

Company Registration No. 01823605

Dorchester Group Limited

Report and Financial Statements

31 December 2006

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Dorchester Group Limited

Report and financial statements 2006

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Dorchester Group Limited

Report and financial statements 2006

Officers and professional advisers

Directors

Dr Awang Mohd Amin Liew Bin Abdullah (Chairman)
Haji Saifubahrı Haji Mansor
Haji Ghanı Hamıd
Pg Hj Md Airudin Pg Hj Mohamad
Dayang Haslina Binti Haji Mohd Taib (resigned 20 Nov 2007)
Mr Riccardo Obertelli (resigned 12 February 2008)

Secretary

Dayang Haslina Binti Haji Mohd Taib (resigned 20 Nov 2007)
Pg Hj Md Airudin Pg Hj Mohamad (appointed 20 Nov 2007)

Registered Office

3 Tilney Street
London
W1Y 5LE

Auditors

Deloitte & Touche LLP
Chartered Accountants
London

Bank

The Royal Bank of Scotland
Mayfair Branch
Curzon Street
London
W1Y 7RF

Solicitors

Sidley Austin Brown and Wood
Woolgate Exchange
25 Basinghall Street
London
EC2V 5HA

Howard Kennedy, Solicitors
19 Cavendish Square
London
W1A 2AW

Dorchester Group Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

Principal activities and future prospects

During the year, the Group continued to own and manage

The Dorchester Hotel, London,

The Beverly Hills Hotel, Los Angeles,

Le Meurice, Paris,

Hotel Principe di Savoia, Milan,

Hotel Plaza Athenee, Paris,

two investment properties in the United States of America, and

the management company for the Group, Dorchester Services Limited

The directors expect the Group to continue in its activities for the foreseeable future

Business review

The consolidated profit on ordinary activities after taxation is £12.4m (2005 profit of £5.2m)

This profit was driven by an average occupancy rate of 70% of at the Group's five properties

Further, the average room rate increased from £352 to £387 and REVpar increased 22% to £270

The directors consider the results for the year to be satisfactory

Details of significant events since the balance sheet date are contained in note 24 to the financial statements

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend (2005 £nil) The retained profit of £12.4m (2005 profit of £5.2m) was transferred to reserves

Directors and their interests

The details of the directors of the company who served throughout the year are as follows

Dr Awang Mohd Amin Liew Bin Abdullah (Chairman)

Haji Saifullah Haji Mansor

Haji Ghani Hamid

Pg Hj Md Arudin Pg Hj Mohamad

Dayang Haslina Binti Haji Mohd Taib (resigned 20 Nov 2007)

Mr Riccardo Obertelli (resigned 12 February 2008)

The directors do not have any beneficial interests in the share capital of the company or its subsidiary undertakings

There are no third party indemnities as at 31 December 2006

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other Group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year

Dorchester Group Limited

Directors' report (continued)

Financial risk management

The most important components of financial risk are interest rate risk, foreign currency risk, credit risk, liquidity risk, cash flow risk and price risk. Due to the international nature of the company's business and the assets and liabilities contained within the company's balance sheet the directors consider two types of risk to be relevant to this company: interest rate and currency risk.

Interest rate risk is hedged by having a capped interest rate on the hotel's major external debt. Funding for the hotels is arranged centrally by the company who regularly monitors interest rate risk. Foreign currency risk is mitigated by each hotel having local bank accounts in the local currency, which reduces its foreign exchange exposure.

Employees

It is the Group's continuing policy and practice to involve staff by providing and receiving information relevant to the progress, development and performance of the group. Matters of concern to staff as employees were communicated through briefing by executives and heads of departments, a newsletter and training courses. Consultation with staff on matters affecting their interests and the general efficiency of the Group took place in various ways, one of these was through the elected staff representatives on a consultative committee which met regularly during the year.

In relation to the employment of disabled persons, the Group's policy is to give the same consideration to disabled people as to other people, in regard to applications for employment, continuation of employment, training, career development and promotion, having regard to their particular aptitudes and abilities.

Political and charitable contributions

During the year, the Group donated £10,985 (2005: £8,582) for charitable purposes. There were no political donations.

Auditors

A resolution for the re-appointment of Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

In so far as the directors are aware:

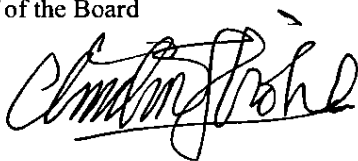
- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all reasonable steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

This information is given in accordance with S 234ZA of the Companies Act 1985.

Approved by the Board of Directors
and signed on behalf of the Board

Director

2008



Dorchester Group Limited

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 judgements and estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, 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 are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Dorchester Group Limited

Independent auditors' report to the members of

Dorchester Group Limited

We have audited the financial statements of Dorchester Group Limited for the year ended 31 December 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Statement of Total Recognised Gains and Losses and the Consolidated Cash Flow Statement and the related notes 1 to 30. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 the 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors

London
13/3/2008

Dorchester Group Limited

Consolidated profit and loss account Year ended 31 December 2006

		2006	2005
	Notes	£000	£000
Turnover	1	206,282	177,590
Cost of sales		(96,555)	(87,110)
Gross profit		109,727	90,480
Administrative expenses		(76,439)	(68,173)
Operating profit	2	33,288	22,307
Interest receivable and similar income	5	2,644	1,839
Interest payable and similar charges	6	(12,951)	(14,718)
Profit on ordinary activities before taxation		22,981	9,428
Tax charge on profit on ordinary activities	7	(10,560)	(4,255)
Retained profit on ordinary activities after taxation for the financial year	20	12,421	5,173

All of the results above derive from continuing operations

Consolidated statement of total recognised gains and losses Year ended 31 December 2006

	2006	2005
	£'000	£'000
Profit for the financial year	12,421	5,173
Gain/(loss) on pension liability	717	(1,905)
Deferred tax (liabilities)/assets associated with loss on pension liability	(215)	572
Currency translation differences on foreign currency net investments	(28,552)	21,656
(Devaluation) / revaluation of investment property	(4,843)	11,885
Total recognised (losses) / gains	(20,472)	37,381

Dorchester Group Limited

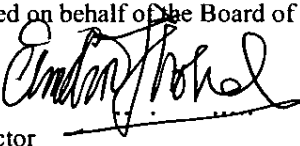
Consolidated balance sheet Year ended 31 December 2006

	Notes	2006		2005	
		£000	£000	£000	£000
Fixed assets					
Intangible assets - goodwill	8		22,469		24,439
Investment properties	9		80,065		93,743
Tangible assets	10		623,492		648,914
			<u>726,026</u>		<u>767,096</u>
Current assets					
Stocks	12	4,729		4,671	
Debtors - amounts falling due within one year	13	28,853		17,838	
Debtors - amounts falling due after more than one year	14	2,465		2,961	
Investments	15	18,727		13,974	
Cash at bank and in hand		34,813		37,097	
		<u>89,587</u>		<u>76,541</u>	
Creditors: amounts falling due within one year	16	<u>(57,051)</u>		<u>(43,167)</u>	
Net current assets			<u>32,536</u>		<u>33,374</u>
Total assets less current liabilities			<u>758,562</u>		<u>800,470</u>
Creditors - amounts falling due after more than one year	17		(394,349)		(418,983)
Provisions for liabilities	18		(1,497)		(1,077)
Deferred tax liability	19		<u>(37,303)</u>		<u>(33,902)</u>
Net assets excluding pension liability			325,413		346,508
Pension liability	23		<u>(8,845)</u>		<u>(9,468)</u>
Net assets			<u>316,568</u>		<u>337,040</u>
Capital and reserves					
Called up share capital	20, 21		120,009		120,009
Share premium account	20		182,711		182,711
Revaluation reserves	20		15,163		20,006
Other reserves	20		72,667		72,667
Profit and loss account	20		<u>(73,982)</u>		<u>(58,353)</u>
Shareholders' funds	20		<u>316,568</u>		<u>337,040</u>

These financial statements were approved and authorised for issue by the Board of Directors on

2008

Signed on behalf of the Board of Directors


Director

Dorchester Group Limited

Company balance sheet Year ended 31 December 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Investments	11	319,481	319,481
Current assets			
Debtors amounts falling due within one year	13	1,388	3,877
Debtors amounts falling due after more than one year	14	283,870	288,475
Cash at bank and in hand		1,905	1,084
		<u>287,163</u>	<u>293,436</u>
Creditors: amounts falling due within one year	16	<u>(26,970)</u>	<u>(22,220)</u>
Net current assets		260,193	271,216
Total assets less current liabilities		579,674	590,697
Creditors: amounts falling due after more than one year	17	<u>(257,838)</u>	<u>(267,101)</u>
Net assets		<u>321,836</u>	<u>323,596</u>
Capital and reserves			
Called up share capital	20, 21	120,009	120,009
Share premium account	20	182,711	182,711
Profit and loss account	20	19,116	20,876
Equity shareholders' funds	20	<u>321,836</u>	<u>323,596</u>

These financial statements were approved and authorised for issue by the Board of Directors on

2008

Signed on behalf of the Board of Directors



Director

Dorchester Group Limited

Consolidated cash flow statement Year ended 31 December 2006

	Notes	2006 £000	2005 £000
Net cash inflow from operating activities	26	46,220	43,435
Returns on investments and servicing of finance			
Interest received		2,418	1,839
Interest paid		(14,480)	(13,614)
Interest element of finance leases		(10)	(26)
Net cash outflow from returns on investments and servicing of finance		(12,072)	(11,801)
Taxation		(3,891)	(1,589)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(14,026)	(18,238)
Additions to investment properties		(2,136)	(1,030)
Sale of tangible fixed assets		-	-
Net cash outflow from capital expenditure and financial investment		(16,162)	(19,268)
Acquisitions			
Purchase of subsidiary undertaking		-	-
Cash acquired with subsidiary undertakings		-	-
Net cash outflow from acquisitions		-	-
Cash inflow before management of liquid resources and financing		14,095	10,777
Management of liquid resources			
Cash paid to short-term deposits		(6,861)	(6,161)
Financing			
Increase in short-term borrowings		-	-
Repayment of bank loans		(6,736)	(44,513)
New loans from fellow subsidiary undertakings		-	-
Repayment of finance leases		(14)	(205)
Net cash outflow from financing		(6,750)	(44,718)
Increase/(decrease) in cash in the year	27,28	484	(40,102)

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards and law. The particular accounting policies adopted are described below and have been applied consistently throughout the year and the preceding year.

Accounting convention

The financial statements are prepared under the historical cost convention, modified to include the revaluation of investment properties.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Dorchester Group Limited and its subsidiary undertakings drawn up to 31 December each year.

Investment properties

Investment properties are revalued annually and the surplus or deficit is transferred to the revaluation reserve, except that any deficit on an individual property which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged to the profit and loss account. No depreciation is provided in respect of investment properties.

The Companies Act 1985 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, as these properties are not held for consumption, but for their investment potential, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view.

If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified because depreciation is only one of many factors reflected in the annual valuation and the amount that might otherwise have been shown cannot be separately identified or quantified.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment. Current asset investments are stated at the lower of cost and net realisable value.

Financial instruments

Interest rate swaps are held off balance sheet but disclosed in the notes of the accounts. All income and expenses related to the swaps are included in the profit and loss account.

The company applies net investment hedge accounting as permitted by SSAP 20 for a net investment in a French subsidiary held in Euros with a Euro loan due to an affiliate of Brunei Investment Agency taken to finance the acquisition of the subsidiary.

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

1. Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land and hotel buildings, to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Leasehold land and buildings	-	life of lease
Plant, machinery, fixtures, fittings and equipment	-	4-15 years

No depreciation is provided on freehold buildings relating to hotels owned by the Group as the directors consider that the lives of these assets are so long and residual values so high that their depreciation is insignificant. The freehold hotel buildings are reviewed for impairment annually.

Capital expenditure on major projects is recorded separately within fixed assets as assets in the course of construction. Once the project is complete, the balance is transferred to the appropriate fixed asset categories. Assets in the course of construction are not depreciated.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. Those translation differences are dealt with in the profit and loss account.

The financial statements of foreign subsidiaries are translated into sterling at the closing rates of exchange and the differences arising from the translation of the opening net investment in subsidiaries at the closing rate and matched long-term foreign currency borrowings are taken direct to reserves and reported in the statement of total recognised gains and losses.

Pension costs

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Further information on pension arrangements is set out in note 23.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. Provision is made for obsolete, slow-moving or defective items where appropriate.

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

1. Accounting policies (continued)

Leases

Assets held under finance leases and other similar contracts are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful economic lives. The capital elements of the finance lease obligations are recorded as liabilities, whilst the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Amounts payable under operating leases are charged to the profit and loss account on an accruals basis.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on the current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is measured on a non-discounted basis.

Turnover

Turnover represents the amounts (excluding taxes) derived from the provision of goods and services to customers during the year.

Profit is recognised when the goods and services are provided to the customer, by including in the profit and loss account turnover and related costs upon completion.

2. Operating profit

	2006 £000	2005 £000
Operating profit is stated after charging/(crediting)		
Depreciation of tangible fixed assets	16,127	14,428
Profit on sale of tangible fixed assets	(631)	(43)
Amortisation of goodwill	1,377	1,395
Rentals under operating leases		
Land and buildings	771	282
Plant and machinery	48	27
Auditors' remuneration		
Group audit fees	424	298
Company audit fees	131	64
Taxation and other services	520	299

The consolidated result for the financial year includes a loss of £1,760,000 (2005: £1,239,000) dealt with in the financial statements of the company. In accordance with the exemption conferred by section 230 of the Companies Act 1985, the company has not published its own profit and loss account.

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

3 Segmental analysis of turnover, operating profit and net assets

	Turnover		Operating Profit		Net Assets	
	2006	2005	2006	2005	2006	2005
	£000	£000	£000	£000	£000	£000
Hotel operations						
USA	35,106	32,895	8,981	7,690	136,208	146,213
Europe	98,893	86,440	7,923	495	41,945	45,637
United Kingdom	62,564	48,031	14,601	6,191	69,644	59,078
	<u>196,563</u>	<u>167,366</u>	<u>31,505</u>	<u>14,376</u>	<u>247,797</u>	<u>250,928</u>
Property investment						
USA	9,719	10,224	1,783	7,931	68,771	86,112
	<u>206,282</u>	<u>177,590</u>	<u>33,288</u>	<u>22,307</u>	<u>316,568</u>	<u>337,040</u>

4. Information regarding directors and employees

	2006	2005
	£000	£000
Directors' emoluments		
Remuneration as executives	<u>438</u>	<u>435</u>

The aggregate of emoluments, excluding pension contributions, of the highest paid director were £245,407 (2005 £296,303) The highest paid director is a member of a defined benefits pension scheme, under which his accrued pension at the year end was £41,680 (2005 £59,011)

Retirement benefits are accruing to two (2005 two) directors under a defined benefits scheme No directors received benefits under money purchase schemes

	2006	2005
	No.	No.
Average number of persons employed including directors		
Operations	2,114	1,847
Sales and marketing	62	62
Administration	268	249
	<u>2,444</u>	<u>2,158</u>
	£000	£000
Staff costs during the year including directors		
Wages and salaries	53,532	49,631
Social security costs	14,522	14,144
Other pension costs	2,780	2,795
	<u>70,834</u>	<u>66,570</u>

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

5. Interest receivable and similar income

	2006 £000	2005 £000
On bank deposits	2,606	1,828
Other	38	11
	<u>2,644</u>	<u>1,839</u>

6. Interest payable and similar charges

	2006 £000	2005 £000
Bank loans and overdrafts	8,542	9,893
Other loans	2,760	2,947
Finance leases	10	26
Amortisation of loan issue costs	257	257
Foreign exchange losses	1,090	1,350
FRS 17 pension deficit charge	291	238
Other	1	7
	<u>12,951</u>	<u>14,718</u>

7. Tax charge on ordinary activities

	2006 £000	2005 £000
Current taxation		
United Kingdom corporation tax	(4,450)	(1,083)
United Kingdom adjustment in respect of prior years	-	35
Double taxation relief	-	421
Foreign tax	(1,850)	(1,163)
Foreign tax adjustment in respect of prior years	13	201
	<u>(6,287)</u>	<u>(1,589)</u>
Deferred taxation		
Origination and reversal of timing differences	(4,090)	(2,585)
FRS 17 pension timing difference	13	29
Adjustment in respect of prior years	(196)	(110)
	<u>(4,273)</u>	<u>(2,666)</u>
	<u>(10,560)</u>	<u>(4,255)</u>

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

7. Tax charge on ordinary activities (continued)

Factors affecting the tax charge for the year

The differences between the current tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit on ordinary activities before tax are as follows

	2006 £000	2005 £000
Profit on ordinary activities before tax	22,981	9,428
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2005 30%)	(6,894)	(2,828)
Effect of		
Expenses not deductible for tax purposes	(2,539)	(1,558)
Capital allowances in excess of depreciation	3,375	2,849
Utilisation of tax loss	2,867	2,181
Other overseas short term timing differences	(1,098)	1,275
FRS17 pension timing difference	(13)	22
Historic US intangibles	359	419
Double tax relief	-	421
Foreign tax	(1,269)	(1,162)
Chargeable gains on property sold	(166)	-
Profit on sale of assets	189	-
Tax losses not recognised	(1,111)	(3,444)
Prior period adjustments	13	236
Current tax charge	(6,287)	(1,589)

During the period an investment property has been revalued. If this is sold at the revalued amount a tax liability of approximately £11,975,000 would crystallise. A deferred tax liability in respect of this revaluation has not been recognised on the basis that there is not a binding commitment to sell the property.

A net deferred tax asset of £11,080,000 (2005 £13,610,000) on overseas trading losses, fixed asset timing differences and short term timing differences has not been recognised due to uncertainty over the recoverability of this asset.

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

8. Goodwill

Cost	£000
At 1 January 2006	24,439
Foreign exchange movements	(593)
Amortisation	(1,377)
	<hr/>
At 31 December 2006	22,469
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9. Investment properties

	2006 £000	2005 £000
Cost or valuation		
At 1 January	93,743	73,055
Additions	2,136	1,030
Permanent diminution	-	(637)
(Devaluation)/revaluation	(4,640)	11,885
Foreign exchange translation differences	(11,174)	8,410
	<hr/>	<hr/>
At 31 December	80,065	93,743
	<hr/>	<hr/>

All of the Group's investment properties are overseas freehold properties. The comparable amount of the investment properties according to the historical cost convention was £67,383,000 (2005 £78,386,000)

The Group's investment properties were valued at open market value by the Directors at 31 December 2006, reflecting advice received from independent qualified valuers

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

10. Tangible fixed assets

Group	Land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Assets in the course of construction £000	Total £000
Cost					
At 1 January 2006	599,649	30,413	77,564	10,762	718,388
Foreign exchange translation differences	(24,228)	(773)	(1,671)	(221)	(26,893)
Additions	891	1,307	4,160	7,665	14,023
Transfers	4,806	2,348	5,931	(13,085)	-
Disposals	(205)	(182)	(1,349)	-	(1,736)
At 31 December 2006	580,913	33,113	84,635	5,121	703,782
Accumulated depreciation					
At 1 January 2005	12,311	17,937	38,510	716	69,474
Foreign exchange translation differences	(1,293)	(594)	(1,710)	(9)	(3,606)
Charge	3	5,227	10,571	326	16,127
Transfer	-	790	-	(790)	-
Disposals	(15)	(168)	(1,279)	(243)	(1,705)
At 31 December 2006	11,006	23,192	46,092	-	80,290
Net book value					
At 31 December 2006	569,907	9,921	38,543	5,121	623,492
At 31 December 2005	587,338	12,476	39,054	10,046	648,914

The net book value of land and buildings comprise

	2006 £000	2005 £000
Freehold	569,776	587,083
Long leasehold	131	255
	<u>569,907</u>	<u>587,338</u>

Land and buildings with a net book value of £569,776,000 (2005 £587,083,000) are not depreciated

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

11. Fixed asset investments

	2006	2005
Company	£000	£000
Investment in subsidiary undertakings at cost	136,770	136,770
Investment in subsidiary undertakings by means of share for share exchange	182,711	182,711
Cost and net book value	<u>319,481</u>	<u>319,481</u>

The company and the group have investments in the following principal subsidiary undertakings

Subsidiary undertakings	Principal activity	Country of incorporation	Shareholding and percentage voting rights
Dorchester Hotel Limited	Hotel operations	Great Britain	100% (Direct)
The Dorchester Limited	Dormant	Great Britain	100% (Indirect)
Dorchester Services Limited	Hotel management	Great Britain	100% (Direct)
Audley Hotels and Resorts Services Limited	Hotel management	Great Britain	100% (Direct)
Meurice Limited	Hotel investment	Great Britain	100% (Direct)
Principe di Savoia Limited	Hotel investment	Great Britain	100% (Direct)
Plaza Athenee Holdings Limited	Hotel investment	Great Britain	100% (Direct)
Sajahtera Inc	Hotel operations	USA	100% (Direct)
Aman Inc	Investment property	USA	100% (Indirect)
Raqib Inc	Investment property	USA	100% (Indirect)
Meurice SpA	Hotel operations	Italy	100% (Indirect)
Principe di Savoia srl	Hotel operations	Italy	100% (Indirect)
Hotel Plaza Athenee SA	Hotel operations	France	100% (Indirect)
Plaza Athenee Holdings SA	Hotel investment	France	100% (Indirect)

12. Stocks

	2006	2005
Group	£000	£000
Consumables	3,077	2,684
Goods for resale	1,652	1,987
	<u>4,729</u>	<u>4,671</u>

There is no material difference between the replacement cost of stocks and their balance sheet amounts

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

13. Debtors: amounts falling due within one year

	2006 £000	2005 £000
Group		
Trade debtors	24,200	14,236
Other debtors	2,644	2,011
Bank interest receivable	272	66
Prepayments and accrued income	1,737	1,525
	<u>28,853</u>	<u>17,838</u>

	2006 £000	2005 £000
Company		
Amounts owed by subsidiary undertakings	1,199	3,365
Corporation tax recoverable	184	512
Other debtors	5	-
	<u>1,388</u>	<u>3,877</u>

14 Debtors: amounts falling due after more than one year

	2006 £000	2005 £000
Group		
Trade debtors	<u>2,465</u>	<u>2,961</u>
Company		
Loans to subsidiary undertakings at floating rates	139,132	143,014
Loans to subsidiary undertakings free of interest	144,738	145,461
	<u>283,870</u>	<u>288,475</u>

15. Investments

	2006 £000	2005 £000
Group		
Cash deposits with terms in excess of thirty days	<u>18,727</u>	<u>13,974</u>

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

16. Creditors: amounts falling due within one year

	2006 £000	2005 £000
Group		
Amounts owed to BIA undertakings	7,470	-
Bank loans and overdrafts	9,431	6,867
Obligations under finance leases	-	14
Trade creditors	15,636	14,606
United Kingdom corporation tax	2,823	551
Other taxation and social security		
VAT and other sales taxes	1,461	665
PAYE and other payroll taxes	7,841	6,644
Other taxes	1,115	1,380
Other creditors	4,042	5,540
Accruals and deferred income	7,232	6,900
	<u>57,051</u>	<u>43,167</u>
Company		
Amounts owed to subsidiary undertakings	21,916	18,368
Bank loans and overdrafts	4,916	3,748
Accruals and deferred income	138	104
	<u>26,970</u>	<u>22,220</u>

17. Creditors: amounts falling due after more than one year

	2006 £000	2005 £000
Group		
Bank loans	174,854	188,390
Loans from fellow subsidiary undertakings		
Unsecured, subordinated and interest free	161,740	166,319
Unsecured, subordinated and interest bearing	55,344	61,371
Other creditors	252	283
Accrued interest	2,159	2,620
	<u>394,349</u>	<u>418,983</u>

Bank loans are secured on the hotel assets and subject to interest at floating rates linked to interbank rates of the country in which currency the loans are denominated, plus a premium ranging between 0.2% and 0.5%. The interest bearing loans from fellow subsidiary undertakings of the Brunei Investment Agency ("BIA") bear interest at floating rates. As at 31 December 2006 the Group held four interest rate swaps, consisting of three 'vanilla' and one 'cancellable Bermudan' with a fair value of £1,081,046. All four swaps expire on 30 June 2013.

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

17. Creditors: amounts falling due after more than one year (continued)

	2006	2005
	£000	£000
Loans maturing between		
1 to 2 years amount to	10,373	9,136
2 to 5 years amount to	39,866	36,529
Over 5 years amount to	341,699	370,672
	<u>391,938</u>	<u>416,337</u>
Company	2006	2005
	£000	£000
Bank loan	95,117	101,979
Loan from subsidiary undertaking	27,455	27,455
Loan from fellow subsidiary undertaking	135,266	137,667
	<u>257,838</u>	<u>267,101</u>

In accordance with FRS 4 "Capital Instruments" the bank loan issue costs have been accounted for as a reduction in the loan amounts received. These costs are then amortised over the life of the loan at a constant rate. At 31 December 2006 the amount of unamortised loan issue costs were £1,342,251 (2005 £1,599,248).

The loan from the subsidiary undertaking is unsecured, subordinated, interest free and not repayable within one year.

The loan from the fellow subsidiary undertaking is unsecured, subordinated, interest free and not repayable before 2014.

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

18. Provisions for liabilities

Group

	£000
Balance at beginning of year	1,077
Additions	420
Balance at end of year	<u>1,497</u>

The renovation provision relates to potential payments in respect of outstanding contractor claims from the renovation of the Hotel Meurice

19. Deferred tax liability

Group

	2006 £000	2005 £000
Liability at 1 January	33,902	30,714
Charged to the profit and loss account (see note 7)	4,285	2,695
Exchange differences	(884)	493
As at 31 December	<u>37,303</u>	<u>33,902</u>

The amounts of deferred taxation provided in the accounts are as follows

	2006 £000	2005 £000
Capital allowances in excess of depreciation	42,281	42,100
Short-term timing differences	(3,011)	(2,344)
Losses	(1,967)	(5,854)
	<u>37,303</u>	<u>33,902</u>

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

20. Reconciliation of movements in equity shareholders' funds

Group	Share capital £000	Share premium £000	Merger reserve £000	Revaluation reserve £000	Profit and loss account £000	Total £000
Balance at beginning of year	120,009	182,711	72,667	20,006	(58,353)	337,040
Devaluation in the year	-	-	-	(4,843)	-	(4,843)
Profit retained for the year	-	-	-	-	12,421	12,421
Loss on pension liability	-	-	-	-	717	717
Deferred tax associated with loss on pension liability	-	-	-	-	(215)	(215)
Currency translation difference	-	-	-	-	(28,552)	(28,552)
Balance at end of year	<u>120,009</u>	<u>182,711</u>	<u>72,667</u>	<u>15,163</u>	<u>(73,982)</u>	<u>316,568</u>
Company						
Balance at beginning of year	120,009	182,711	-	-	20,876	323,596
Loss for the year	-	-	-	-	(1,760)	(1,760)
Balance at end of year	<u>120,009</u>	<u>182,711</u>	<u>-</u>	<u>-</u>	<u>19,116</u>	<u>321,836</u>

21. Called up share capital

Group and company	2006 £000	2005 £000
Authorised.		
Ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>
Allotted, called up and fully paid:		
Ordinary shares of £1 each	<u>120,009</u>	<u>120,009</u>

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

22. Financial commitments

Group

Capital commitments at the end of the financial year for which no provision has been made

	2006 £000	2005 £000
Contracted	7,372	2,716
Authorised not contracted	7,814	1,007

At 31 December 2006, the group had annual commitments under non-cancellable operating leases as set out below

	2006		2005	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire				
Within one year	1,097	76	244	49
Between two and five years	2,646	376	-	65
After five years	4,029	-	-	-
	7,772	452	244	114

Company

At 31 December 2006, the company had no financial commitments (2005 £nil)

23. Pension commitments

The group operates a pension scheme in the UK and participates in defined benefit state schemes in France and Italy. The pension liabilities are as follows:

	2006 £000	2005 £000
UK pension scheme	5,640	6,112
French state scheme	747	828
Italian state scheme	2,458	2,528
Total pension liabilities	8,845	9,468

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

23. Pension commitments (continued)

The company operates a funded pension scheme providing benefits based on final pensionable pay. The policy for accounting for pensions is included in note 1. The assets of the scheme are held separately from those of the company, being invested with insurance companies.

Qualified actuaries carry out full valuations on a triennial basis, the last one being to 5 April 2005, using the projected unit credit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 6.75% per annum, that salary increases would average 4.5% per annum and that a proportion of members would withdraw from service each year other than by retirement.

The pension charge for the year was £370,000 (2005 – £400,000), and the total included in finance costs was £291,000 (2005 – £238,000). The most recent actuarial valuation showed that the market value of the scheme's assets was £14,177,000 giving a funding level of 64%.

Actuarial assumptions

The principal assumptions used to determine the actuarial present value of benefit obligations and pension costs are detailed below.

	2006 %	2005 %	2004 %
Average discount rate for plan liabilities	5.00	4.75	5.25
Average rate of inflation	3.00	2.75	2.75
Average rate of increase in salaries	4.50	4.25	4.75
Average rate of increase of pensions in payment	3.00	2.75	2.75
Average long term rate of return on plan assets	5.63	5.38	6.00

FRS 17 Balance sheet disclosure

	2006 Rate of return %	2006 Fair value £'000	2005 Rate of return %	2005 Fair value £'000	2004 Rate of return %	2004 Fair value £'000
Equity	6.75	8,848	6.50	8,078	7.00	6,829
Bonds	4.50	5,329	4.25	5,033	5.00	4,058
Total market value of assets		14,177		13,111		10,887
Present value of scheme liabilities		(22,234)		(21,843)		(17,617)
Deficit in the pension plan		(8,057)		(8,732)		(6,730)
Deferred tax		2,417		2,620		2,019
Net pension liability		(5,640)		(6,112)		(4,711)

The increase in the deficit is believed to be due to the cyclical nature of the markets.

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

23. Pension commitments (continued)

FRS 17 Profit and loss account disclosure

	2006 £'000	2005 £'000	2004 £'000
Analysis of the amount charged to operating profit			
Current service cost	(370)	(400)	(443)
Total operating charge	(370)	(400)	(443)
Analysis of the amount credited to other finance income			
Expected return on plan assets	747	694	605
Interest cost on plan liabilities	(1,038)	(932)	(869)
Net charge to other finance income	(291)	(238)	(264)
Total charge to the profit and loss account for the year	(661)	(638)	(707)

FRS 17 Statement of total recognised gains and losses disclosure

Amounts included in the consolidated STRGL for 2006 in respect of the defined benefit plan are as follows

	2006 £'000	2005 £'000	2004 £'000
Difference between actual and expected return on plan assets	43	1,133	516
Experience gains arising on plan liabilities	-	174	-
Effects of changes in assumptions underlying the plan liabilities	674	(3,212)	(918)
Total actuarial gains and losses recognised in the STRGL	717	(1,905)	(402)

The difference of £43,000 between actual and expected return on plan assets is 0.0% of the plan assets as at 31 December 2006. The total actuarial gain of £674,000 represents 3.0% of the present value of scheme liabilities as at 31 December 2006.

FRS 17 Analysis of movement in deficit during the year

	2006 £'000	2005 £'000	2004 £'000
As at 1 January	(8,732)	(6,730)	(6,198)
Current service cost	619	541	577
Employer contributions	(370)	(400)	(443)
Other financial expense	(291)	(238)	(264)
Actuarial gain/(loss)	717	(1,905)	(402)
As at 31 December	(8,057)	(8,732)	(6,730)

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

23 Pension commitments (continued)

History between the expected and actual return on scheme assets:

	2006 £000	2005 £000	2004 £000
Difference between the expected and actual return on scheme assets			
Amount (£'000)	43	1,133	516
Percentage of scheme assets	0%	9%	5%
Experience gains and losses on scheme liabilities			
Amount (£'000)	-	174	-
Percentage of the present value of the scheme liabilities	0%	1%	-
Total amount recognised in statement of total recognised gains and losses			
Amount (£'000)	717	(1,905)	(402)
Percentage of the present value of the scheme liabilities	(3%)	9%	2%

24. Contingent liabilities

The Meurice Hotel in Paris was completely renovated in the period 1998 to 2000. This renovation was carried out by various contractors under the overall management of a main contractor. The renovation work suffered from a number of unexpected delays and technical difficulties which have given rise to a number of claims by the main contractor and by a number of other contractors. These claims are proceeding through the French courts and are being examined by a court appointed expert. Meurice SpA, a Dorchester Group Limited company, having suffered delays in the re-opening of its property and incurred additional costs, has lodged a counter claim for damages.

The maximum exposure, representing total claims lodged to date, and excluding the impact, if any, of the counter claim, amounts to €1.5 million (£1 million) before interest. It is the directors' belief that they have appropriate grounds to defend Meurice SpA against these claims and that the final settlements, which are not expected to occur for some time, will be for substantially lesser sums.

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

25. Related party transactions

The company is a subsidiary undertaking of the Brunei Investment Agency, a statutory body incorporated in Brunei. Consequently, as a statutory body, related parties to the company include all Brunei government ministries, departments, agencies and their subsidiary undertakings and also include Bruneian citizens holding office within Brunei and its government.

The group provided hotel services to these related parties amounting to £1,033,267 (2005 £1,324,459). Amounts owed for these services as at 31 December 2006 amounted to £1,670,616 (2005 £1,636,156). The group occupies a building in London owned by a fellow subsidiary undertaking, on an annually renewable agreement. The total annual rent is £529,058 (2005 £238,467). It is estimated that the market rent of the building occupied is £497,243 (2005 £500,917). Amounts owed for the rental, associated rates and services as at 31 December 2006 amounted to £197,876 (2005 £41,603). During the year, the cost of seconded staff charged to the group by its ultimate parent company amounted to £Nil (2005 £Nil). The loan from the subsidiary undertaking is unsecured, subordinated, interest free and not repayable within one year (see note 19).

With the exception of the rental of the property, all other material related party transactions are contracted on commercial terms.

26. Reconciliation of operating profit to net cash inflow from operating activities

	2006 £000	2005 £000
Operating profit	32,657	22,264
Depreciation charges and amortisation of goodwill	15,875	18,470
Profit on sale of tangible fixed assets	631	43
Decrease / (Increase) in stocks	(244)	1,049
Increase in debtors	(11,157)	(3,452)
Increase in creditors	8,043	4,543
Increase in provisions	415	518
Net cash inflow from operating activities	46,220	43,435

27. Analysis of change in net debt

	At 1 January 2006 £000	Cash flow £000	Other non cash movements £000	Translation differences £000	At 31 December 2006 £000
Cash in hand and at bank	37,097	484	-	(2,768)	34,813
Current asset investments	13,974	6,861	-	(2,108)	18,727
Debt due within one year	(6,867)	6,736	(16,901)	131	(16,901)
Debt due after one year	(416,080)	-	16,082	8,060	(391,938)
Finance leases	(14)	14	-	-	-
Total	(371,890)	14,095	(819)	3,315	(355,299)

Dorchester Group Limited

Notes to the accounts

Year ended 31 December 2006

28. Reconciliation of net cash flow to movement in net debt

	2006 £000	2005 £000
Increase/(decrease) in cash in year	484	(40,102)
Cash inflow from increase in liquid resources	6,861	6,161
Cash outflow from decrease in net debt	6,750	44,718
Change in debt resulting from cash flows	14,095	10,777
Loans and finance leases acquired with subsidiaries	(562)	-
Amortisation of loan issue costs	(257)	(257)
New finance leases	-	-
Translation differences	3,315	11,971
Movement in net debt during year	16,591	22,491
Net debt at 1 January 2006	(371,890)	(394,381)
Net debt at 31 December 2006	(355,299)	(371,890)

29. Subsequent event

In March 2007, the Group contributed its €56.0m intra-group loan with Principe di Savoia S.r.l. into that company's net equity reserve to provide the necessary equity support in respect to current and expected future losses at the hotel.

30. Ultimate parent and controlling party

The immediate and ultimate parent and controlling party is the Brunei Investment Agency, a statutory body incorporated in Brunei.