paid				
1,081,542 ordinary shares of £1 each	1,082	1,781	1,082	1,781
30,515 ordinary shares of £1 each	31	49	31	49
	1,112	1,830	1,112	1,830

The opening share capital was converted into French Francs at the rate of exchange at 31 December 1971, that is FF13.32 (€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 (€1,608.49) 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 distributions ("precompte")
The reserves are analysed as follows

	2006	2005
	€'000	€'000
Revaluation reserve		
Opening balance	49,945	82,099
Revaluation gain	-	-
Transfer to profit and loss account	(1,186)	(32,154)
Closing balance	48,759	49,945
Profit and loss account		
Opening balance	(134,719)	(160,985)
Realised loss for the year	(2,850)	(5,888)
Transfer from revaluation reserve	1,186	32,154
Closing balance	(136,383)	(134,719)
Total reserves	(87,624)	(84,774)

19	**Reconciliation of operating profit to net cash inflow from operating activities**	**2006 €'000**	2005 €'000
	Operating profit	**3,770**	1,079
	Depreciation charge	**6,315**	9,149
	Amortisation charge	**109**	107
	Decrease in stocks	**241**	329
	Increase/(decrease) in creditors	**1,867**	(769)
	(Increase)/decrease in debtors	**(1,722)**	119
	Increase in long term creditors	**(71)**	(601)
	Other non-cash movements (provision movements)	**(933)**	422
	Net cash inflow from operating activities	**9,576**	9,835

20 **Analysis of changes in net debt**

	At 1 January 2006 €'000	**Cash inflow/ ouflow €'000**	**At 31 December 2006 €'000**
Cash at bank	193	(3)	190
Overdraft and loans	(2,658)	(428)	(3,086)
	(2,465)	(431)	(2,896)
Current asset investments	4,235	(3,401)	834
Long term loan	(111,706)	2,667	(109,039)
	(107,471)	(734)	(108,205)
Net debt	(109,936)	(1,165)	(111,101)

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 of the Ritz (Paris) Holdings Limited and R H Paris Holdings S A are not available to the public for inspection

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 2006 are as follows.

Related parties
Dr/(Cr)
Current accounts

	2006	2005
	€'000	€'000
Immazur S A R L	(2)	(9)
R H.C S A R.L	(58)	23
Ritz (Paris) Holdings Limited	16,826	18,500

Transactions with the company's ultimate controlling party are shown in note 3. All other transactions with related parties are not considered to be material.

23. Commitments

23 1 *Operating lease commitments*

As at 31 December 2006, the company had annual commitments under non-cancellable operating leases as set out below:

	2006		2005	
	Land and buildings	Plant and equipment	Land and buildings	Plant and equipment
	€'000	€'000	€'000	€'000
Leases expiring:				
Within one year	-	19	-	4
Between two and five years	202	631	-	135
Over five years	-	-	138	-
	202	650	138	139

23 2 *Capital expenditure commitments*

Capital expenditures authorised but not provided for as at 31 December 2006, amounts to €4.4 million (2005: €4.7 million)

24 Approval of financial statements

The directors approved the financial statements on 19 October 2007