Corinthia Finance p.l.c.

Annual Report

2006

Company Registration Number: C 25104

Corinthia Finance p.l.c.

Annual Report

2006

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Directors' Report

For the Year Ended 31 December 2006

The directors present their report, together with the audited financial statements of Corinthia Finance p.l.c. (the "Company"), for the year ended 31 December 2006.

Board of directors

Mr Alfred Pisani (Chairman)
Mr Joseph Fenech (Managing Director)
Mr Frank Xerri de Caro
Dr Joseph J Vella

Principal activity

The principal activity of the Company is to finance the ownership, development, operation and financing of hotels, resorts and leisure facilities, forming part of the Corinthia Group of Companies, of which it is a member.

Review of business development and financial position

During the year under review, the Company achieved a profit amounting to Lm3,741. The Company's financial position at 31 December 2006 is set out in the financial statements, which is to be read in conjunction with the disclosure on the going concern basis of preparation referred to in note 2.2.1 to the financial statements.

Going concern

As required by Listing Rule 9.40.19 issued by the Listing Authority, upon due consideration of the Company's state of affairs, capital adequacy and solvency, the directors confirm the Company's ability to continue in operational existence for the foreseeable future. For this reason, in preparing the financial statements, they continue to adopt the going concern basis as explained in note 2.2.1 to the financial statements.

Dividends

During the year, the Company declared a dividend amounting to Lm50,000 (net) to the shareholders of the Company, by way of a set-off against a loan due by the parent company.

Reserves

The movement on reserves are as set out on page 4 of the financial statements.

Approved by the Board of Directors on 30 May 2007 and signed on its behalf by:

Mr Joseph Fenech
Managing Director

Dr Joseph J Vella
Director

Registered Office
22 Europa Centre
Floriana
Malta

Corinthia Finance p.l.c.

Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance

For the Year Ended 31 December 2006

Listed companies are subject to The Code of Principles of Good Corporate Governance (the "Code"). The adoption of the Code is not mandatory, but listed companies are required under the Listing Rules issued by the Malta Financial Services Authority to include a Statement of Compliance with the Code in their Annual Report, accompanied by a report of the independent auditors thereon.

The Board of Directors (the "Board") resolved to adopt the Code. Other than where the particular circumstances of Corinthia Finance p.l.c. (the "Company") are deemed by the Board not to warrant the implementation of specific recommendations, the Company has, throughout the year to 31 December 2006, been in compliance with the Code.

The Board

The Board of Directors is responsible for the Company's affairs, in particular in giving direction to the Company, and being actively involved in the oversight of the systems of internal controls and financial reporting.

The Board is composed of both executive and non-executive directors, as follows:

Executive Directors
Mr Alfred Pisani
Mr Joseph Fenech

Non-Executive Directors
Mr Frank Xerri de Caro
Dr Joseph J Vella

Mr Alfred Pisani is the Executive Chairman of the Board and Mr Joseph Fenech is the Managing Director of the Company. Mr Alfred Fabri acts as Secretary to the Board. With the exception of Mr Frank Xerri de Caro, who was appointed to the Board with effect from 25 April 2005, all of the remaining directors have been members of the Board since the Company's inception in September 1999. The Board met once in the course of 2006.

The Memorandum and Articles of Association set out extensively the procedures to be followed in the appointment of directors. Shareholders having voting rights and owning not less than 25 per cent of the share capital of the Company are entitled to appoint one director for every such 25 per cent holding. Appointed directors hold office for a period of one year, on the lapse of which period they are eligible for re-appointment.

The shareholders approve the remuneration paid to the directors at the annual general meeting. The Board has resolved to disclose directors' fees in aggregate rather than as separate figures for each director as required by the Code. The Directors received Lm9,750 in aggregate for services rendered during 2006.

On joining the Board and regularly thereafter, directors are informed and reminded of their obligations on dealing in securities of the company within the parameters of law and the Listing Rules.

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Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance (continued)

For the Year Ended 31 December 2006

Board Committees

The Audit Committee

The terms of reference of the Audit Committee have been formally set out in a separate Charter. Mr Frank Xerri de Caro, a non-executive director, acts as Chairman and Mr Joseph Fenech as member, whilst Mr Alfred Fabri performs the duties of Secretary to the Committee.

The Committee's role principally involves the review of the financial reporting process and internal controls. Additionally, it is responsible for monitoring the performance of the entities borrowing funds from the Company, and also carries out the oversight of related party transactions to ensure that these are carried out on an arm's length basis.

The Committee met once during the year ended 31 December 2006. The external auditors and the Director of Internal Audit are asked to attend the meetings.

Evaluation Committee and Remuneration Committee

The Board considers that the size and operation of the Company do not warrant the setting up of an Evaluation and Remuneration Committee, as recommended by the Code.

Approved by the Board of Directors on 30 May 2007 and signed on its behalf by:

Mr Frank Xerri de Caro
Director and Chairman of Audit Committee

Dr Joseph J Vella
Director

Corinthia Finance p.l.c.

Shareholder and Other Information

The following information is being published by Corinthia Finance p.l.c. (the "Company") in terms of the Listing Rules of the Listing Authority.

Number of shareholders

Range	**Total shareholders at 31 December 2006**
1 to 1000	1
1001 to 5000	-
5001 and over	1

	2
	===

Shareholders having voting rights and owning not less than 25 per cent of the share capital of the Company are entitled to appoint one director for every such 25 per cent holding.

Shareholders holding 5% or more of the share capital at 31 December 2006

	Number of shares	**Percentage holding (%)**
Corinthia Palace Hotel Company Limited	99,999	99.99

Directors' interest in the shareholding of the company

Mr Alfred Pisani has a beneficial interest in the Company of 167 ordinary shares through the shareholding of A & A Pisani & Company Limited in Corinthia Palace Hotel Company Limited.

There have been no changes in the shareholding of the Company since balance sheet date.

Contracts of significance

Loan agreements with Corinthia Palace Hotel Company Limited

The Company has advanced amounts borrowed by way of bonds listed on the Malta Stock Exchange and other loans to its parent company, Corinthia Palace Hotel Company Limited. The terms of the relevant agreements are set out in the Company's financial statements.

Company Secretary and Registered Office

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Report of the Independent Auditors

To the Shareholders of Corinthia Finance p.l.c.

Pursuant to Listing Rule 8.39 issued by the Listing Authority

Listing Rules 8.37 and 8.38 issued by the Listing Authority, require the directors of Corinthia Finance p.l.c. (the "Company") to include in their annual report a statement of compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance (the "Statement of Compliance"), and the effective measures they have taken to ensure compliance with these Principles.

Our responsibility, as auditors of the Company, is laid down by Listing Rule 8.39, which requires us to include a report on this Statement of Compliance.

We read the Statement of Compliance and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with these financial statements. Our responsibilities do not extend to considering whether this statement is consistent with other information included in the annual report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance covers all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures, nor on the ability of the Company to continue in operational existence.

In our opinion, the accompanying Statement of Compliance provides the disclosures required by Listing Rules 8.37 and 8.38 issued by the Listing Authority.

Hilary Galea-Lauri (Partner) for and on behalf of

KPMG
Certified Public Accountants

30 May 2007

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Preparation of Financial Statements and Directors' Responsibilities

The Companies Act, 1995 (the "Act") requires the directors of Corinthia Finance p.l.c. (the "Company") to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company as at the end of the financial period and of the profit or loss of the Company for that period in accordance with the requirements of International Financial Reporting Standards.

In preparing such financial statements, Article 14 of the Third Schedule to the Act, requires the directors to:

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

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 have been properly prepared in accordance with the provisions of the Act.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors, through oversight of management, are responsible to ensure that the Company establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Company's business. This responsibility includes establishing and maintaining controls pertaining to the Company's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors on 30 May 2007 by:

Mr Joseph Fenech
Managing Director

Dr Joseph J Vella
Director

Corinthia Finance p.l.c.

Income Statement

For the Year Ended 31 December 2006

	Note	2006 Lm	2005 Lm
Interest receivable		**1,456,107**	1,535,532
Interest payable and similar charges		**(1,435,007)**	(1,511,480)
Net interest earned	4	**21,100**	24,052
Administrative expenses		**(15,339)**	(11,326)
Unrealised exchange loss		**(5)**	(1,065)
Profit before tax	5	**5,756**	11,661
Income tax expense	6	**(2,015)**	(4,883)
Profit for the year		**3,741**	6,778

Corinthia Finance p.l.c.

Balance Sheet

As at 31 December 2006

	Note	2006 Lm	2005 Lm
ASSETS			
Loans receivable	7	**20,679,605**	22,245,805
Total non-current assets		**20,679,605**	22,245,805
Trade and other receivables	8	**697,924**	736,357
Taxation recoverable		**2,639**	2,659
Cash at bank		**6,275**	13,250
Total current assets		**706,838**	752,266
Total assets		**21,386,443**	22,998,071
EQUITY			
Share capital	9	**100,000**	100,000
Retained earnings		**23,612**	69,871
Total equity		**123,612**	169,871
LIABILITIES			
Bonds in issue	10	**20,764,302**	22,307,428
Total non-current liabilities		**20,764,302**	22,307,428
Trade and other payables	11	**498,529**	520,772
Total current liabilities		**498,529**	520,772
Total liabilities		**21,262,831**	22,828,200
Total equity and liabilities		**21,386,443**	22,998,071

The financial statements on pages 2 to 14 were approved by the Board of Directors on 30 May 2007 and signed on its behalf by:

Mr Joseph Fenech
Managing Director

Dr Joseph J Vella
Director

Corinthia Finance p.l.c.

Statement of Changes in Equity

For the Year Ended 31 December 2006

	Total	Share capital	Retained earnings
	Lm	Lm	Lm
Balance at 1 January 2005	163,093	100,000	63,093
Profit for the year	6,778	-	6,778
Balance at 31 December 2005	169,871	100,000	69,871
Balance at 1 January 2006	**169,871**	**100,000**	**69,871**
Profit for the year	**3,741**	**-**	**3,741**
Dividends	**(50,000)**	**-**	**(50,000)**
Balance at 31 December 2006	**123,612**	**100,000**	**23,612**

Corinthia Finance p.l.c.

Cash Flow Statement

For the Year Ended 31 December 2006

	2006	2005
	Lm	Lm
Cash flows from operating activities		
Profit for the year	3,741	6,778
Adjustments for:		
Amortisation of discount on issue of bonds	23,074	21,564
Unrealised exchange loss	-	1,065
Income tax expense	2,015	4,883
	28,830	34,290
Working capital changes:		
Receivables	(11,567)	82,375
Payables	(22,243)	(98,681)
Net cash (absorbed by)/generated from operating activities	(4,980)	17,984
Taxation paid	(1,995)	(9,952)
Net cash (used in)/from operating activities	(6,975)	8,032
Cash flows from investing activities		
Repayment of loans by parent company	1,566,200	-
Net cash from investing activities	1,566,200	-
Cash flows used in financing activities		
Redemption of bonds	(1,566,200)	-
Net cash used in financing activities	(1,566,200)	-
Net (decrease)/increase in cash at bank	(6,975)	8,032
Cash at bank at beginning of year	13,250	5,218
Cash at bank at end of year	6,275	13,250
Non-cash transaction		
Dividends	(50,000)	-

Corinthia Finance p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2006

1 Reporting company

Corinthia Finance p.l.c. (the "Company") is a limited liability company domiciled and incorporated in Malta.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared and presented in accordance with the provisions of the Companies Act, 1995 (the "Act") enacted in Malta, which requires adherence to International Financial Reporting Standards (IFRSs).

The Act specifies that in the event that any one of its provisions is in conflict or not compatible with IFRSs or its application is incompatible with the obligation for the financial statements to give a true and fair view, that provision shall be departed from in order to give a true and fair view.

2.1.1 New Standards not yet adopted

IFRS 7 *Financial Instruments: Disclosures* and the Amendment to IAS 1 *Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and Amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to financial instruments and share capital.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost and on the going concern basis.

2.2.1 Going concern basis

The Company has advanced amounts borrowed by way of bonds listed on the Malta Stock Exchange and other loans to its Parent Company, Corinthia Palace Hotel Company Limited ("CPHCL"), which at 31 December 2006 totalled Lm20,729,605, following a repayment to the Company of an amount of Lm1,566,200 during the year under review. These funds are employed by the Group, of which CPHCL is the parent and guarantor for the Company's financial obligations towards its bondholders.

In considering the going concern basis underlying the preparation of these financial statements, the directors have assessed the financial position and operational performance of the Group of which the Company is a member, to enable them obtain comfort that CPHCL will be in a position to effect repayment of the amounts it owes the Company. The conclusions of this assessment are summarised as follows:

- the Group has successfully implemented a planned course of action to address a financial situation where it had become increasingly reliant on debt capital;

Corinthia Finance p.l.c.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2006

2 Basis of preparation (continued)

2.2 Basis of measurement (continued)

2.2.1 Going concern basis (continued)

- as part of that plan, the Group reduced its indebtedness, and continues with its efforts to increase its equity base, besides shifting borrowings from a corporate level to the individual operations and restructuring debt from short to long term on sustainable levels. Furthermore, new projects are only taken on board once full financing is in place;

- although some of the Group's hotel properties grew at a slower pace than was expected, management hopes that a recent arrangement entered into with a leading chain of hotels which the Group now represents, through its own management and operating company, will help to further strengthen its operating performance, in line with its views of the potential of these properties.

In addition, the directors note that, in accordance with the terms of the loan agreements in place between the Company and CPHCL, CPHCL undertook to set aside yearly amounts by way of a sinking fund to ensure that the loans in issue (note 7) are repaid by CPHCL in full by their due dates. The funds which should have already been set aside by the required dates have not yet been fully reserved for this purpose. On the strength of their assessment of the Group's financial situation, debt and equity restructuring, future operational prospects and the disposal of non-core assets, the directors are confident that CPHCL will regularise its position in regard to this commitment with the Company.

Based on the foregoing, the directors believe that it remains appropriate to prepare the financial statements of the Company on a going concern basis. The financial statements do not include any adjustments should the above plans of action not materialise.

2.3 Functional and presentation currency

The financial statements are presented in Maltese Liri, which is the Company's functional currency.

2.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

Corinthia Finance p.l.c.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2006

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3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Foreign currency

Transactions in foreign currencies are translated into the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

3.2 Financial instruments

3.2.1 Non-derivative financial instruments

Non-derivative financial instruments comprise loans receivable, trade and other receivables, cash and cash equivalents, bonds in issue, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in note 3.4.

3.2.1.1 Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses.

3.2.2 Share capital

3.2.2.1 Ordinary shares

Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

Corinthia Finance p.l.c.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2006

3 Significant accounting policies (continued)

3.3 Impairment

3.3.1 Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk circumstances.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

3.4 Finance income and expenses

Financial income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings and related charges. All borrowing costs are recognised in profit or loss using the effective interest method.

3.5 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Corinthia Finance p.l.c.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2006

4 Net interest earned

	2006	2005
	Lm	Lm
Interest receivable on loans advanced to Parent Company	**1,456,107**	1,535,532
Interest payable on bonds in issue	**1,411,933**	1,489,916
Amortisation of discount on issue of bonds	**23,074**	21,564
	1,435,007	1,511,480
Net interest earned	**21,100**	24,052

5 Profit before tax

5.1 The profit before tax is stated after charging auditors' remuneration amounting to Lm2,500.

5.2 Directors' remuneration paid during the year amounted to Lm9,750 (2005: Lm7,905).

6 Income tax expense

The income tax expense for the year and the result of the accounting profit multiplied by the tax rate applicable in Malta, the Company's country of incorporation, are reconciled as follows:

	2006	2005
	Lm	Lm
Profit before tax	**5,756**	11,661
Income tax at the statutory income tax rate of 35%	**2,015**	4,081
Tax effect of non-deductible expenses	-	373
Prior year tax underprovided for	-	429
Income tax expense	**2,015**	4,883

Corinthia Finance p.l.c.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2006

7 Loans receivable

7.1

	Denominated in	Interest rate	Repayable by	Note	2006	2005
		Repayment terms				
		%			Lm	Lm
I	Lm	6.80	15 October 2009	7.2	**8,433,800**	10,000,000
II	EUR	7.10	15 March 2010		**5,945,805**	5,945,805
III	Lm	6.85	15 March 2012		**6,300,000**	6,300,000
					20,679,605	22,245,805

These loans rank *pari passu*, without any priority or preference, with all other present and future unsecured and unsubordinated obligations of the Parent Company to which they have been advanced.

7.2 During 2006, an amount of Lm1,566,200 was repaid by CPCHL on account of this loan to enable the Company purchase and redeem 15,662 6.7% Lm100 bonds maturing on 30 October 2009 (note 10).

8 Trade and other receivables

8.1

	2006	2005
	Lm	Lm
Loan to Parent Company	**50,000**	100,000
Accrued interest on advances to Parent Company	**647,924**	636,357
	697,924	736,357

8.2 The loan to the Parent Company bears interest at the rate of 4.5% per annum and is repayable on demand.

Corinthia Finance p.l.c.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2006

9 Equity

Share capital

	Ordinary shares of Lm1 each	
	2006	2005
	No.	No.
On issue at 1 January	**100,000**	100,000
	======	======
On issue at 31 December - fully paid up	**100,000**	100,000
	======	======

At 31 December 2006, the authorised share capital comprised 1,000,000 ordinary shares of Lm1 each (2005: 1,000,000).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All shares rank equally with regard to the Company's residual assets.

10 Bonds in issue

Bond		Repayment terms				
	Denominated in	**Interest rate**	**Repayable by**		**2006**	2005
		%		**Note**	**Lm**	Lm
I	Lm	6.70	30 October 2009	7.2	**8,433,800**	10,000,000
II	EUR	6.50	8 April 2010		**6,040,602**	6,017,528
III	Lm	6.75	8 April 2012		**6,289,900**	6,289,900
					-------------	-------------
					20,764,302	22,307,428
					========	========

Pursuant to, and subject to the terms and conditions contained in the Offering Memoranda, the payment of the bonds and interest thereon are guaranteed by the Parent Company, which has bound itself jointly and severally liable with the Company.

Corinthia Finance p.l.c.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2006

11 Trade and other payables

	2006	2005
	Lm	Lm
Trade payables	1,215	295
Monies held in trust	330	9,150
Other payables	4,641	3,766
Accrued interest charges on bonds in issue	486,173	504,256
Other accrued charges	6,170	3,305
	498,529	520,772

12 Financial instruments

12.1 Exposure risks

Exposure to credit, interest rate and foreign currency risks arises in the normal course of the Company's business.

12.2 Credit risk

Financial assets that potentially subject the Company to concentrations of credit risk comprise amounts receivable and deposits held with financial institutions. Amounts receivable are due from the Parent Company. Cash is deposited with a local bank. Management does not expect any counter party to fail to meet its obligations.

12.3 Interest rate risk

The interest rates and terms of repayment of amounts receivable and interest-bearing borrowings are as set out in notes 7, 8 and 10 to these financial statements. Interest rates are on a fixed rate basis.

12.4 Foreign currency risk

The Company holds certain financial assets and is the issuer of certain financial liabilities of equivalent amounts, all of which are denominated in Euro.

Corinthia Finance p.l.c.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2006

13 Related parties

13.1 Identity of related parties

The Company as a subsidiary of CPHCL, has a related party relationship with companies forming part of the Group of which CPHCL is the parent and with its directors and executive officers.

13.2 Transactions with key management personnel

The Chairman of the Company has a beneficial interest in the Company of 167 ordinary shares, through the shareholding of A & A Pisani & Company Limited in Corinthia Palace Hotel Company Limited.

Other than the remuneration paid to the directors of the Company (note 5.2), there were no other transactions with key management personnel.

13.3 Related party transactions and balances

Information regarding balances and transactions with related parties is set out in the cash flow statement and notes 7 and 8 to these financial statements.

14 Parent Company

The Company is a fully-owned subsidiary of Corinthia Palace Hotel Company Limited, the registered office of which is situated at 22 Europa Centre, Floriana, Malta.

Consolidated financial statements are prepared by Corinthia Palace Hotel Company Limited.

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Report of the Independent Auditors

To the Shareholders of Corinthia Finance p.l.c.

We have audited the accompanying financial statements of Corinthia Finance p.l.c. (the "Company") which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Report of the Independent Auditors (continued)

To the Shareholders of Corinthia Finance p.l.c.

Opinions

In our opinion, the financial statements:

(a) give a true and fair view of the financial position of the Company as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and

(b) have been properly prepared in accordance with the provisions of the Companies Act, 1995 enacted in Malta.

Without qualifying our opinion above, we draw attention to note 2.2.1 to the financial statements explaining the going concern basis underlying the preparation of the financial statements.

Hilary Galea-Lauri (Partner) for and on behalf of

KPMG
Certified Public Accountants

30 May 2007