

**Dorchester Group Limited**  
**Report and consolidated financial statements**  
**For the year ended 31 December 2012**

Registered number 01823605



# **Dorchester Group Limited**

## **Report and consolidated financial statements 2012**

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# **Dorchester Group Limited**

## **Directors' report**

The directors present their annual report and the audited financial statements for the year ended 31 December 2012

### **Principal activities and prospects**

The principal activities of the group comprise owning & leasing, managing, and investing in deluxe five-star hotels as well as providing other hotel management services. In addition the group owns commercial properties in the USA. Dorchester Group Limited is a limited liability company domiciled and registered in England.

During the year, the Group continued to manage and operate the following

#### **Owned properties**

The Dorchester Hotel, London,  
The Beverly Hills Hotel, Los Angeles,  
Le Meurice, Paris,  
Hotel Principe di Savoia, Milan,  
Hotel Plaza Athenee, Paris

#### **Leased properties**

Coworth Park, Ascot, Opened September 2010,  
45 Park Lane, London, Opened September 2011,

#### **Investment properties**

2 properties in the USA

#### **Hotel management and other services**

In addition to the above hotels Dorchester Services Limited, trading as Dorchester Collection (DC), managed, on behalf of the Brunel Investment Agency (BIA), the following properties during the last two years

Hotel Bel-Air, Los Angeles  
The New York Palace, New York (management contract ended July 2011),

The group's first third party hotel management contract commenced in 2011 at

Le Richemond Hotel, Geneva

Dorchester Services Limited has also provided technical services under contracts with the Brunel Investment Agency for various refurbishments of hotel properties and will do so in 2013 and 2014 for the owners of Le Richemond

The directors expect the Group to continue with its current activities of owning, leasing and managing hotels for the foreseeable future as well as continuing to look for other opportunities to explore and develop new projects

The directors are pleased to announce that on 17 September 2013 the company acquired 100% of the share capital of Hotel Eden Srl, a five star hotel in Rome, Italy. Funding for this acquisition will be provided by the group parent companies with a combination of equity and debt.

### **Business review**

The consolidated profit on ordinary activities after taxation is £18.4m (2011: £28.0m). This profit was primarily driven by an average occupancy rate of 69% (2011: 69%). Further, the average room rate increased from £508 to £518 and RevPAR (revenue per available room) increased almost 3% (including the effect of currency fluctuations) from £349 to £359.

# **Dorchester Group Limited**

## **Directors' report (continued)**

### **Going concern**

The directors have acknowledged the latest guidance on going concern. The group has net current liabilities at 31 December 2012 due to group loans maturing on 30 September 2013. These loans will be replaced with long term finance from group, or will be extended. Whilst the current volatility in financial markets has created general uncertainty, the group has adequate financial resources being funded entirely by group debt following the repayment of the group's external debt prior to the end of December 2012. As discussed in the principal risks and uncertainties including financial risk management section below, the current economic climate has impacted the travel market and hospitality industry. However, the group remains profitable and the outlook is one of improvement over 2012. The directors have reviewed the group's budget for the next year and considered other plans, concluding that the company is well placed to manage its business risks successfully. Furthermore, the group has received a commitment of continuing financial support from its ultimate parent. For these reasons, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements.

### **Dividend**

No dividends were paid during the year (2011: nil). The group made a profit of £18.4m (2011: £28.0m), which was transferred to reserves.

### **Directors and their interests**

The details of the directors of the company who served throughout the year except as noted, are as follows:

Khairuddin Hamid (appointed 1 August 2012)  
Junaidi bin Haji Masri (appointed 1 January 2012)  
Zainab Mohd Yussof (appointed 21 January 2013)  
Haji Jaidi Abd Haji Sanı (appointed 21 January 2013)  
Hjh Noorrafidah binti Hj Sulaiman (appointed 4 March 2013)  
Haji Suharafadzil Haji Yusop  
Haji Ghami Hamid (resigned 1 January 2012)  
Hajah Hartini binti Haji Abdullah (resigned 1 August 2012)  
Hajah Hasnah Haji Ibrahim (resigned 4 April 2013)

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 2012.

### **Principal risks and uncertainties including 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 most relevant to this company: interest rate and currency risk.

Interest rate risk was hedged by having a capped interest rate on the group's major external debt which existed during the year until its replacement with a group loan at the end of December 2012. Funding for the hotels is arranged centrally by the company who regularly monitor interest rate risk. Foreign currency risk is mitigated by each hotel having local bank accounts and loans in the local currency, which reduces its foreign exchange exposure.

With a continuing background of uncertain economic activity and troubled financial markets the 2012 overall results achieved were beyond management's expectations and continue to be encouraging for the future, reflecting the continued overall recovery in business experienced by the industry in the destinations where properties under the group's management are located, being London, Paris, Milan, Los Angeles and Geneva. The year 2012 continues to show that international travel is still growing and so is demand for luxury accommodation.

The general economic outlook for 2013 shows little change from those conditions of 2012 being a combination of rising inflation, low interest rates, weak (if any at all) economic growth, debt reduction programmes in western economies and low consumer confidence, all of which will have some impact on our business.

## **Dorchester Group Limited**

### **Directors' report (continued)**

We continue to believe that the DC customer geographic representation is varied and the company continues to be well placed in its existing mature markets in Europe, USA and in other critical markets such as Russia, and the Middle East, whilst also turning the group's attention to focus on the ever growing traffic from the Chinese market. This, together with aggressive sales, marketing and revenue management strategies and the ability to build attractive packages will continue to help DC in increasing its market share in both high and low demand periods.

#### **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 made donations totalling £162,000 (2011 £144,000) for charitable purposes. There were no political donations (2011 £nil).

#### **Auditor**

Each of the persons who is a director at the date of approval of this report confirms that

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to reappoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting.

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

Director



30 September 2013

# **Dorchester Group Limited**

## **Directors' responsibilities statement**

### **Directors' responsibilities statement**

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 chosen to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 the parent company financial statements, the Directors are required to

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

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors

- properly select and apply accounting policies
- present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

# **Dorchester Group Limited**

## **Auditor's report**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DORCHESTER GROUP LIMITED**

We have audited the financial statements of Dorchester Group Limited for the year ended 31 December 2012 which comprise the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated cash flow statement and the related notes 1 to 38, the Parent company balance sheet and the related notes A to M. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.


## **Dorchester Group Limited**

### **Auditor's report (continued)**

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Timothy Steel, ACA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

30 September 2013



**Dorchester Group Limited**  
**Consolidated statement of comprehensive income**  
For the year ended 31 December 2012

	Note	Year ended 2012 £'000	Year ended 2011 £'000
<b>Continuing operations</b>			
Revenue	5	304,460	290,968
Cost of sales		(147,444)	(147,412)
<b>Gross profit</b>		<u>157,016</u>	<u>143,556</u>
Administrative expenses		(120,981)	(113,938)
Revaluation gains on investment property	10	2,028	6,574
Revaluation (deficit)/reversal of revaluation deficit of hotel property		(8,523)	2,553
<b>Operating profit</b>		<u>29,540</u>	<u>38,745</u>
Investment revenues	9	2,057	645
Finance costs	11	(5,137)	(6,754)
<b>Profit before tax</b>		<u>26,460</u>	<u>32,636</u>
Tax	12	(8,074)	(4,648)
<b>Profit for the year</b>	7	<u><u>18,386</u></u>	<u><u>27,988</u></u>
<b>Other comprehensive income</b>			
Gains on property revaluation		4,597	49,186
Exchange differences on translation of foreign operations		(14,649)	1,004
Exchange differences relating to components of other comprehensive income		(7,360)	(5,251)
Actuarial (loss)/gain on defined benefit pension schemes		(872)	2,176
Deferred tax credit/(charge) relating to components of other comprehensive income		4,406	(7,436)
<b>Other comprehensive (loss)/income for the year</b>		<u>(13,878)</u>	<u>39,679</u>
<b>Total comprehensive income for the year</b>		<u><u>4,508</u></u>	<u><u>67,667</u></u>

Total comprehensive income for both years is attributable solely to the owners of the company


**Dorchester Group Limited**  
**Consolidated statement of financial position**  
As at 31 December 2012

	Note	2012 £'000	2011 £'000	2010 £'000
<b>Non-current assets</b>				
Goodwill	13	33,218	34,214	35,091
Property, plant and equipment	14	1,320,641	1,344,336	1,294,051
Investment property	15	97,697	99,948	92,234
Trade and other receivables	19	3,065	3,346	-
Deferred tax assets	22	31,166	32,093	29,668
		<u>1,485,787</u>	<u>1,513,937</u>	<u>1,451,044</u>
<b>Current assets</b>				
Inventories	18	6,833	6,972	7,185
Investments	17	2,520	7,011	6,100
Trade and other receivables	19	121,670	116,482	103,854
Cash and bank balances		27,477	22,712	41,129
		<u>158,500</u>	<u>153,177</u>	<u>158,268</u>
<b>Total assets</b>		<u>1,644,287</u>	<u>1,667,114</u>	<u>1,609,312</u>
<b>Current liabilities</b>				
Trade and other payables	24	58,118	57,626	47,614
Current tax liabilities		3,372	951	2,468
Obligations under finance leases	23	152	152	152
Borrowings	20	203,929	77,355	75,888
Derivative financial instruments	21	-	3,268	4,889
		<u>265,571</u>	<u>139,352</u>	<u>131,011</u>
<b>Net current (liabilities)/assets</b>		<u>(107,071)</u>	<u>13,825</u>	<u>27,257</u>
<b>Non-current liabilities</b>				
Borrowings	20	273,006	418,247	444,793
Retirement benefit obligations	34	8,817	8,264	10,652
Deferred tax liabilities	22	274,872	285,131	276,292
Long-term provisions	25	1,461	765	602
Obligations under finance leases	23	103	255	407
Trade and other payables	24	3,605	2,756	878
		<u>561,864</u>	<u>715,418</u>	<u>733,624</u>
<b>Total liabilities</b>		<u>827,435</u>	<u>854,770</u>	<u>864,635</u>
<b>Net assets</b>		<u>816,852</u>	<u>812,344</u>	<u>744,677</u>

**Dorchester Group Limited**  
**Consolidated statement of financial position (continued)**  
As at 31 December 2012

	Note	2012 £'000	2011 £'000	2010 £'000
<b>Equity</b>				
Share capital	26	120,009	120,009	120,009
Share premium	27	37,711	37,711	37,711
Revaluation reserve	28	392,040	387,617	349,809
Retained earnings	30	203,240	185,631	156,154
Translation reserve	29	(8,815)	8,709	8,327
Other reserves	31	72,667	72,667	72,667
<b>Total equity</b>		<u>816,852</u>	<u>812,344</u>	<u>744,677</u>

The financial statements were approved by the board of directors and authorised for issue on  
They were signed on its behalf by

Director 

Date 30 September 2013

**Dorchester Group Limited**  
**Consolidated statement of changes in equity**  
For the year ended 31 December 2012

	Share Capital	Share Premium Account	Revaluation Reserve	Merger Reserve	Translation Reserve	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 January 2011</b>	<u>120,009</u>	<u>37,711</u>	<u>349,809</u>	<u>72,667</u>	<u>8,327</u>	<u>156,154</u>	<u>744,677</u>
Profit for the period	-	-	-	-	-	27,988	27,988
Other comprehensive income for the period	-	-	37,808	-	382	1,489	39,679
<b>Total comprehensive income for the period</b>	-	-	37,808	-	382	29,477	67,667
<b>Balance at 31 December 2011</b>	<u>120,009</u>	<u>37,711</u>	<u>387,617</u>	<u>72,667</u>	<u>8,709</u>	<u>185,631</u>	<u>812,344</u>
Profit for the period	-	-	-	-	-	18,386	18,386
Other comprehensive income/(loss) for the period	-	-	4,423	-	(17,524)	(777)	(13,878)
<b>Total comprehensive income/(loss) for the period</b>	-	-	4,423	-	(17,524)	17,609	4,508
<b>Balance at 31 December 2012</b>	<u>120,009</u>	<u>37,711</u>	<u>392,040</u>	<u>72,667</u>	<u>(8,815)</u>	<u>203,240</u>	<u>816,852</u>

**Dorchester Group Limited**  
**Consolidated cash flow statement**  
For the year ended 31 December 2012

	Note	Year ended 2012 £'000	Year ended 2011 £'000
<b>Net cash from operating activities</b>	32	42,081	32,901
<b>Investing activities</b>			
Interest received		1,950	645
Purchases of property, plant and equipment & additions to investment properties		(29,748)	(32,049)
<b>Net cash used in investing activities</b>		(27,798)	(31,404)
<b>Financing activities</b>			
Repayments of borrowings		(160,633)	(25,390)
Repayments of obligations under finance leases		(152)	(152)
Loans advanced		147,884	6,365
<b>Net cash used in financing activities</b>		(12,901)	(19,177)
<b>Net increase/(decrease) in cash and cash equivalents</b>		1,382	(17,680)
<b>Cash and cash equivalents at beginning of year</b>		29,723	47,229
Effect of foreign exchange rate changes		(1,108)	174
<b>Cash and cash equivalents at end of year</b>	32	29,997	29,723

# **Dorchester Group Limited**

## **Notes to the consolidated financial statements**

For the year ended 31 December 2012

### **1 General information**

Dorchester group limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is 3 Tilney Street, London W1K 1BJ. The nature of the group's operations, its principal activities and business review are set out in the directors' report on page 3.

These financial statements are presented in pounds sterling. The functional currencies of group companies are the currency in which the particular company operates, which is Sterling, Euro or US dollar. Foreign operations are included in accordance with the policies set out in note 3.

### **2. Adoption of IFRS**

The Group adopted IFRS in preparation of its 2011 non-statutory financial statements and therefore stated unconditional compliance with IFRS in the 2011 non-statutory financial statements.

The preparation of the consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies with the 2010 annual financial statements prepared under UK GAAP. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They have also been applied in preparing an opening IFRS balance sheet at 1 January 2010 for the purposes of the transition to IFRS, as required by IFRS 1 'First-time Adoption of International Financial Reporting Standards'. The impact of the transition from UK GAAP to IFRS is explained in Note 38 to the financial statements.

The following choices available under IFRS 1 have been used in preparing the financial statements:

- Not to recognise separately cumulative foreign exchange movements up to 1 January 2010, and
- Elected to fair value freehold land and buildings as 1 January 2010.

### **Accounting standards not yet effective**

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 7 (amended)	Disclosures – Transfers of Financial Assets
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1 (amended)	Presentation of Items of Other Comprehensive Income
IAS 12 (amended)	Deferred Tax Recovery of Underlying Assets
IAS 19 (revised)	Employee Benefits
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates and Joint Ventures

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- IAS 19 (as amended) will impact the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures, but not the group's total obligation. It is likely that following the replacement of expected returns on plan assets with a net finance cost in the income statement, the profit for the period will be reduced and accordingly other comprehensive income increased.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**3. Significant accounting policies**

**Basis of accounting**

The financial statements are prepared under the historical cost convention, modified to include the revaluation of investment properties and land and buildings and are in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union

**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. All subsidiaries are 100% owned either directly or indirectly.

**Going concern**

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future, as further discussed in the Director's report.

**Goodwill**

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Revenue recognition**

Revenue comprises -

- Income from the ownership and operation of hotels, excluding taxes, and is recognised as the related services are provided.
- Rental income from investment properties and is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

The cost of obtaining hotel management agreements are deferred within prepayments and amortised over the minimum contract period.

# **Dorchester Group Limited**

## **Notes to the consolidated financial statements (continued)**

For the year ended 31 December 2012

### **3. Significant accounting policies (continued)**

#### **Leases**

Leases are classified as either finance leases or operating leases. Finance leases occur whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating 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 profit or loss 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 profit or loss on an accruals basis. Amounts receivable under operating leases are credited to profit or loss on an accruals basis.

#### **Foreign currencies**

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The assets and liabilities 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 translation reserve and reported in the statement of comprehensive income. The revenues and expenses of foreign subsidiaries are translated into sterling at the average rate of exchange for the period.

#### **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 profit or loss 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 other comprehensive income.

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 consolidated statement of financial position.

For defined contribution schemes the amount charged to profit or loss 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 consolidated statement of financial position.

Further information on pension arrangements is set out in note 34.



**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**3 Significant accounting policies (continued)**

**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 tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

**Property, plant and equipment**

Land and buildings are stated at valuation, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on plant and equipment and freehold buildings, to write off the carrying value less the estimated residual value by equal instalments over their estimated useful economic lives as follows:

Leasehold land and buildings	-	life of lease
Freehold buildings	-	50 years
Plant and equipment	-	4-15 years

No depreciation is provided on freehold land.

Any revaluation increase arising on the revaluation of freehold buildings is credited to revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously expensed. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation on re-valued freehold buildings is charged to income. An amount reflecting the realisation of the part of

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**3. Significant accounting policies (continued)**

the revaluation reserve that represents the depreciation so charged is transferred from revaluation reserve to retained earnings, as allowed by IAS 16 41

**Investment property**

Investment property held by the group is held to earn rentals and/or for capital appreciation. Investment property is stated at fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

**Inventories**

Inventories 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.

**Loans and receivables**

Trade receivables, loans, and other receivables are measured at amortised cost using the effective interest method, less any impairment (see 'impairment' note). Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**Impairment**

The carrying amounts of the Group's assets, excluding investment properties and land and buildings (as they are revalued regularly), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of assets is the greater of their net realisable value and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

Impairment is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Derivative financial instruments**

The Group uses derivative financial instruments, where appropriate, to manage its exposure to interest rate risk, in the form of interest rate swaps. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**3. Significant accounting policies (continued)**

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows

**4 Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Critical accounting policies where judgements or estimations are necessarily applied are summarised below

**Impairment**

The Group determines whether goodwill is impaired on an annual basis. Other non-current assets are tested for impairment if there are indicators of impairment. Impairment testing requires an estimate of future cash flows and the choice of an appropriate discount rate

**Depreciation and residual values**

The Group reviews the asset lives and associated residual values of property, plant and equipment annually and have concluded that asset lives and residual values are appropriate

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**5. Revenue**

An analysis of the group's revenue is as follows

	Year ended 2012 £'000	Year ended 2011 £'000
<b>Continuing operations</b>		
Hotel management and operations revenue	290,082	277,305
Property investment revenue	14,378	13,663
	<u>304,460</u>	<u>290,968</u>
<b>Total revenue</b>	304,460	290,968
Other income not included within revenue in the income statement		
Interest income	2,057	645
	<u>2,057</u>	<u>645</u>
<b>Total income for the year</b>	<u><u>306,517</u></u>	<u><u>291,613</u></u>

**6. Geographical analysis of revenue, operating profit and net assets**

	<b>Revenue</b>		<b>Operating Profit</b>		<b>Net Assets</b>	
	2012	2011	2012	2011	2012	2011
	£'000	£'000	£'000	£'000	£'000	£'000
Hotel management and operations						
USA	44,830	43,430	5,741	5,583	222,719	231,542
Europe	138,652	146,090	(1,305)	15,614	146,117	148,999
United Kingdom	106,600	87,785	15,516	3,623	352,639	337,783
	<u>290,082</u>	<u>277,305</u>	<u>19,952</u>	<u>24,820</u>	<u>721,475</u>	<u>718,324</u>
Property investment						
USA	14,378	13,663	9,588	13,925	95,377	94,020
	<u>14,378</u>	<u>13,663</u>	<u>9,588</u>	<u>13,925</u>	<u>95,377</u>	<u>94,020</u>
	<u><u>304,460</u></u>	<u><u>290,968</u></u>	<u><u>29,540</u></u>	<u><u>38,745</u></u>	<u><u>816,852</u></u>	<u><u>812,344</u></u>

All the above derive from continuing operations

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**7. Operating profit**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Operating profit is stated after charging/(crediting)		
Auditor's remuneration		
Fees payable to the company's auditor for the audit of the company's annual accounts	41	47
Fees payable to the company's auditor and their associates for other services to the group - the audit of the company's subsidiaries	300	279
Total audit fees	341	326
Audit related assurance services	187	91
Taxation compliance services	119	118
Other taxation advisory services	134	113
Total non-audit fees	440	322
Total auditor's remuneration	781	648
Depreciation of property, plant and equipment	21,087	17,884
Rentals under operating leases		
Payable Land and buildings	9,110	8,603
Payable Plant and machinery	1,026	1,273
Receivable regarding hotel properties Land and buildings	(1,715)	(1,733)
Contingency rentals receivable regarding hotel properties Land and buildings	(241)	(248)
Loss on disposal of fixed assets	112	6

**8. Staff costs**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
<b>Directors' remuneration</b>		
Directors emoluments	141	112
Directors fees paid to ultimate parent	120	143
<b>Remuneration of highest paid director</b>		
Emoluments or fees paid to ultimate parent	141	112

No directors (2011 None) accrued any retirement benefits under either a defined benefit scheme or under a money purchase scheme

## **Dorchester Group Limited**

### **Notes to the consolidated financial statements (continued)**

For the year ended 31 December 2012

#### **8. Staff costs (continued)**

	<b>2012</b>	<b>2011</b>
	<b>No.</b>	<b>No</b>
<b>Average monthly number of persons employed excluding directors</b>		
Operations	2,210	2,175
Sales and marketing	94	86
Administration	370	365
	<u>2,674</u>	<u>2,626</u>

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
<b>Staff costs during the year excluding directors</b>		
Wages and salaries	77,492	79,208
Social security costs	21,891	22,057
Other pension costs	3,955	4,022
	<u>103,338</u>	<u>105,287</u>

#### **9. Investment revenue**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
<b>Interest receivable on</b>		
Bank deposits	56	102
Related party loans	450	436
<b>Foreign exchange gains</b>	1,547	66
<b>Other</b>	4	41
	<u>2,057</u>	<u>645</u>

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**10 Other gains and losses**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Gain on revaluation of investment property	2,028	6,574

**11 Finance costs**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Interest on bank loans and overdrafts	5,808	5,902
Interest on other loans	2,047	1,881
Interest on finance leases	47	47
Amortisation of loan issue costs	312	184
Change in fair value of interest rate swaps	(3,268)	(1,621)
Pension deficit net charge	189	348
Other	2	13
	<u>5,137</u>	<u>6,754</u>

**12. Tax**

	<b>Continuing operations</b>	
	<b>Year ended</b>	<b>Year ended</b>
	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Corporation tax		
Current year	4,348	1,945
Adjustments in respect of prior years	214	47
Foreign tax	3,100	2,047
	<u>7,662</u>	<u>4,039</u>
Deferred tax (note 22)	412	609
	<u>8,074</u>	<u>4,648</u>

Corporation tax is calculated at 24.5% (2011: 26.5%) of the estimated taxable profit for the year

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**12. Tax (continued)**

The charge for the year can be reconciled to the profit per the income statement as follows

	Year ended 2012 £'000	Year ended 2011 £'000
<b>Profit before tax on continuing operations</b>	26,460	32,636
Tax at the UK corporation tax rate of 24.5% (2011: 26.5%)	6,483	8,649
Tax effect of expenses that are not deductible in determining taxable profit	1,868	1,291
Movement due to fall in UK tax rate	(3,004)	(2,595)
Change in unrecognised deferred tax assets	-	(5,643)
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,245	2,635
Other	482	311
<b>Tax expense for the year</b>	<b>8,074</b>	<b>4,648</b>

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised in other comprehensive income

	Year ended 2012 £'000	Year ended 2011 £'000
<b>Deferred tax</b>		
Arising on income and expenses recognised in other comprehensive income		
Revaluation of property	(4,311)	6,748
Pension liability	(95)	688
<b>Total income tax recognised in other comprehensive income</b>	<b>(4,406)</b>	<b>7,436</b>



**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**13. Goodwill**

	Cost £'000
At 1 January 2011	35,091
Foreign exchange movements	(877)
	<hr/>
At 31 December 2011	34,214
Foreign exchange movements	(996)
	<hr/>
At 31 December 2012	<u>33,218</u>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated to the Hotel Plaza Athénée, France and the Hotel Principe di Savoia, Italy.

At the year end, goodwill was reviewed for impairment in accordance with IAS 36 Impairment of Assets. It was considered appropriate for both constituents of goodwill to be subjected to a detailed value in use calculation. This was achieved by testing for impairment on the basis of discounted future cash flows arising in each relevant CGU, which is then compared to the carrying value of goodwill to determine if an impairment has occurred. Cash flow forecasts derived from business plans over a 5 year period, followed by a long term growth rate of 3% (2011: 3%) per annum were used. A risk adjustment is then made using a post-tax discount rates of 6.00% for Hotel Plaza Athénée (2011: 6.00%) and for Hotel Principe di Savoia 7.75% (2011: 6.19%) to arrive at the value in use for each of the CGUs. The post-tax discount rates applied are derived from the Group's weighted average cost of capital. The assumptions used in the calculation of the Group's weighted average cost of capital are benchmarked to externally available data. The Directors consider the assumptions to be reasonable based on the historic performance of each CGU and to be realistic in light of economic and industry forecasts. Having performed this review, the directors conclude that no impairment is required.

The calculation of value in use for each CGU is most sensitive to the principal assumptions of discount rate and growth rates. Sensitivity analysis has been performed on the calculations and confirms that no reasonably possible changes in the assumptions would exceed their recoverable amount for any of the CGUs. The headroom on the Hotel Principe di Savoia goodwill is shown below.

# Dorchester Group Limited

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

### 13. Goodwill (continued)

The headroom by the principal CGUs and sensitivities thereon, which are shown as follows

Cash generating unit (CGU)	Hotel Principe di Savoia, Italy		
	Actual impairment analysis	Decrease growth rate by 1%	Increase discount rate by 1%
	£'000	£'000	£'000
<b>As at 31 December 2012</b>			
Value in use	206,688	185,504	175,435
Less carrying value of land and buildings	(149,242)	(149,242)	(149,242)
Less carrying value of goodwill	(22,254)	(22,254)	(22,254)
Headroom	<u>35,192</u>	<u>14,008</u>	<u>3,939</u>

Cash generating unit (CGU)	Hotel Principe di Savoia, Italy		
	Actual impairment analysis	Decrease growth rate by 1%	Increase discount rate by 1%
	£'000	£'000	£'000
<b>As at 31 December 2011</b>			
Value in use	261,839	207,979	199,050
Less carrying value of land and buildings	(164,670)	(164,670)	(164,670)
Less carrying value of goodwill	(22,921)	(22,921)	(22,921)
Headroom	<u>74,248</u>	<u>20,388</u>	<u>11,459</u>

# Dorchester Group Limited

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

### 14. Property, plant and equipment

	Land and buildings £'000	Plant and Machinery £'000	Fixtures, fittings and equipment £'000	Assets under construction £'000	Total £'000
<b>Cost or valuation</b>					
At 1 January 2011	1,216,115	57,183	163,552	6,938	1,443,788
Capital additions	3,242	4,571	11,536	12,349	31,698
Transfers	6,991	4,276	2,996	(14,263)	-
Disposals/write offs	(11)	(430)	(5,056)	-	(5,497)
Revaluation/(Devaluation)	50,972	-	-	-	50,972
Foreign exchange	(13,612)	(1,559)	(2,641)	(270)	(18,082)
At 31 December 2011	1,263,697	64,041	170,387	4,754	1,502,879
Capital additions	369	2,677	11,090	15,370	29,506
Transfers	2,326	1,427	2,073	(5,826)	-
Disposals/write offs	(53)	(108)	(11,889)	(147)	(12,197)
Revaluation/(Devaluation)	(4,792)	-	-	-	(4,792)
Foreign exchange	(26,063)	(1,421)	(3,842)	(148)	(31,474)
At 31 December 2012	1,235,484	66,616	167,819	14,003	1,483,922
<b>Depreciation</b>					
At 1 January 2011	(95)	(50,165)	(99,477)	-	(149,737)
Charge	(780)	(4,587)	(12,517)	-	(17,884)
Transfers	-	190	(190)	-	-
Disposal/write offs	-	401	5,033	-	5,434
Revaluation/(Devaluation)	767	-	-	-	767
Foreign exchange	(25)	1,258	1,644	-	2,877
At 31 December 2011	(133)	(52,903)	(105,507)	-	(158,543)
Charge	(881)	(5,767)	(14,439)	-	(21,087)
Disposals/write offs	-	101	11,855	-	11,956
Revaluation/(Devaluation)	865	-	-	-	865
Foreign exchange	3	1,306	2,219	-	3,528
At 31 December 2012	(146)	(57,263)	(105,872)	-	(163,281)
<b>Carrying amount</b>					
<b>Net book value</b>					
At 31 December 2012	1,235,338	9,353	61,947	14,003	1,320,641
At 31 December 2011	1,263,564	11,138	64,880	4,754	1,344,336
At 31 December 2010	1,216,020	7,018	64,075	6,938	1,294,051

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**14. Property, plant and equipment (continued)**

Included in the net book value of fixtures, fittings and equipment are items held under finance lease with a net book value of £8,000 (2011 £155,000)

The net book value of land and buildings comprise

	2012 £'000	2011 £'000	2010 £'000
Freehold	1,234,053	1,262,213	1,215,894
Long leasehold	124	125	126
Short leasehold	1,161	1,226	-
	<u>1,235,338</u>	<u>1,263,564</u>	<u>1,216,020</u>

Land and buildings were revalued at 31 December 2012 by CBRE, independent valuers not connected with the group, on the basis of market value. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's length terms for similar properties.

At 31 December 2012, had the land and buildings other than investment property of the group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately £766 million (2011 £777 million).

The revaluation surplus is disclosed in note 28.

**15. Investment property**

	2012 £'000	2011 £'000	2010 £'000
Fair value			
At 1 January	99,948	92,234	86,698
Additions	120	413	1,768
Revaluation	2,028	6,574	1,080
Foreign exchange translation differences	(4,399)	727	2,688
At 31 December	<u>97,697</u>	<u>99,948</u>	<u>92,234</u>

All of the Group's investment properties are overseas freehold properties. The comparable cost of the investment properties according to the historical cost convention was £93,313,000 (2011 £97,541,000).

Investment properties were independently valued as at 31 December 2012 by external chartered surveyors on the basis of open market value. The two firms used were CBRE (USA) and Bonz & Company Inc.

The property rental income earned by the group from its investment property amounted to £14,378,000 (2011 £13,663,000). Direct operating expenses arising on the investment property, all of which generated rental income in the period, amounted to £6,818,000 (2011 £6,312,000).

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**16. Subsidiaries**

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

<b>Subsidiary undertakings</b>	<b>Principal activity</b>	<b>Country of incorporation</b>	<b>Shareholding and percentage voting rights</b>
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)
Coworth Park 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)
Hotel Plaza Athenee 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)

**17. Investments**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash on deposit with terms in excess of thirty days	<u>2,520</u>	<u>7,011</u>	<u>6,100</u>

**18 Inventories**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Consumables	4,554	4,513	4,596
Goods for resale	<u>2,279</u>	<u>2,459</u>	<u>2,589</u>
	<u>6,833</u>	<u>6,972</u>	<u>7,185</u>

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

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**19. Trade and other receivables**

**Due within one year**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade debtors	19,814	18,120	14,059
Provision for bad debts	(532)	(553)	(603)
Net trade debtors	19,282	17,567	13,456
Other debtors	3,164	2,324	2,590
Amounts owed by fellow subsidiary undertakings	86,302	84,141	77,651
Overseas corporation tax	1,437	1,156	732
Prepayments and accrued income	11,485	11,294	9,425
	<u>121,670</u>	<u>116,482</u>	<u>103,854</u>

**Trade debtors that are not impaired**

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Neither past due nor impaired	5,962	5,321	5,828
Less than 1 month past due	7,194	6,730	3,652
1 to 3 months past due	2,676	2,966	2,960
More than 3 months past due	3,450	2,550	1,016
Total	<u>19,282</u>	<u>17,567</u>	<u>13,456</u>

Trade debtors that are not impaired refer to debtors where no provision of doubtful debt is provided and aging is past credit term

Receivables that are neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as these are considered fully recoverable

**Due after more than one year**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Prepayments and accrued income	<u>3,065</u>	<u>3,346</u>	<u>-</u>

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**20. Borrowings**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Included within current liabilities</b>			
Bank loans (secured) and overdrafts	-	15,864	17,936
Loans from ultimate parent undertakings	203,929	61,491	57,952
	<u>203,929</u>	<u>77,355</u>	<u>75,888</u>
<b>Included within non-current liabilities</b>			
Bank loans (secured)	-	139,470	159,121
Loans from ultimate parent undertaking			
Unsecured, subordinated and interest free	-	-	5,245
Loans from fellow subsidiary undertakings			
Unsecured, subordinated and interest free	186,982	191,340	195,176
Unsecured, subordinated and interest bearing	86,024	87,437	85,251
	<u>273,006</u>	<u>418,247</u>	<u>444,793</u>
<b>Total borrowings</b>	<u><b>476,935</b></u>	<u><b>495,602</b></u>	<u><b>520,681</b></u>

At 31 December 2012 the group had no bank loans. Bank loans had been advanced under several facilities with the same bank, until they were repaid on 27 December 2012. They were denominated in Euros and Sterling, taken out in 2003 and were secured on the hotel assets. Repayments were made twice a year, with final repayment being due in June 2013. Interest was linked to LIBOR or EURIBOR rates of the country in which currency the loans were denominated, plus a margin of between 0.75% to 0.80%. The weighted average year end interest rate for these loans, net of interest rate swaps (see below), was nil (2011, 3.19%).

The interest bearing loans from fellow subsidiary undertakings of the Brunei Investment Agency ("BIA") bear interest at floating rates. The weighted average year end interest rate for these loans was 1.44% (2011, 2.09%).

The interest rate swaps which had been in force through the year were all cancelled on 27 December 2012.

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**20. Borrowings (continued)**

	<b>2012 £'000</b>	<b>2011 £'000</b>	<b>2010 £'000</b>
<b>Loans maturing between:</b>			
Within 1 year	203,929	77,355	75,888
1 to 2 years amount to	672	140,158	21,131
2 to 5 years amount to	210,003	215,732	361,310
Over 5 years amount to	62,331	62,357	62,352
	<u>476,935</u>	<u>495,602</u>	<u>520,681</u>

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 2012 the amount of unamortised loan issue costs were £nil (2011: £312,000).

**21. Derivative financial instruments**

	<b>2012 £'000</b>	<b>2011 £'000</b>	<b>2010 £'000</b>
<b>Financial liabilities carried at fair value through profit or loss (FVTPL)</b>			
Interest rate swaps	<u>-</u>	<u>3,268</u>	<u>4,889</u>

Further details of derivative financial instruments are provided in note 35.



# Dorchester Group Limited

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

### 22. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting period

	Land & Buildings £'000	Financial assets £'000	Investment properties £'000	Pension £'000	Tax losses £'000	Other temporary differences £'000	Total £'000
<b>Asset/(liability) at 1 January 2011</b>	(273,847)	1,320	(2,445)	1,951	19,180	7,217	(246,624)
(Charge)/credit to profit or loss	(4,060)	(503)	(489)	57	6,025	(1,639)	(609)
Charge to other comprehensive income	(6,748)	-	-	(688)	-	-	(7,436)
Exchange differences	2,496	-	(38)	-	(712)	(115)	1,631
<b>At 31 December 2011</b>	(282,159)	817	(2,972)	1,320	24,493	5,463	(253,038)
(Charge)/credit to profit or loss	599	(817)	(854)	(59)	817	(98)	(412)
Charge to other comprehensive income	4,311	-	-	95	-	-	4,406
Exchange differences	6,055	-	148	-	(713)	(152)	5,338
<b>At 31 December 2012</b>	(271,194)	-	(3,678)	1,356	24,597	5,213	(243,706)

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes

	2012 £'000	2011 £'000	2010 £'000
Deferred tax liabilities	(274,872)	(285,131)	(276,292)
Deferred tax assets	31,166	32,093	29,668
	(243,706)	(253,038)	(246,624)

No deferred tax asset has been recognised in respect of tax losses of £189,000 (2011 £189,000, 2010 £18,301,000) as it is not considered probable that there will be future taxable profits available against which to offset them

No deferred tax liability is recognised on temporary differences of £366m (2011 £113m) relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timings of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future

## **Dorchester Group Limited**

### **Notes to the consolidated financial statements (continued)**

For the year ended 31 December 2012

#### **23. Obligations under finance leases**

Commitments under finance leases are set out below

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Obligations under finance leases:</b>			
Minimum lease payments payable			
Within one year	199	199	199
In the second to fifth year inclusive	135	334	532
	<u>334</u>	<u>533</u>	<u>731</u>
Less Finance charges allocated to future years	(79)	(126)	(172)
	<u>255</u>	<u>407</u>	<u>559</u>

#### **24. Trade and other payables**

##### **Due within one year**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Amounts owed to ultimate parent undertakings	6,339	6,178	4,581
Trade creditors	16,780	15,420	14,014
Other creditors	1,453	2,365	2,349
Accruals, deferred income and guest deposits	24,666	21,444	16,344
VAT and other sales taxes	1,623	493	574
PAYE and other payroll taxes	7,257	11,726	9,752
	<u>58,118</u>	<u>57,626</u>	<u>47,614</u>

Trade creditors are paid in line with the terms that are agreed with suppliers, which range from 30 to 90 days

##### **Due after more than one year**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Operating lease rental straight lining	<u>3,605</u>	<u>2,756</u>	<u>878</u>

This relates to adjustments to equalise two (2011, two) property operating leases where the rentals payable for the initial years are stepped and include rent free periods, whereas rent expense to profit or loss is recognised on a straight line basis

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**25. Provisions**

	<b>£'000</b>
Balance at 1 January 2011	602
Utilisation	(25)
Charged to consolidated income statement	210
Foreign exchange gain	(22)
	<hr/>
Balance at 31 December 2011	765
Utilisation	(18)
Charged to consolidated income statement	734
Foreign exchange gain	(20)
	<hr/>
Balance at 31 December 2012	<u>1,461</u>

These provisions relate mainly to potential payments in respect of a number of outstanding claims relating to renovation projects and employment termination disputes in the European hotels.

**26. Share capital**

	<b>2012</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Called up share capital;</b>			
<b>Authorised:</b>			
ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
<b>Allotted, called up and fully paid</b>			
ordinary shares of £1 each	<u>120,009</u>	<u>120,009</u>	<u>120,009</u>

**27. Share premium**

Movements in share premium are included in the consolidated statement of changes in equity on page 12

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**28 Revaluation reserves**

	<b>Land &amp; buildings £'000</b>
Balance at 1 January 2011	349,809
Revaluation increase on land and buildings	49,186
Deferred tax liability arising on revaluation of land and buildings	(6,748)
Foreign exchange	(4,630)
	<hr/>
Balance at 31 December 2011	387,617
Revaluation increase on land and buildings	4,597
Deferred tax liability arising on revaluation of land and buildings	4,311
Foreign exchange	(4,485)
	<hr/>
Balance at 31 December 2012	<u>392,040</u>

**29. Translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. Movements on translation reserve are shown in the consolidated statement of changes in equity on page 12.

**30. Retained earnings**

Retained earnings comprise the cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

**31. Other reserves**

Movements in other reserves are included in the consolidated statement of changes in equity on page 12.

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**32. Notes to the cash flow statement**

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
<b>Profit for the year before tax</b>	26,460	32,636
<b>Adjustments for:</b>		
Investment revenues	(2,057)	(645)
Finance costs	5,137	6,754
Depreciation of property, plant and equipment	21,087	17,884
Increase in fair value of investment property	(2,028)	(6,574)
Increase in provisions	491	50
Reduction/(reversal of ) in value of a freehold hotel property net of foreign exchange effects	8,523	(2,557)
<b>Operating cash flows before movements in working capital</b>	57,613	47,548
(Increase)/decrease in inventories	(25)	120
(Increase) in receivables	(2,546)	(25,254)
Increase in payables	3,187	22,901
<b>Cash generated by operations</b>	58,229	45,315
Income taxes paid	(7,849)	(4,039)
Interest paid	(8,299)	(8,375)
<b>Net cash from operating activities</b>	42,081	32,901

**Cash and cash equivalents**

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Investments (short term bank deposits)	2,520	7,011	6,100
Cash and bank balances	27,477	22,712	41,129
	29,997	29,723	47,229

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

## **Dorchester Group Limited**

### **Notes to the consolidated financial statements (continued)**

For the year ended 31 December 2012

#### **33. Operating lease arrangements**

The total amounts payable under the remainder of the life of non-cancellable operating leases is set out below

	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2011</b>
	<b>Land and</b>	<b>Other</b>	<b>Land and</b>	<b>Other</b>
	<b>buildings</b>	<b>£'000</b>	<b>buildings</b>	<b>£'000</b>
	<b>£'000</b>		<b>£'000</b>	
Operating leases which expire				
Within one year	8,909	530	9,019	978
Between one and five years	30,626	497	33,274	933
After five years	126,464	-	134,001	-
	<u>165,999</u>	<u>1,027</u>	<u>176,294</u>	<u>1,911</u>

#### **The group as lessor**

At the balance sheet date, the group had contracted with tenants for the following future minimum lease payments on operating leases for land and buildings

#### **Hotel properties**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	1,353	1,268
Between one and five years	1,965	2,417
After five years	41	-
	<u>3,359</u>	<u>3,685</u>

#### **Investment properties**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	11,384	11,728
Between one and five years	39,132	38,296
After five years	17,052	21,328
	<u>67,568</u>	<u>71,352</u>

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**34. Retirement benefit schemes**

The group operates two pension schemes in the UK. One is a defined benefit scheme, which is closed to new entrants, and the other is a defined contribution scheme. Pension arrangements in France and Italy are through the state scheme but the employers have deferred retirement liabilities in the form of termination indemnities.

The pension liabilities are as follows:

	2012 £'000	2011 £'000	2010 £'000
UK Pension scheme (see below)	5,893	5,279	7,227
French state pension scheme termination indemnity	1,169	1,140	1,007
Italian state pension scheme termination indemnity	1,755	1,845	2,418
	<u>8,817</u>	<u>8,264</u>	<u>10,652</u>

The company operates a funded pension scheme in the UK providing benefits based on final pensionable pay. The policy for accounting for pensions is included in note 3. 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 6 April 2011, 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 4.20% (2011: 5.1%) per annum, that salary increases would average 5% per annum and that a proportion of members would withdraw from service each year other than by retirement.

The pension charge under this scheme for the year includes current service costs of £315,000 (2011: £380,000), and the total included in finance costs was £189,000 (2011: £348,000). The most recent actuarial valuation showed that the market value of the scheme's assets was £19,807,000 giving a funding level of 77% (2011: 77%).

**Actuarial assumptions**

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

	2012 %	2011 %	2010 %
Discount rate for plan liabilities	4.20	4.80	5.50
Rate of inflation (RPI)	2.85	3.00	3.50
Rate of inflation (CPI)	2.15	2.30	-
Rate of increase in salaries	4.35	4.50	5.00
Rate of increase of pensions in payment	2.15	2.30	3.50
Long term rate of return on plan assets	4.20	5.10	5.77

The weighted average life expectancy for mortality tables used to determine benefit obligations are detailed below:

	2012		2011		2010	
	Male	Female	Male	Female	Male	Female
Member age 65 (current life expectancy)	22.1	24.2	21.9	24.1	22.6	25.7
Member age 45 (life expectancy at age 65)	23.4	25.7	23.4	25.7	24.4	27.8

# Dorchester Group Limited

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

### 34 Retirement benefit schemes (continued)

*The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below*

Assumption	Change in assumption %	Impact on scheme liabilities %
Discount rate	Increase/Decrease by 0.5%	Decrease/Increase by 8.3%
Rate of inflation	Increase/Decrease by 0.5%	Increase/Decrease by 3.5%
Rate of salary growth	Increase/Decrease by 0.5%	Increase/Decrease by 0.6%
Rate of mortality	Increase/Decrease by 1 year	Increase/Decrease by 3.5%

### Balance sheet disclosure

	2012 Rate of return %	2012 Fair value £'000	2011 Rate of return %	2011 Fair value £'000	2010 Rate of return %	2010 Fair value £'000
Equity	6.50	6,621	6.50	5,477	6.50	8,365
Government Bonds	2.85	3,420	2.80	3,320	4.25	2,823
Corporate bonds	4.20	7,303	4.80	6,827	5.50	6,388
Diversified growth funds	6.50	2,288	6.50	2,124	-	-
Net current assets	-	175	-	143	-	-
Total market value of assets		19,807		17,891		17,576
Present value of scheme liabilities		(25,700)		(23,170)		(24,803)
Deficit in the pension plan/pension liability		(5,893)		(5,279)		(7,227)

No property occupied by, or other assets used by the Group are held by the scheme. No amounts are included in the scheme's assets in respect of shares of the company.

*Amounts recognised in income are as follows;*

	2012 £'000	2011 £'000	2010 £'000
<b>Analysis of the amount charged to administration expenses</b>			
Current service cost	(315)	(380)	(311)
Total charge to administration expenses	(315)	(380)	(311)
<b>Analysis of the amount charged to finance costs</b>			
Expected return on plan assets	908	994	1,012
Interest cost on plan liabilities	(1,097)	(1,342)	(1,276)
Net charge to finance costs	(189)	(348)	(264)
Total charge to income for the year	(504)	(728)	(575)



**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**34. Retirement benefit schemes (continued)**

*Amounts recognised in other comprehensive income.*

Amounts included in other comprehensive income for 2012 in respect of the defined benefit plan are as follows

	2012 £'000	2011 £'000	2010 £'000
Difference between actual and expected return on plan assets	1,189	26	278
Experience gains arising on plan liabilities	-	2,299	-
Effects of changes in assumptions underlying the plan liabilities	(2,061)	(149)	(1,741)
Total actuarial gains and losses recognised in comprehensive income,	<u>(872)</u>	<u>2,176</u>	<u>(1,463)</u>

The difference of £1,169,000 between actual and expected return on plan assets is 5.9% of the plan assets as at 31 December 2012. The total actuarial loss of £872,000 represents 3.4% of the present value of scheme liabilities as at 31 December 2012.

The cumulative amount of actuarial gains and losses recognised in the other comprehensive income since the date of transition to IFRS is £(872,000) (2011: £2,176,000).

*Analysis of movement in the present value of defined benefit obligations*

	2012 £'000	2011 £'000	2010 £'000
As at 1 January	(23,170)	(24,803)	(22,611)
Current service cost	(315)	(380)	(311)
Member contributions	(47)	(49)	(53)
Interest on pension scheme liabilities	(1,097)	(1,342)	(1,276)
Actuarial gain/(loss)	(2,061)	2,150	(1,741)
Benefits paid	990	1,254	1,025
Expenses paid	-	-	164
As at 31 December	<u>(25,700)</u>	<u>(23,170)</u>	<u>(24,803)</u>

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**34. Retirement benefit schemes (continued)**

*Analysis of movement in the fair value of the scheme assets*

	2012 £'000	2011 £'000	2010 £'000
As at 1 January	17,891	17,576	16,922
Expected return on plan assets	908	994	1,012
Actuarial gain	1,189	26	278
Employer contributions	762	500	500
Member contributions	47	49	53
Benefits paid	(990)	(1,254)	(1,025)
Expenses paid	-	-	(164)
As at 31 December	19,807	17,891	17,576

*History between the expected and actual return on scheme assets*

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
<b>Present value of defined benefit obligation</b>	(25,700)	(23,170)	(24,803)	(22,611)	(20,457)
Amount (£'000)					
<b>Scheme assets</b>	19,807	17,891	17,576	16,922	12,253
Amount (£'000)					
<b>Surplus/(deficit)</b>	(5,893)	(5,279)	(7,227)	(5,689)	(8,204)
Amount (£'000)					
<b>Difference between the expected and actual return on scheme assets</b>					
Amount (£'000)	1,189	26	278	1,063	3,166
Percentage of scheme assets	6.0%	0.1%	1.6%	6.3%	25.8%
<b>Experience adjustments on scheme liabilities</b>					
Amount (£'000)	-	2,299	-	-	793
Percentage of the present value of the scheme liabilities	-	9.9%	-	-	3.9%
<b>Total amount recognised in comprehensive income</b>					
Amount (£'000)	(872)	2,176	(1,463)	(408)	(2,660)
Percentage of the present value of the scheme liabilities	3.4%	9.4%	5.9%	1.8%	13.0%

The actual return on scheme assets was £2,097,000 (2011 £1,020,000)

The company also operates a defined contributions scheme for which the pension cost charge for the year amounted to £664,000 (2011 £586,000)

The estimated amount of contributions expected to be paid on the scheme during the 2013 financial year is £1,045,000

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**35. Financial Instruments**

**Categories of financial instruments**

	2012 £'000	2011 £'000	2010 £'000
<b>Financial assets</b>			
Cash and bank balances	27,477	22,712	41,129
Held-to-maturity investments	2,520	7,011	6,100
Loans and receivables			
Loans	86,302	84,141	77,651
Trade and other receivables	30,938	28,668	24,318
	<u>147,237</u>	<u>142,532</u>	<u>149,198</u>
<b>Financial liabilities</b>			
Fair value through profit and loss (FVTPL)			
Interest rate swaps	-	3,268	4,889
Loans	476,935	495,602	520,681
Finance lease debt	255	407	559
Trade and other payables	61,723	60,382	48,492
	<u>538,913</u>	<u>559,659</u>	<u>574,621</u>

**Fair value of financial assets and liabilities**

The Group had derivative financial liabilities relating to interest rate swaps and these have been valued in accordance with IFRS 7. The fair value measurement of these financial instruments is categorised as level 2, being derived from inputs other than quoted prices. The fair value of these instruments was £nil (2011: £3,268,000) and this is accounted for as a liability in the consolidated balance sheet. The movement in the fair value has been recorded as a finance cost in the consolidated statement of comprehensive income.

All financial assets and liabilities, excluding interest rate swaps, are accounted for in line with the principles outlined in the accounting policies and the Directors consider the carrying value to approximate their fair value.

**Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2010 and 2011.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 20 after deducting cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 26 to 31.

**Financial risk management objectives**

The Group's treasury policy is to manage financial risks that arise in relation to underlying business needs. This is achieved by managing liquidity, reducing financial risk, mitigation of foreign currency and interest rate risks.

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**35. Financial Instruments (continued)**

**Market risk**

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below). The Group uses the following to manage its exposure to interest rate and foreign currency risks

- Interest rate swaps to mitigate the risk of rising interest rates, and
- Local currency bank accounts and loans for each hotel within the group

**Interest rate risk**

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. The risk is managed by the Group by the use of interest rate swap contracts.

The Group seeks to minimize the effects of this risk by using derivative financial instruments where relevant. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, and the use of financial derivatives and non-derivative financial instruments. Compliance with policies and exposure limits is reviewed on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Interest rate risk is hedged by the Group by exchanging the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts on the group's major external debt via the use of interest rate swaps. Funding for group companies is arranged centrally by the company who regularly monitors interest rate risk.

**Interest rate sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year.

If interest rates had been 0.5 per cent higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2012 would decrease/increase by £702,000 (2011: decrease/increase by £501,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

**Interest rate swap contracts**

At 31 December 2012, the Group held no interest rate swaps nor basis swaps.

Up until 27 December 2012, when they were cancelled, the group held both interest rate and basis swaps. Their nominal principals at 31 December 2011 totaled €170,611,000. Under interest rate swap contracts, the Group agreed to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enabled the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period was determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract. Details are as follows:

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**35. Financial Instruments (continued)**

**Interest rate swap contracts (cont.)**

Under an interest rate swap contract taken out in 2003, which was cancelled on 27 December 2012, on an amortising notional amount (during 2012 it averaged €26,719,000, 2011, €30,113,000), the fixed rate was 3.89%. The floating rate was three months EURIBOR.

Under an interest rate swap contract taken out in 2004, which was cancelled on 27 December 2012, on an amortising notional amount (during 2012 it averaged €16,761,000, 2011, €18,867,000), the fixed rate was 4.29%. The floating rate was three months EURIBOR.

Under an interest rate swap contract taken out in 2004, which was cancelled on 27 December 2012, on an amortising notional amount (during 2012 it averaged €39,109,000, 2011, €44,024,000), the fixed rate was 4.29%. The floating rate was three months EURIBOR.

Under a basis swap contract taken out on 30 June 2011, which expired in June 2012, on an amortising notional amount (during 2012 it averaged €85,306,000 (€90,740,000 in 2011), three month EURIBOR was payable against 1 month EURIBOR plus 6 basis points receivable.

Under a basis swap contract taken out on 30 June 2010, which expired on 30 June 2011, on an amortising notional amount (during 2011 it was €95,268,000, 2010, €99,797,000), three month EURIBOR was payable against 1 month EURIBOR plus 12 basis points receivable.

Details of the carrying amounts of derivative financial instruments are shown later in this note on page 46-47.

**Foreign currency sensitivity analysis**

The Group undertakes transactions denominated in foreign currencies, consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters. The Group is mainly exposed to US Dollar and Euro.

With respect to the Group's foreign currency translation exposure, and assuming all other variables, including interest rates, remain constant, it is estimated that a 5% strengthening of sterling against both the US dollar and the Euro would have decreased net assets by £24,864,000 at 31 December 2012 (2011, £28,221,000) and increased profit before tax by £1,934,000 (2011, decreased by £893,000). A 5% weakening of sterling would exactly reverse the position whereby net assets and profit would increase by the same amounts.

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties. Counterparties for cash and investments are with large established financial institutions. Trade and other receivables credit risk is mitigated by each hotel within the Group having a credit control function to approve counterparties and monitor transactions and exposure. Loans to fellow subsidiary undertakings are backed by a letter of support from the ultimate parent, the Brunei Investment Agency.

**Liquidity risk**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements.

Liquidity is managed on a daily basis by the treasury and finance functions of the Group. They are responsible for ensuring that the Company has adequate liquidity for all operations, ensuring that the funding mix is appropriate so as to avoid maturity mismatches. The Group manages liquidity risk on behalf of the Company by holding sufficient liquid assets of appropriate quality to ensure that short term funding requirements are covered within prudent limits.

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**35. Financial Instruments (continued)**

**Liquidity and interest risk tables**

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Carrying amount £'000	Within 1 year £'000	1 to 2 years £'000	3 to 5 years £'000	5+ years £'000	Total £'000
<b>31 December 2012</b>						
Non-interest bearing loans	241,665	54,683	186,982	-	-	241,665
Variable interest rate loans	232,765	148,811	24,516	5,099	62,331	240,757
Fixed interest rate loans	2,505	2,505	-	-	-	2,505
Finance lease liability	255	152	103	-	-	255
Trade & other payables	61,723	58,273	169	506	2,775	61,723
Tax liabilities	3,372	3,372	-	-	-	3,372
	<u>542,285</u>	<u>267,796</u>	<u>211,770</u>	<u>5,605</u>	<u>65,106</u>	<u>550,277</u>
<b>31 December 2011</b>						
Non-interest bearing loans	246,469	55,128	-	191,341	-	246,469
Variable interest rate loans	246,502	23,524	142,575	28,543	62,357	256,999
Fixed interest rate loans	2,631	2,631	-	-	-	2,631
Finance lease liability	407	152	152	103	-	407
Trade & other payables	60,382	57,626	155	506	2,095	60,382
Tax liabilities	951	951	-	-	-	951
	<u>557,342</u>	<u>140,012</u>	<u>142,882</u>	<u>220,493</u>	<u>64,452</u>	<u>567,839</u>

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**35 Financial Instruments (continued)**

**Non-derivative financial assets**

The following table details the Group's non-derivative financial assets. All amounts are due to be received within one year. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets.

	Carrying amount £'000	Within 1 year £'000	Total £'000
<b>31 December 2012</b>			
Trade & other receivables, excluding prepayments	30,938	30,938	30,938
Amounts owed by fellow subsidiary undertakings - interest bearing	46,244	46,244	46,244
Amounts owed by fellow subsidiary undertakings – non-interest bearing	40,058	40,058	40,058
Investments	2,520	2,520	2,520
Cash and bank balances	27,477	27,477	27,477
	<u>147,237</u>	<u>147,237</u>	<u>147,237</u>
<b>31 December 2011</b>			
Trade & other receivables, excluding prepayments	28,668	28,668	28,668
Amounts owed by fellow subsidiary undertakings - interest bearing	45,308	45,308	45,308
Amounts owed by fellow subsidiary undertakings – non-interest bearing	38,833	38,833	38,833
Investments	7,011	7,011	7,011
Cash and bank balances	22,712	22,712	22,712
	<u>142,532</u>	<u>142,532</u>	<u>142,532</u>

The following table details the Group's liquidity analysis for its derivative financial instruments based on contractual maturities. The table has been drawn up based on the undiscounted net cash inflows and outflows on derivative instruments that settle on a net basis.

	Carrying amount £'000	Within 1 year £'000	1 to 2 years £'000	2 to 3 years £'000	Total £'000
<b>31 December 2011</b>					
Interest rate swaps	<u>3,268</u>	<u>106</u>	<u>3,162</u>	<u>-</u>	<u>3,268</u>
<b>31 December 2012</b>					
Interest rate swaps	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

## **Dorchester Group Limited**

### **Notes to the consolidated financial statements (continued)**

For the year ended 31 December 2012

#### **36. 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 £2,631,119 (2011 £4,355,124). Amounts owed for these services as at 31 December 2012 amounted to £1,949,483 (2011 £1,494,319). The group occupies a building in London owned by a fellow subsidiary undertaking, on an annually renewable agreement. The total annual rent is £1,162,654 (2011 £759,943). It is estimated that the market rent of the building occupied is £1,162,654 (2011 £751,055). Amounts owed for the rental, associated rates and services as at 31 December 2012 amounted to £247,742 (2011 £447,909). Loans from fellow group companies are covered in note 20.

During the year the company incurred branding and trademark license fees of £2,410,976 (2011 £2,470,101) from a fellow subsidiary undertaking. Amounts owed for these fees at 31 December 2012 amounted to £2,410,976 (2011 £2,380,454).

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

The company considers that key management are the board of directors, who provide the direction and strategy of the group. Directors' emoluments are set out in note 8.

#### **37. Subsequent events**

In December 2012 as part of a group finance review, the entire external debt of the group was repaid and refinanced by group bridging loans, which are due to mature on 30 September 2013 and will be replaced with either long term finance from group or will be extended.

On 17 September 2013 the group acquired 100% of the shares of Hotel Eden Srl, a five star hotel property in Rome, Italy.

#### **38. Explanation of transition to International Financial Reporting Standards**

These are the Group's first consolidated annual financial statements prepared in accordance with International Financial Reporting Standards adopted for use in the European Union (IFRS).

The accounting policies noted on pages 15-19 have been applied in preparing the consolidated annual financial statements for the year ended 31 December 2011, the comparative information for the year ended 31 December 2010 and the preparation of an opening IFRS balance sheet at 1 January 2010 (the Group's date of transition).

##### **First Time Adoption**

IFRS 1 establishes the transitional requirements for the first time preparation of financial statements in accordance with IFRS. In general, a company is required to determine its IFRS accounting policies effective at the reporting date and apply these retrospectively to the balance sheet at the date of transition, and all financial statements for the comparative period and the reporting period.

To assist in the transition process, there are a number of exemptions to this retrospective application. The following significant exemption has been adopted by the Group:

- 1 Business combinations: the Group has elected not to account for business combinations retrospectively in accordance with IFRS 3 'Business Combinations'. Those combinations recognised prior to the date of transition have not been restated.



**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**38. Explanation of transition to International Financial Reporting Standards (continued)**

**Overview of Impact**

For Dorchester Group Limited the adoption of IFRS gives rise to the following significant changes

**Measurement**

- 1 Goodwill is no longer amortised but is stated at net book value at transition less any impairment
- 2 The recognition of deferred tax in respect of all taxable temporary differences arising between the tax base and the accounting base of balance sheet items
- 3 Freehold land and buildings are now stated at valuation as opposed to cost less depreciation, and freehold buildings are now depreciated
- 4 The recognition of investment property valuation surpluses and deficits through the income statement (in other operating income) instead of through reserves,
- 5 The recognition of certain financial instruments at fair value Specifically under UK GAAP the Group did not recognise derivatives on the balance sheet
- 6 Lease incentives are spread over the lease term instead of shorter periods which are allowed under UK GAAP

**Presentation**

An explanation of how the transition from previous UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables

Table	
(a)	Reconciliation to present the 31 December 2010 UK GAAP consolidated profit and loss account (under IFRS format headings) for IFRS accounting policies
(b)	Reconciliation to present the 31 December 2010 UK GAAP consolidated balance sheet under IFRS format headings
(c)	Reconciliation to present the 31 December 2010 UK GAAP consolidated balance sheet (under IFRS headings) for IFRS accounting policies
(d)	Reconciliation to restate the 1 January 2010 UK GAAP consolidated balance sheet for IFRS accounting policies

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**38. Explanation of transition to International Financial Reporting Standards (continued)**

Table (a) Reconciliation to restate the 31 December 2010 UK GAAP consolidated profit and loss account for IFRS accounting policies

	2010 UK GAAP £'000 <i>Note</i>	Goodwill Amortisation £'000 (i)	Deferred taxes £'000 (ii)	Hotel property Depreciation & Revaluation £'000 (iii)	Investment property Revaluation £'000 (iv)	Interest rate swaps £'000 (v)	Pension £'000 (vi)	Property rentals £'000 (vii)	2010 IFRS £'000
Turnover/Revenue	266,955	-	-	-	-	-	-	-	266,955
Cost of sales	(131,744)	-	-	-	-	-	-	-	(131,744)
<b>Gross profit</b>	<b>135,211</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>135,211</b>
Administrative expenses	(102,707)	2,562	-	(847)	-	-	(30)	(254)	(101,276)
Other operating income	471	-	-	-	-	-	-	-	471
Revaluation gains on investment property	-	-	-	-	1,080	-	-	-	1,080
Revaluation deficit of hotel property	-	-	-	(7,970)	-	-	-	-	(7,970)
<b>Operating profit</b>	<b>32,975</b>	<b>2,562</b>	<b>-</b>	<b>(8,817)</b>	<b>1,080</b>	<b>-</b>	<b>(30)</b>	<b>(254)</b>	<b>27,516</b>
Interest receivable/finance income	422	-	-	-	-	-	-	-	422
Interest payable/finance expense	(9,366)	-	-	-	-	802	-	-	(8,564)
<b>Profit before tax</b>	<b>24,031</b>	<b>2,562</b>	<b>-</b>	<b>(8,817)</b>	<b>1,080</b>	<b>802</b>	<b>(30)</b>	<b>(254)</b>	<b>19,374</b>
Tax on profit on ordinary activities/income tax	(9,136)	-	465	-	-	-	-	-	(8,671)
<b>Profit for the year</b>	<b>14,895</b>	<b>2,562</b>	<b>465</b>	<b>(8,817)</b>	<b>1,080</b>	<b>802</b>	<b>(30)</b>	<b>(254)</b>	<b>10,703</b>

Profit for the year is attributable solely to the owners of the company

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**38 Explanation of transition to International Financial Reporting Standards (continued)**

Table (b) Reconciliation to present the 31 December 2010 UK GAAP consolidated balance sheet under IFRS format headings

Classification	2010 UK GAAP reported £'000	IFRS presentational reclassifications £'000	2010 UK GAAP (IFRS presentation) £'000
<b>Fixed assets/Non-current assets</b>			
Goodwill	32,525	-	32,525
Tangible assets/Property, plant and equipment	773,484	-	773,484
Investment properties	92,234	-	92,234
	<u>898,243</u>	<u>-</u>	<u>898,243</u>
<b>Current assets</b>			
Stocks/Inventories	7,185	-	7,185
Investments	6,100	-	6,100
Debtors due within one year/Trade and other receivables	103,854	-	103,854
Cash at bank and in hand/Cash and bank balances	41,129	-	41,129
	<u>158,268</u>	<u>-</u>	<u>158,268</u>
<b>Creditors: less than one year/Current liabilities</b>	(126,122)	126,122	-
Trade and other payables	-	(47,614)	(47,614)
Current tax liabilities	-	(2,468)	(2,468)
Obligations under finance leases	-	(152)	(152)
Borrowings	-	(75,888)	(75,888)
	<u>(126,122)</u>	<u>-</u>	<u>(126,122)</u>
<b>Creditors: greater than one year/Non-current liabilities</b>	(445,824)	445,824	-
Borrowings	-	(444,793)	(444,793)
Pension liability/Retirement benefit obligations	(8,799)	-	(8,799)
Deferred tax liabilities	(51,269)	-	(51,269)
Provisions	(602)	-	(602)
Obligations under finance leases	-	(407)	(407)
Trade and other payables	-	(624)	(624)
	<u>(506,494)</u>	<u>-</u>	<u>(506,494)</u>
<b>Provisions for liabilities and charges</b>	-	-	-
<b>Net assets</b>	<u>423,895</u>	<u>-</u>	<u>423,895</u>

## **Dorchester Group Limited**

### **Notes to the consolidated financial statements (continued)**

For the year ended 31 December 2012

#### **38 Explanation of transition to International Financial Reporting Standards (continued)**

Table (b) Reconciliation to present the 31 December 2010 UK GAAP consolidated balance sheet under IFRS format headings (Continued)

Classification	2010 UK GAAP reported £'000	IFRS presentational reclassifications £'000	2010 UK GAAP (IFRS presentation) £'000
<b>Capital and reserves</b>			
Called up share capital	120,009	-	120,009
Share premium account	37,711	-	37,711
Revaluation reserve	848	-	848
Profit and loss account / Retained earnings	192,660	(5,221)	187,439
Translation reserve	-	5,221	5,221
Other reserves	72,667	-	72,667
<b>Total capital employed</b>	<b>423,895</b>	<b>-</b>	<b>423,895</b>

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**38 Explanation of transition to International Financial Reporting Standards (continued)**

Table (c) Reconciliation to restate the 31 December 2010 UK GAAP consolidated balance sheet (under IFRS format headings) for IFRS accounting policies

	2010 UK GAAP in IFRS £'000 Note	1 January 2010 adjusts. £'000 See table (d)	Goodwill amortisation £'000 (i)	Deferred taxes £'000 (ii)	Property Plant & equipment £'000 (iii)	Investment Properties revaluation £'000 (iv)	Interest rate swaps £'000 (v)	Pensions £'000 (vi)	Property rental £'000 (vii)	2010 IFRS £'000
<b>Non-current assets</b>										
Goodwill	32,525	-	2,566	-	-	-	-	-	-	35,091
Property, plant and equipment	773,484	471,905	-	-	48,662	-	-	-	-	1,294,051
Investment properties	92,234	-	-	-	-	-	-	-	-	92,234
Deferred tax assets	-	32,096	-	(2,428)	-	-	-	-	-	29,668
	898,243	504,001	2,566	(2,428)	48,662	-	-	-	-	1,451,044
<b>Current assets</b>										
Inventories	7,185	-	-	-	-	-	-	-	-	7,185
Investments	6,100	-	-	-	-	-	-	-	-	6,100
Trade and other receivables	103,854	-	-	-	-	-	-	-	-	103,854
Cash and bank balances	41,129	-	-	-	-	-	-	-	-	41,129
	158,268	-	-	-	-	-	-	-	-	158,268
<b>Total assets</b>	<b>1,056,511</b>	<b>504,001</b>	<b>2,566</b>	<b>(2,428)</b>	<b>48,662</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,609,312</b>
<b>Current liabilities</b>										
Borrowings	(75,888)	-	-	-	-	-	-	-	-	(75,888)
Trade and other payables	(47,614)	-	-	-	-	-	-	-	-	(47,614)
Obligations under finance leases	(152)	-	-	-	-	-	-	-	-	(152)
Derivative financial liabilities	-	(5,691)	-	-	-	-	802	-	-	(4,889)
Current tax liabilities	(2,468)	-	-	-	-	-	-	-	-	(2,468)
	(126,122)	(5,691)	-	-	-	-	802	-	-	(131,011)
<b>Non-current liabilities</b>										
Borrowings	(444,793)	-	-	-	-	-	-	-	-	(444,793)
Retirement benefit obligations	(8,799)	(1,392)	-	(431)	-	-	-	(30)	-	(10,652)
Provisions	(602)	-	-	-	-	-	-	-	-	(602)
Trade and other payables	(624)	-	-	-	-	-	-	-	(254)	(878)
Obligations under finance leases	(407)	-	-	-	-	-	-	-	-	(407)
Deferred tax liabilities	(51,269)	(213,510)	-	(11,513)	-	-	-	-	-	(276,292)
	(506,494)	(214,902)	-	(11,944)	-	-	-	(30)	(254)	(733,624)
<b>Total liabilities</b>	<b>(632,616)</b>	<b>(220,593)</b>	<b>-</b>	<b>(11,944)</b>	<b>-</b>	<b>-</b>	<b>802</b>	<b>(30)</b>	<b>(254)</b>	<b>(864,635)</b>
<b>Net assets</b>	<b>423,895</b>	<b>283,408</b>	<b>2,566</b>	<b>(14,372)</b>	<b>48,662</b>	<b>-</b>	<b>802</b>	<b>(30)</b>	<b>(254)</b>	<b>744,677</b>

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**38 Explanation of transition to International Financial Reporting Standards (continued)**

Table (c) Reconciliation to restate the 31 December 2010 UK GAAP consolidated balance sheet (under IFRS format headings) for IFRS accounting policies (Continued)

	2010 UK GAAP in IFRS presentation £'000 Note	1 January 2010 adjusts £'000 See table (d)	Goodwill amortisation £'000 (i)	Deferred taxes £'000 (ii)	Property Plant & equipment £'000 (iii)	Investment Properties revaluation £'000 (iv)	Interest rate swaps £'000 (v)	Pensions £'000 (vi)	Property rental £'000 (vu)	2010 IFRS £'000
<b>Equity</b>										
Issued capital	120,009	-	-	-	-	-	-	-	-	120,009
Share premium	37,711	-	-	-	-	-	-	-	-	37,711
Revaluation reserve	848	310,428	-	-	39,606	(1,073)	-	-	-	349,809
Other reserves	72,667	-	-	-	-	-	-	-	-	72,667
Retained earnings	187,439	(27,020)	2,562	(17,095)	8,670	1,080	802	(30)	(254)	156,154
Translation reserve	5,221	-	4	2,723	386	(7)	-	-	-	8,327
<b>Total equity</b>	<b>423,895</b>	<b>283,408</b>	<b>2,566</b>	<b>(14,372)</b>	<b>48,662</b>	<b>-</b>	<b>802</b>	<b>(30)</b>	<b>(254)</b>	<b>744,677</b>

# Dorchester Group Limited

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

### 38 Explanation of transition to International Financial Reporting Standards (continued)

Table (d) Reconciliation to restate the 1 January 2010 UK GAAP consolidated balance sheet for IFRS accounting policies

	UK GAAP £'000 <i>Note</i>	Goodwill amortisation £'000 <i>(i)</i>	Deferred taxes £'000 <i>(ii)</i>	Property Plant & equipment revaluation £'000 <i>(iii)</i>	Investment Properties revaluation £'000 <i>(iv)</i>	Interest rate swaps £'000 <i>(v)</i>	Pension £'000 <i>(vi)</i>	IFRS £'000
<b>Non-current assets</b>								
Goodwill	36,385	-	-	-	-	-	-	36,385
Property, plant and equipment	776,359	-	-	471,905	-	-	-	1,248,264
Investment properties	86,698	-	-	-	-	-	-	86,698
Deferred tax assets	-	-	32,096	-	-	-	-	32,096
	<u>899,442</u>	<u>-</u>	<u>32,096</u>	<u>471,905</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,403,443</u>
<b>Current assets</b>								
Inventories	7,187	-	-	-	-	-	-	7,187
Investments	27,779	-	-	-	-	-	-	27,779
Trade and other receivables	81,397	-	-	-	-	-	-	81,397
Cash and bank balances	26,097	-	-	-	-	-	-	26,097
	<u>142,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>142,460</u>
<b>Total assets</b>	<u>1,041,902</u>	<u>-</u>	<u>32,096</u>	<u>471,905</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,545,903</u>
<b>Current liabilities</b>								
Trade and other payables	(41,094)	-	-	-	-	-	-	(41,094)
Current tax liabilities	(2,635)	-	-	-	-	-	-	(2,635)
Obligations under finance leases	(152)	-	-	-	-	-	-	(152)
Borrowings	(58,808)	-	-	-	-	-	-	(58,808)
Derivative financial liabilities	-	-	-	-	-	(5,691)	-	(5,691)
	<u>(102,689)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,691)</u>	<u>-</u>	<u>(108,380)</u>
<b>Non-current liabilities</b>								
Borrowings	(455,373)	-	-	-	-	-	-	(455,373)
Retirement benefit obligations	(7,752)	-	(1,593)	-	-	-	201	(9,144)
Deferred tax liabilities	(47,361)	-	(213,510)	-	-	-	-	(260,871)
Provisions	(1,410)	-	-	-	-	-	-	(1,410)
Obligations under finance leases	(558)	-	-	-	-	-	-	(558)
Trade and other payables	-	-	-	-	-	-	-	-
	<u>(512,454)</u>	<u>-</u>	<u>(215,103)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>201</u>	<u>(727,356)</u>
<b>Total liabilities</b>	<u>(615,143)</u>	<u>-</u>	<u>(215,103)</u>	<u>-</u>	<u>-</u>	<u>(5,691)</u>	<u>201</u>	<u>(835,736)</u>
<b>Net assets</b>	<u>426,759</u>	<u>-</u>	<u>(183,007)</u>	<u>471,905</u>	<u>-</u>	<u>(5,691)</u>	<u>201</u>	<u>710,167</u>





**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**38. Explanation of transition to International Financial Reporting Standards (continued)**

Table (d) Reconciliation to restate the 1 January 2010 UK GAAP consolidated balance sheet for IFRS accounting policies (Continued)

	UK GAAP £'000 <i>Note</i>	Goodwill amortisation £'000 <i>(i)</i>	Deferred taxes £'000 <i>(ii)</i>	Property Plant & equipment revaluation £'000 <i>(iii)</i>	Investment Properties revaluation £'000 <i>(iv)</i>	Interest rate swaps £'000 <i>(v)</i>	Pension £'000 <i>(vi)</i>	IFRS £'000
<b>Equity</b>								
Issued capital	120,009	-	-	-	-	-	-	120,009
Share premium	37,711	-	-	-	-	-	-	37,711
Revaluation reserve	(225)	-	(227,664)	537,867	225	-	-	310,203
Retained earnings	196,597	-	44,657	(65,962)	(225)	(5,691)	201	169,577
Translation reserve	-	-	-	-	-	-	-	-
Other reserves	72,667	-	-	-	-	-	-	72,667
<b>Total equity</b>	<b>426,759</b>	<b>-</b>	<b>(183,007)</b>	<b>471,905</b>	<b>-</b>	<b>(5,691)</b>	<b>201</b>	<b>710,167</b>

Notes to tables (a) to (d)

**i. Goodwill amortisation**

The Group has adopted IAS 38 which has resulted in adding back to the income statement the amortisation charge in 2010 (table (a)), and increasing the value of goodwill and retained earnings at 31 December 2010 (table (c)). There is no effect on values at the date of transition to IFRS (1 January 2010), because IFRS 1 directs that previous amortisation of goodwill should not be reversed on transition.

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**38. Explanation of transition to International Financial Reporting Standards (continued)**

Notes to tables (a) to (d) (Continued)

**ii Deferred taxes**

	<b>1 January 2010</b> <b>£'000</b>	<b>31 December</b> <b>2010</b> <b>£'000</b>
Group deferred tax liability – UK GAAP	54,377	58,184
Group deferred tax asset – UK GAAP	(7,016)	(6,915)
Group net deferred tax liability – UK GAAP	47,361	51,269
Property assets*	206,494	218,108
Other	(9,123)	(7,283)
Tax losses carry forward	(14,364)	(13,519)
Deferred tax on pension liability now grossed up under IFRS	(1,593)	(1,951)
Increase in deferred tax liability	181,414	195,355
<b>Group net deferred tax liability – IFRS</b>	<b>228,775</b>	<b>246,624</b>
Comprising,		
Group deferred tax liability – IFRS	260,871	276,292
Group deferred tax asset – IFRS	(32,096)	(29,668)
Group net deferred tax liability – IFRS	228,775	246,624

\*Property assets comprise property, plant and equipment and investment properties

**iii. Property, plant and equipment**

On the adoption of IAS16, the Group has changed to a revaluation approach from using depreciated historic cost. This has resulted in an increase in the value of property, plant and equipment and revaluation reserve at date of transition to IFRS (1/1/2010, table (d)) and further increases as a result of an annual revaluation at 31 December 2010 (table (c)).

On the adoption of IAS16, the Group depreciates freehold buildings. Table (a) shows the adjustment to charge depreciation on freehold buildings to profit or loss for 2010.

**iv. Investment properties**

The Group has adopted IAS 40 'Investment Property'. IAS 40 is consistent with the Group's previous accounting policy of revaluing investment properties annually. The principal change under IFRS is that valuation surpluses and deficits arising are required to be recorded in the income statement (in other operating income) under IAS 40. Under UK GAAP, such surpluses and deficits were recorded directly within reserves. The adjustment to profit or loss is shown in table (a).

**Dorchester Group Limited**  
**Notes to the consolidated financial statements (continued)**  
For the year ended 31 December 2012

**38. Explanation of transition to International Financial Reporting Standards (continued)**

Notes to tables (a) to (d) (Continued)

**v. Interest rate swaps**

Under UK GAAP, the Group did not recognise derivatives. In accordance with IFRS, derivatives are recognised at fair value through profit or loss. The effect is to include the liability on the balance sheet and a corresponding reduction in reserves, at 1 January 2010 see table (d), at 31 December 2010 see table (c). The adjustment to profit or loss in 2010 is shown in table (a).

**vi. Retirement benefit obligations**

On the adoption of IAS 19, 'Employee Benefits' the group reviewed the valuation of retirement benefit obligations in each scheme host country resulting in a reduction of the liability and increase in retained earnings at 1 January 2010 and as shown in table d. The adjustments relating to 2010 are shown in tables (a) and (c).

**vii. Property rentals payable**

Under UK GAAP, the Group spread initial lease incentives on operating leases on a straight line basis over the period to the first rent review. Under IFRS they are spread over the period of the lease. This has resulted in an extra charge to profit or loss in 2010 as shown in table (a).

**viii. Total effect on equity for 2010**

A summary of the effect on total equity of the adjustments set out in the above notes is set out below

	<b>1 January 2010 £'000</b>	<b>31 December 2010 £'000</b>
(i) Goodwill amortisation	-	2,566
(ii) Deferred tax	(183,007)	(197,379)
(iii) Property plant and equipment revaluations	471,905	521,414
Freehold buildings depreciation	-	(847)
(iv) Investment properties	-	-
(v) Interest rate swap recognition	(5,691)	(4,889)
(vi) Retirement benefit obligations	201	171
(vii) Property rentals payable	-	(254)
<b>Net increase in total equity</b>	<b>283,408</b>	<b>320,782</b>

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**Dorchester Group Limited**  
**Company financial statements**  
For the year ended 31 December 2012


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**Dorchester Group Limited**  
**Company balance sheet**  
As at 31 December 2012

		2012		2011	
	Notes	£000	£000	£000	£000
<b>Fixed assets</b>					
Investments	D		343,871		433,268
Tangible fixed assets	C		10		33
			<u>343,881</u>		<u>433,301</u>
<b>Current assets</b>					
Debtors amounts falling due within one year	E	41,192		39,105	
Debtors amounts falling due after more than one year	F	134,042		186,701	
Cash at bank and in hand		<u>1,426</u>		<u>285</u>	
		176,660		226,091	
<b>Creditors: amounts falling due within one year</b>	G	<u>(84,281)</u>		<u>(56,252)</u>	
<b>Net current assets</b>			<u>92,379</u>		<u>169,839</u>
<b>Total assets less current liabilities</b>			436,260		603,140
<b>Creditors: amounts falling due after more than one year</b>	H		<u>(182,398)</u>		<u>(263,466)</u>
<b>Net assets</b>			<u>253,862</u>		<u>339,674</u>
<b>Capital and reserves</b>					
Called up share capital	I, J		120,009		120,009
Share premium account	I		37,711		37,711
Profit and loss account	I		<u>96,142</u>		<u>181,954</u>
<b>Shareholder's funds</b>	I		<u>253,862</u>		<u>339,674</u>

These financial statements of Dorchester Group Limited (company no 01823605) were approved and authorised for issue by the Board of Directors on 2013

Signed on behalf of the Board of Directors



Khairuddin Abd Hamid  
Director

**Dorchester Group Limited**  
**Notes to the company accounts**  
For the year ended 31 December 2012

**A. 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.

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future, as further discussed in the Director's report.

**Accounting convention and basis of preparation**

The financial statements are prepared under the historical cost convention.

The company has taken advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own profit and loss account. The loss after tax dealt with in the accounts of Dorchester Group Limited, determined in accordance with the Act, was £85,812,000 (2011: £12,544,000 loss).

Under FRS1 (revised) 'Cash Flow Statements', the Company is exempt from the requirement to prepare a cash flow statement as its cash flows are included within the published consolidated cash flow statement of Dorchester Group Limited.

The Company is also exempt under the terms of the revised FRS 8 'Related Party Disclosures' from disclosing related party transactions with wholly-owned subsidiaries within the Group.

**Investments**

Investments held as fixed assets are stated at cost less provision for any impairment.

**Financial instruments**

Interest rate swaps are held off balance sheet but disclosed in the notes of the consolidated 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 and a Euro loan due to Brunei Investment Agency taken to finance the acquisition of the subsidiary.

**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

**Dorchester Group Limited**  
**Notes to the company accounts (continued)**  
For the year ended 31 December 2012

**A. Accounting policies (continued)**

**Impairment**

The carrying amounts of the Company's tangible fixed assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of assets is the greater of their net realisable value and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

Impairment is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount.

**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.

**Leases**

The Company has no assets held under finance leases and other similar contracts. Amounts payable under operating leases are charged to the profit and loss account on an accruals basis.

**Taxation**

Current 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.

No deferred tax was recognised at 31 December 2012 (2011: nil).

**B Directors' remuneration and employees**

Details of Directors' remuneration in the current and prior year are given in note 8 of the consolidated financial statement on pages 21-22.

The average number of employees excluding Directors during the year was 4 (2011: 3).

**Dorchester Group Limited**  
**Notes to the company accounts (continued)**  
For the year ended 31 December 2012

**C. Tangible Fixed Assets**

	<b>Plant and machinery £000</b>	<b>Fixtures, fittings and equipment £000</b>	<b>Total £000</b>
<b>Cost</b>			
At 1 January 2012 and 31 December 2012	93	29	122
<b>Accumulated depreciation</b>			
At 1 January 2012	68	21	89
Charge	17	6	23
At 31 December 2012	85	27	112
<b>Net book value</b>			
At 31 December 2012	8	2	10
At 31 December 2011	25	8	33

**D. Fixed asset investments**

	<b>2012 £000</b>	<b>2011 £000</b>
<b>Cost</b>		
<b>at 1 January</b>		
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
Sub total	319,481	319,481
Loans to subsidiary undertakings	123,391	123,391
<b>at 31 December</b>	<b>442,872</b>	<b>442,872</b>
<b>Provision for impairment</b>		
<b>at 1 January</b>	9,604	-
Impairment charge	89,397	9,604
<b>at 31 December</b>	<b>99,001</b>	<b>9,604</b>
<b>Net book value</b>	<b>343,871</b>	<b>433,268</b>



**Dorchester Group Limited**  
**Notes to the company accounts (continued)**  
For the year ended 31 December 2012

**D. Fixed asset investments (continued)**

The company has 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)
Coworth Park 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)
Hotel Plaza Athenee 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)

**E. Debtors: amounts falling due within one year**

	2012 £000	2011 £000
Amounts owed by subsidiary undertakings	41,138	39,060
Amounts owed by fellow subsidiary undertakings	18	1
Prepayments	35	43
Other debtors	1	1
	<u>41,192</u>	<u>39,105</u>

**F. Debtors: amounts falling due after more than one year**

	2012 £000	2011 £000
Loans to subsidiary undertakings at floating rates	14,769	68,419
Loans to subsidiary undertakings free of interest	119,273	118,282
	<u>134,042</u>	<u>186,701</u>

**Dorchester Group Limited**  
**Notes to the company accounts (continued)**  
For the year ended 31 December 2012

**G. Creditors' amounts falling due within one year**

	<b>2011</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Amounts owed to subsidiary undertakings	268	1,674
Amounts owed to ultimate parent undertakings	83,019	47,211
Bank loans and overdrafts	-	6,767
Trade creditors	121	53
Accruals and deferred income	873	547
	<u>84,281</u>	<u>56,252</u>

**H. Creditors' amounts falling due after more than one year**

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Bank loan (secured)	-	77,669
Loan from subsidiary undertaking – unsecured, subordinated and interest free	27,455	27,455
Loan from fellow subsidiary undertaking – unsecured, subordinated and interest free	154,943	158,342
	<u>182,398</u>	<u>263,466</u>

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Loans maturing within		
1 to 2 years	154,943	77,669
2 to 5 years	27,455	158,342
Over 5 years	-	27,455
	<u>182,398</u>	<u>263,466</u>

Bank loans were 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. All bank loans were repaid and refinanced by group debt at the end of December 2012. In addition to repaying the bank loans, all interest swaps, which had been in force through the year, were cancelled as at the end of December 2012. The company did not hold any interest rate swaps with any fair value (2011: £3,268,000 liability).

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 2012 the amount of unamortised loan issue costs were nil (2011: £312,000).

**Dorchester Group Limited**  
**Notes to the company accounts (continued)**  
For the year ended 31 December 2012

**I. Reconciliation of movements in shareholders' funds**

	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
Balance at 1 January 2012	120,009	37,711	181,954	339,674
Loss for the year	-	-	(85,812)	(85,812)
Balance at 31 December 2012	<u>120,009</u>	<u>37,711</u>	<u>96,142</u>	<u>253,862</u>

The company paid no dividends in 2012 (2011 nil)

**J. Called up share capital**

	2012 £000	2011 £000
<b>Authorised:</b>		
ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>
<b>Allotted, called up and fully paid:</b>		
ordinary shares of £1 each	<u>120,009</u>	<u>120,009</u>

**K. Financial commitments**

At 31 December 2012, the company had annual commitments under non-cancellable operating leases as set out below

	2012 Land and buildings £000	2011 Land and buildings £000
Operating leases which expire Within one year	<u>132</u>	<u>132</u>

At 31 December 2012, the company had no capital commitments (2011 nil)

**L. Contingent liabilities**

There were no contingent liabilities at the end of the financial year

**Dorchester Group Limited**  
**Notes to the company accounts (continued)**  
For the year ended 31 December 2012

**M. Ultimate parent and controlling party**

Ammar Holding Cooperatief a Dutch COOP is the immediate controlling party and the smallest group in which the company is consolidated. The ultimate parent and controlling party is the Brunei Investment Agency, a statutory body incorporated in Brunei, and the largest group in which the company is consolidated.

**N. Subsequent events**

In December 2012 as part of a group finance review, the entire external debt of the company was repaid and refinanced by group bridging loans, which are due to mature on 30 September 2013 and will be replaced with either long term finance from group or will be extended.

On 17 September 2013 the company acquired 100% of the shares of Hotel Eden Srl, a five star hotel property in Rome, Italy.