

Company Registration No: 01823605

Dorchester Group Limited

Report and Financial Statements

31 December 2016



Dorchester Group Limited

Report and Financial Statements 2016

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Dorchester Group Limited

Strategic report

This Strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Dorchester Group Limited (DGL) and its subsidiary undertakings when viewed as a whole.

The directors, in preparing this Strategic report, have complied with s414C of the Companies Act 2006.

The business model

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 and Wales.

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;
Hotel Eden, Rome. (Closed for renovation October 2015 to April 2017); and
Hotel Bel-Air, Los Angeles (in 2014 the Hotel ownership was transferred into the Group)

Leased properties:

Coworth Park; Ascot; and
45 Park Lane; London

Investment properties:

2 properties in the USA

Hotel management and other services:

In addition to the above hotels a subsidiary, Dorchester Services Limited, trading as Dorchester Collection (DC), continued to manage the Le Richemond Hotel, Geneva under a hotel management agreement dated 2011.

Dorchester Services Limited also offers technical services under contracts with other hotel owners/developers as it did in the past for the Brunei Investment Agency for various refurbishments of its hotel properties.

At the very end of 2015 the company signed its first management contract of a residential nature by using the DC brand to promote the development of a luxury Mayfair apartment complex attached to the 45 Park Lane hotel and is actively pursuing similar opportunities.

Future Operations

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 under the DC brand. The investment properties, operating very successfully in the USA, are expected to deliver substantial results both in operating terms and in capital appreciation.

Dorchester Group Limited

Strategic report (continued)

Strategy and objectives

The primary objective of the Group is to become the 'ultimate' hotel operating and managing group in the luxury hotel market in regions where the Group has a presence. The aim is to be recognised as having a passion for excellence and innovation but still honouring the individuality and heritage of our iconic hotels.

This will be achieved through the combination of People, Guests and Owners:

People – our people are our greatest asset and by having a highly skilled and decisive leadership the Group attracts, develops, retains and inspires the most talented people. Coupled with sincere engagement and integrity the Group builds dynamic and passionate teams in each of its hotels.

Guests – all our guests are valued and our aim is to make them long to return to our hotels which given the authenticity of their locations, are 'the places to be seen' where they can enjoy exceptional experiences in a private and discreet environment.

Shareholders – having supportive and an active shareholder who know that their prestigious properties are professionally managed, financial performance is optimised, and asset values enhanced and yet retain each hotels individuality.

Key performance indicators

In addition to the generally accepted and practiced hotel measurements of occupancy, average room rate and average daily rate the Group uses the following key indicators to assess its effectiveness in the above areas:

People - Use of Employee Satisfaction Surveys (ESS) combined with Gallup Guest surveys reflecting employee to guest engagement.

Guests – Use of Gallup poll and introduction of new loyalty programmes and increased data holding to monitor guest repeat factors.

Owners – Continued policy of allocating 4% of revenues for normal capital maintenance of the properties along with the assessment of upgrading or extending hotel facilities measured with full Return on Investment and Payback approaches.

Review of the Group's business

The consolidated loss for the year is £39.5m (2015: profit £43.2m). This loss was driven by a combination of foreign exchange losses caused by sterling's decline following the UK Brexit vote and substantial revaluation write downs on certain investment properties and some hotels. Overall the Group's hotel occupancy rate was 68% (2015: 72%), whilst the average room rate increased from £510 to £568 and RevPAR (revenue per available room) increased (including the effect of currency fluctuations) from £369 to £388. The year on year figures are not directly comparable as room availability was reduced with the closure of Hotel Eden for the whole year (2016: 9 months trading). This combined with a general decrease in revenues particularly in the Eurozone and despite excellent growth in the USA accounts for only £8m of the decrease in Group operating profit to £1.8m compared to £57.7m in the previous year. The major decrease was attributable to revaluation deficits on the US investment properties and to a lesser extent on hotel revaluations.

The 2016 overall hotel operating results achieved show a decrease on 2015 which was higher with both Italian hotels and French hotels trading well, unlike in 2016 where one Italian hotel was fully closed and the French hotels suffered as a consequence of the terrorist attacks in France and its neighbours. Given the circumstances, the results are considered acceptable. There are continuing positive improvements in the main economic indicators for all the regions in which our hotels operate and from the markets which our hotels cater for so there are encouraging signs for the future.

The general economic outlook for 2017, excluding unpredictable terrorist threats, shows continued improving conditions when compared to 2016: a combination of low inflation, low interest rates, slightly improving economic growth, with continued debt reduction programmes in western economies and improving consumer confidence, all of which impact on our business.

Dorchester Group Limited

Strategic report (continued)

Review of the Group's business (continued)

We continue to believe that the Dorchester Collection (DC)'s customer geographic representation is varied and the Group 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.

Future developments

The Group continues to look for and actively considers a variety of methods and opportunities to further its aim of increasing the size of its hotel portfolio. This is not only in terms of asset value and trading performance through organic growth of the existing hotels but also through acquisition opportunities and increasingly through the potential opportunities that third party management contracts offer. All of these activities will serve to increase the exposure and value of the DC brand name around the world markets that are the source for the bulk of our guests.

Principal risks and uncertainties

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 Group's business and the assets and liabilities contained within the Group's balance sheet, the directors consider two types of risk to be most relevant to this Group: interest rate and currency risk.

Currently the Group mitigates interest rate risk by the partial use of fixed interest rate loans for the medium term. 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 exposure to adverse movements in foreign exchange rates.

On 23 June 2016 the UK electorate voted to leave the European Union and the UK government exercised article 50 on 29 March 2017 to officially start the Brexit process. This decision and action has commenced a process that is likely to take a minimum of two years to complete, and during this time the UK remains a member of the European Union. The first major impact has been on the sterling currency which fell substantially against both the Euro and US dollar. Whilst there is a resulting period of uncertainty for the UK economy with increased volatility expected in financial markets, this does not impact the fair value of assets and liabilities, including intangibles and property plant and equipment reported at the balance sheet date of 31 December 2016, other than through foreign currency translation. Whilst the group does not hedge this risk at a DGL level, currency risk is managed by the ultimate parent on an overall basis.

The directors monitor the wider business considerations and implications including those related to exchange rates, interest rates and continue to plan accordingly.

Corporate and social responsibility

The area of corporate responsibility is one that the Group has always focused on and in conjunction with the hotels has been initiating standardised policies and procedures for all hotels to adopt to ensure that there is uniformity and standardised approach to these. This covers the impact on people, the workplace, the environment, waste reduction and interaction with the community.

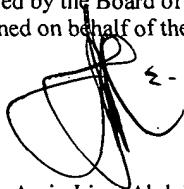
Dorchester Group Limited

Strategic report (continued)

Going concern

The directors have acknowledged the latest guidance on going concern. The Group has net current liabilities of £206.4m at 31 December 2016 (2015: £166.0m) the increase mainly due to additional short term shareholder loans advanced by its ultimate parent for the purposes of renovating Hotel Eden in Rome. These loans are expected to be replaced with medium/long term finance from the shareholder during 2017. The Group has adequate financial resources being funded entirely by shareholder debt following the repayment of the Group's external debt in December 2012. The current economic climate has impacted the travel market and hospitality industry. However, the Group's hotel operations remain profitable and the outlook is one of slight improvement over 2016. The directors have reviewed the Group's budget for the next year and considered other plans, concluding that the Group 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.

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



Dato Dr Amin Liew Abdullah
Chairman

19 September 2017

Dorchester Group Limited

Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2016.

There are no significant events since the balance sheet date. An indication of likely future developments in the business of the company are included in the strategic report.

Information about the use of financial instruments by the company and its subsidiaries is given in note 36 to the financial statements and information about future developments is in the strategic report.

Dividend

No dividends were paid during the year (2015: £ nil). The Group made a loss of £39.5m (2015: Profit £43.2m), which was transferred to retained earnings.

Capital structure

Details of the authorised and issued share capital, together with details of the movements in the company's issued share capital during the year are shown in note 26. The company has one class of ordinary shares which carry no right to fixed income.

Directors and their interests

The details of the directors of the company, who served throughout the year and up to the date of signing the financial statements, are as follows:

Dato Dr Amin Liew Abdullah (Appointed Chairman on 5 July 2016)

Junaidi bin Haji Masri

Sofian bin Md Jani

Azmi Rahman Ibrahim (Appointed on 5 July 2016)

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

Directors' indemnities

There are no third party indemnities as at 31 December 2016 (2015: nil).

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 £123,000 (2015: £106,000) for charitable purposes. There were no political donations (2015: £nil)

Dorchester Group Limited

Directors' report (continued)

Disclosure of information to Auditors

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 auditors are 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 auditors are aware of that information.

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

PricewaterhouseCoopers LLP have indicated their willingness under section 487(2) to be reappointed for another term and appropriate arrangement has been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

Statement of directors' responsibilities in respect of the financial statements

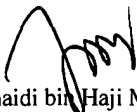
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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


Junaidi bin Haji Masri
Director

19 September 2017

Independent auditors' report to the members of Dorchester Group Limited

Report on the group financial statements

Our opinion

In our opinion Dorchester Group Limited's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Report and financial statements (the "Annual Report"), comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the group financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Dorchester Group Limited

Report on the group financial statements (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 8, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and the Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the parent company financial statements of Dorchester Group Limited for the year ended 31 December 2016.



Craig Hughes (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

19 September 2017

Dorchester Group Limited

Consolidated statement of comprehensive income For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Revenue	5	340,023	335,508
Cost of sales		(177,684)	(169,070)
Gross Profit		<u>162,339</u>	<u>166,438</u>
Administration expenses		(147,257)	(142,171)
Unrealised (loss)/gain on properties	7	(13,260)	33,419
Operating Profit	8	<u>1,822</u>	<u>57,686</u>
Investment income	10	53	8,354
Finance costs	11	(34,174)	(6,971)
(Loss)/profit before tax		<u>(32,299)</u>	<u>59,069</u>
Tax on (loss)/profit	12	(7,212)	(15,829)
(Loss)/Profit for the year		<u>(39,511)</u>	<u>43,240</u>
Items that will not be reclassified subsequently to profit and loss			
Surplus on property revaluation		3,554	79,910
Actuarial (loss)/gain on defined benefit pension schemes	35	(4,562)	880
Income tax relating to items not re-classified	12,22	2,794	(21,529)
		<u>1,786</u>	<u>59,261</u>
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		121,822	11,192
Exchange differences relating to components of other comprehensive income	13	30,702	(10,439)
		<u>152,524</u>	<u>753</u>
Other comprehensive income for the year, net of tax		<u>154,310</u>	<u>60,014</u>
Total comprehensive income for the year		<u>114,799</u>	<u>103,254</u>

The notes on pages 16 to 68 form an integral part of these financial statements.

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

Dorchester Group Limited

Consolidated statement of financial position As at 31 December 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Goodwill	14	47,334	39,932
Other intangible assets	15	3,562	3,934
Property, plant and equipment	16	1,780,761	1,586,436
Investment property	17	200,001	172,653
Trade and other receivables	20	2,066	2,324
Deferred tax assets	22	30,821	32,754
		<u>2,064,545</u>	<u>1,838,033</u>
Current assets			
Inventories	19	8,306	7,241
Trade and other receivables	20	43,593	41,946
Cash and cash equivalents		91,866	72,838
		<u>143,765</u>	<u>122,025</u>
Total assets		<u><u>2,208,310</u></u>	<u><u>1,960,058</u></u>
Current liabilities			
Trade and other payables	23	80,098	71,851
Current tax liabilities	24	517	4,101
Financial liabilities	21	269,567	212,026
		<u>350,182</u>	<u>287,978</u>
Net current liabilities		<u>(206,417)</u>	<u>(165,953)</u>
Non-current liabilities			
Financial liabilities	21	382,586	357,800
Defined benefit liabilities	35	13,666	9,193
Deferred tax liabilities	22	357,344	315,112
Trade and other payables	23	4,287	4,817
Long-term provisions	25	3,008	2,720
		<u>760,891</u>	<u>689,642</u>
Total liabilities		<u><u>1,111,073</u></u>	<u><u>977,620</u></u>
Net assets		<u><u>1,097,237</u></u>	<u><u>982,438</u></u>

Dorchester Group Limited

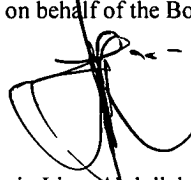
Consolidated statement of financial position (continued) As at 31 December 2016

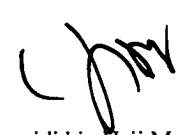
	Note	2016 £'000	2015 £'000
Equity			
Share capital	26	120,009	120,009
Share premium	27	37,711	37,711
Revaluation reserve	28	566,197	456,883
Retained earnings	29	158,984	274,055
Translation reserve	30	120,899	343
Merger reserve	31	93,437	93,437
Total equity		<u>1,097,237</u>	<u>982,438</u>

The notes on pages 16 to 68 form an integral part of these financial statements.

The financial statements of Dorchester Group Limited (registered number 01823605) were approved by the Board of Directors on 19 September 2017.

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


Dato Dr Amin Liew Abdullah
Chairman


Junaidi bin Haji Masri
Director

Dorchester Group Limited

Consolidated statement of changes in equity For the year ended 31 December 2016

Note	26	27	28	31	30	29	
	Share capital £'000	Share premium account £'000	Revaluation reserve £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2015	120,009	37,711	402,861	93,437	(5,052)	230,218	879,184
Profit for the year	-	-	-	-	-	43,240	43,240
Other comprehensive income for the year	-	-	54,022	-	5,395	597	60,014
Total comprehensive income for the year	-	-	54,022	-	5,395	43,837	103,254
Balance at 31 December 2015	120,009	37,711	456,883	93,437	343	274,055	982,438
Loss for the year	-	-	-	-	-	(39,511)	(39,511)
Other comprehensive income/(loss) for the year	-	-	36,432	-	121,823	(3,945)	154,310
Total comprehensive income/(loss) for the year	-	-	36,432	-	121,823	(43,456)	114,799
Transfers between reserves (note 39)	-	-	72,882	-	(1,267)	(71,615)	-
Balance at 31 December 2016	120,009	37,711	566,197	93,437	120,899	158,984	1,097,237

The notes on pages 16 to 68 form an integral part of these financial statements.

Dorchester Group Limited

Consolidated cash flow statement For the year ended 31 December 2016

	Year ended 2016 £'000	Year ended 2015 £'000
Note		
(Loss)/profit for the year before tax	(32,299)	59,069
Adjustments for:		
Finance income	(53)	(56)
Foreign exchange loss/(gain) on financial liabilities	24,922	(7,641)
Finance costs	6,642	6,971
Depreciation of property, plant and equipment	25,149	25,830
Amortisation of intangibles	968	966
Loss on disposal of property, plant and equipment	-	1,748
(Decrease)/increase in fair value of investment property	11,075	(20,844)
(Decrease) in provisions	(211)	(758)
Revaluation loss/(gain) on hotel property	3,836	(12,582)
Operating cash flows before movements in working capital	40,029	52,703
(Increase)/decrease in inventories	(1,065)	59
(Increase)/decrease in receivables	(1,390)	41,802
Increase/(decrease) in payables	7,649	(2,276)
Cash generated by operations	45,223	92,288
Income taxes paid	(2,693)	(6,838)
Interest paid	(6,642)	(6,971)
Net cash from operating activities	35,888	78,478
Investing activities		
Interest received	53	56
Purchases of property, plant and equipment and additions to investment properties and intangibles	(36,404)	(24,425)
Net cash used in investing activities	(36,351)	(24,369)
Financing activities		
Repayments of financial liabilities	(17,884)	(38,192)
Loans advanced	24,840	2,429
Net cash from financing activities	6,956	(35,763)
Net increase in cash and cash equivalents	6,493	18,346
Cash and cash equivalents at beginning of year	72,838	52,468
Effect of foreign exchange rate changes	12,535	2,024
Cash and cash equivalents at end of year	33 91,866	72,838

Dorchester Group Limited

Notes to the consolidated financial statements For the year ended 31 December 2016

1. General information

Dorchester Group Limited (the “company”) is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 3 Tilney Street, London W1K 1BJ. The nature of the company and its subsidiaries’ (together the “Group’s”) operations, its principal activities and business review are set out in the strategic report on page 3.

These financial statements are presented in pounds sterling and have been rounded to thousands. 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. New standards and amendments

(a) New standards, amendments and interpretations adopted by the company

The following standards and interpretations from the IFRS Interpretations Committee, (“IFRIC”) have been adopted by the Company for the first time for the financial year beginning on or after 1 January 2016 and have not had a material impact on the Company:

Annual Improvements to IFRSs: 2010 - 2012 Cycle and 2011 – 2013 Cycle

IFRIC 21, ‘Levies’ (effective annual periods on or after 1 January 2014 endorsed 17 June 2014): This interpretation is on IAS 37, ‘Provisions, contingent liabilities and contingent assets’. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. There have been no changes as a result of these.

(b) New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

IFRS 15, ‘Revenue from contracts with customers,’ deals with revenue recognition. The standard replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction contracts’ and related interpretations. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risk and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 January 2017), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. Management is currently assessing the impact of the new rules and at this stage is not able to estimate the impact of the new rules on the Company’s financial statements however initial assessments have not raised any significant issues.

IFRS 16, ‘Leases’ sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard replaces IAS 17 Leases. The new standard substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, it introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Management is currently assessing the impact of the new rules and at this stage is not able to estimate the impact of the new rules on the Company’s financial statements however initial assessments have not raised any significant issues.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

2. New standards and amendments (continued)

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

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 Companies Act 2006 as applicable to companies using International Financial Reporting Standards (IFRS) as adopted by the European Union. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies are set out below.

Fair value is the price that would be receivable to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of the asset or the liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such basis, except for leasing transactions that are within the scope of IAS 17, and the measurements that have similarities to fair value but are not fair value, such as net realisable value in IAS 2 or the value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can assess at the measurement date;
- Level 2 inputs are inputs, or other quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

All subsidiaries are 100% owned either directly or indirectly.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows in relation to transitions between the members of the Group are eliminated on consolidation.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

3. Significant accounting policies (continued)

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 Strategic Report on page 6.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit and loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income taxes and IAS 19 Employee benefits respectively.

Contribution of business by shareholder

Contributions of businesses by the shareholder are outside the scope of IFRS 3 *Business combinations* and are accounted for using merger accounting principles and credited to the merger reserve.

In 2014 Kava Holdings LLC, owner of Hotel Bel-Air, was contributed to the Group. Its assets and liabilities were recognised and measured at the pre-contribution carrying amounts after adjustment to reflect the Groups accounting policies. The comparative balances at 31 December 2015 and the results for 2015 from the date of the contribution have been adjusted to include those of Kava Holdings LLC.

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.

Dorchester Group Limited

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3. Significant accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue is reduced for customer rebates and other similar allowances.

Revenue comprises:

- Income from the ownership and operation of hotels 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.
- Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

In the event costs are incurred in order to obtain new hotel management agreements the cost of consideration paid is deferred over the period for which the new hotel management agreement is granted and amortised over the minimum contract period.

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.

The Group as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are expensed as incurred.

The Group as a lessee

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.

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.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

3. Significant accounting policies (continued)

Foreign currencies (continued)

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.

Retirement benefit obligations

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 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 35.

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.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

3. Significant accounting policies (continued)

Taxation (continued)

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 accumulated depreciation and any provision for impairment. Depreciation is provided on plant and equipment and freehold and leasehold 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 machinery	-	4-15 years
fixtures, fittings and equipment		5 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.

Assets under construction includes the capitalisation of costs of development or refurbishment that are directly attributable. These assets are recognised once they meet the recognition criteria, i.e. when probable future economic benefits associated with the item will flow to the entity and the cost can be reliably measured. Depreciation of properties in the course of construction is provided on the same basis as other property assets, in that it commences when the assets are ready for their intended use.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

3. Significant accounting policies (continued)

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. Investment property is initially recorded at cost along with any initial transaction charges. Details of valuations to determine fair value are given in note 17.

Intangible assets

Computer software is internally generated and is included in the consolidated statement of financial position as an intangible asset and is recorded initially at cost and then amortised over its expected useful life of between three and five years on a straight-line basis.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development, employee costs and an appropriate portion of relevant overheads.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated impairment losses.

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.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

3. Significant accounting policies (continued)

Trade and other receivables

Trade and other receivables are amounts due for services performed in the ordinary course of business, which generally have 30 day payment terms. Provision for specific doubtful debts is made when there is evidence that the Company will not be able to recover balances in full. Balances are written off when the receivable amount is deemed irrecoverable.

Trade and other receivables are initially recognised at fair value, normally equivalent to the invoice amount, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits at call with banks, other short term highly liquid investment with original maturities of three months or less and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

3. Significant accounting policies (continued)

Financial assets and liabilities

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets: Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities: Borrowings and payables

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with finance costs recognised over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

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.

Dorchester Group Limited

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

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.

Investment property and property, plant and equipment

Property is revalued annually which requires an assessment of each property's future earnings and the choice of an appropriate discount rate. The directors obtain valuation advice from professional valuers (see note 17).

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 (see note 14).

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 (see note 16).

Income and deferred tax

Significant judgement is involved in determining the Company's provision for taxation. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognised liabilities for expected tax issues based on the estimate of whether additional taxes will be due. Where the tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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 assets are recognised for all unused tax losses to the extent that it is probable that future taxable profit will be available, against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised. This is based upon a number of factors including the expected timing of the reversal of the deductible temporary differences, the extent and expected timing of the reversal of any temporary differences, the impact of any future proposed reorganisation activities and the level of future taxable profits (see notes 12 and 22).

Defined benefit pension plan

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date (see note 35).

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

5. Revenue

An analysis of the Group's revenue is as follows:

	2016 £'000	2015 £'000
Hotel management and operations revenue	323,139	320,028
Property investment revenue	16,884	15,480
	<u>340,023</u>	<u>335,508</u>

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

	Revenue		Operating Profit/(loss)		Net Assets	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Hotel Management and Operations						
USA	99,941	79,617	13,216	16,312	365,545	292,098
Europe	114,222	134,346	(18,441)	6,029	145,889	144,961
United Kingdom	108,976	106,065	9,710	6,444	397,958	389,232
	<u>323,139</u>	<u>320,028</u>	<u>4,485</u>	<u>28,785</u>	<u>909,392</u>	<u>826,291</u>
Property investment:						
USA	16,884	15,480	(2,663)	28,901	187,845	156,147
	<u>340,023</u>	<u>335,508</u>	<u>1,822</u>	<u>57,686</u>	<u>1,097,237</u>	<u>982,438</u>

All the above derive from continuing operations.

7. Unrealised (loss)/gains on properties

	2016 £'000	2015 £'000
Unrealised (loss)/gain on revaluation of investment property	(11,075)	20,844
Unrealised (loss)/gain on revaluation of hotel property	(2,185)	12,575
Unrealised (Loss)/Gain on properties	<u>(13,260)</u>	<u>33,419</u>

Dorchester Group Limited

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

8. Operating profit

	2016 £'000	2015 £'000
Operating profit is stated after charging/(crediting):		
Auditors' remuneration		
Fees payable to the company's auditors for the audit of the company's annual financial statements	133	62
Fees payable to the company's auditors and their associates for other services to the Group: The audit of the company's subsidiaries	297	261
Total audit fees:	<u>430</u>	<u>323</u>
Advisory services	685	90
Audit related assurance services	-	-
Taxation compliance services	-	-
Other taxation advisory services	-	-
Total non-audit fees:	<u>685</u>	<u>90</u>
Total auditors' remuneration:	<u>1,115</u>	<u>413</u>
Depreciation of property, plant and equipment	25,149	25,830
Amortisation of intangible assets	968	966
Rentals under operating leases:		
Payable: Land and buildings	8,928	8,551
Payable: Plant and machinery	547	572
Receivable regarding hotel properties: Land and buildings	(2,873)	(2,571)
Contingent rentals receivable regarding hotel properties: Land and buildings	(238)	(295)
Loss on disposal of fixed assets	137	1,696

9. Staff costs

	2016 £'000	2015 £'000
Directors' remuneration		
Directors' emoluments	-	-
Directors' fees paid to ultimate parent	155	155
Remuneration of highest paid director		
Fees paid to ultimate parent for services of Chairman	<u>50</u>	<u>50</u>

No directors are paid salaries or have accrued any retirement benefits under either a defined benefit scheme or under a money purchase scheme (2015: None)

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

9. Staff costs (continued)

	2016 No.	2015 No.
Average monthly number of persons employed excluding directors		
Operations	2,334	2,507
Sales and marketing	124	125
Administration	443	450
	<u>2,901</u>	<u>3,082</u>

	2016 £'000	2015 £'000
Staff costs during the year excluding directors		
Wages and salaries	101,102	96,356
Social security costs	28,476	25,769
Other pensions costs	5,781	5,297
	<u>135,359</u>	<u>127,422</u>

10. Investment income

	2016 £'000	2015 £'000
Interest receivable on:		
Bank deposits	52	51
Related party loans	1	4
Other	-	1
Total interest revenue	<u>53</u>	<u>56</u>
Foreign exchange gains	-	8,298
	<u>53</u>	<u>8,354</u>

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

11. Finance costs

	2016 £'000	2015 £'000
Interest on shareholder's loans	6,369	6,709
Interest on finance lease	-	(10)
	<u>6,369</u>	<u>6,699</u>
Foreign exchange loss on loans	27,532	-
Pension deficit net charge	215	240
Other	58	32
	<u>34,174</u>	<u>6,971</u>

12. Tax on (loss)/profit

	2016 £'000	2015 £'000
Current year (credit)/charge	(1,499)	3,987
Adjustments in respect of prior years	(1,047)	395
Foreign tax	1,636	697
Current tax (credit)/charge	<u>(910)</u>	<u>5,079</u>
Deferred tax	8,387	14,887
Adjustments in respect of prior years	(265)	(4,137)
Deferred tax charge (note 22)	<u>8,122</u>	<u>10,750</u>
Total tax charge	<u>7,212</u>	<u>15,829</u>

UK corporation tax is calculated at 20% (2015: 20.25%) 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 2016

12. Taxation (continued)

The total tax expense for the year can be reconciled to the (loss)/profit per the statement of comprehensive income as follows:

	2016 £'000	2015 £'000
(Loss)/Profit before tax	(32,299)	59,069
Tax at the UK corporation tax rate of 20% (2015: 20.25%)	(6,460)	11,961
Tax effect of expenses that are not deductible in determining taxable profit	2,876	2,345
Movement due to fall in UK and Italian tax rates	(918)	(3,733)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(727)	9,642
Other	1,798	(46)
Adjustments in respect of prior years	(1,312)	(3,742)
Change in unrecognised deferred tax assets	11,955	(598)
Total tax (credit)/expense for the year	<u>7,212</u>	<u>15,829</u>

The tax rate for the current year is lower than the prior year due to changes in the UK Corporation tax rate which decreased from 21% to 20% from 1 April 2016

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 on 26 October 2016. These include reductions to the main rate to reduce the rate to 19% from 1 April 2018 and to 18% from 1 April 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements

	2016 £'000	2015 £'000
Deferred tax		
Arising on income and expenses recognised in other comprehensive income		
Revaluation of properties	(2,176)	21,312
Defined benefit liability	(618)	217
Total income tax recognised in other comprehensive income	<u>(2,794)</u>	<u>21,529</u>

13. Exchange differences relating to components of other comprehensive income

This comprises amounts representing the movement in values of revaluation surpluses and deficits of properties held in foreign countries in their local currencies, when translated into sterling at the financial year end.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

14. Goodwill

	Cost £'000
As at 1 January 2015	42,558
Foreign exchange movements	(2,626)
As at 31 December 2015	39,932
Foreign exchange movements	7,402
As at 31 December 2016	47,334

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 as follows:

	2016 £'000	2015 £'000	2014 £'000
Hotel Plaza Athenee, France	11,603	9,936	10,527
Hotel Principe di Savoia, Italy	23,549	20,167	21,366
Hotel Eden, Italy	12,182	9,829	10,665
	47,334	39,932	42,558

At the year end, goodwill was reviewed for impairment in accordance with IAS 36 Impairment of Assets. A value in use was calculated on the basis of discounted future cash flows arising in each relevant CGU, which is then compared to the carrying value of the CGU to determine if impairment has occurred. Cash flow forecasts derived from business plans over a 5 year period, followed by 5 years assuming a long term growth rate of 3% (2015: 3%) per annum were used. Discount rates of 7.1% (2015: 6.5%) for Hotel Plaza Athenee, for Hotel Principe di Savoia 6.8% (2015: 7.0%) and for Hotel Eden 7.3% (2015: 7.9%) were used to arrive at the value in use for each of the CGUs. The discount rates applied are based on advice from external valuers. 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 except for the Hotel Principe di Savoia goodwill for which headroom is shown below.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

14. Goodwill (continued)

Cash generating unit

	Hotel Principe di Savoia, Italy		
	Actual	Decrease	Increase
	impairment	growth	discount
	analysis	rate by	rate by
		1%	1%
	£'000	£'000	£'000
As at 31 December 2016			
Value in use	164,480	159,782	151,915
Less carrying value of land and buildings	(128,744)	(128,744)	(128,744)
Less carrying value of goodwill	(23,549)	(23,549)	(23,549)
Headroom	<u>12,187</u>	<u>7,489</u>	<u>(378)</u>

Cash generating unit

	Hotel Principe di Savoia, Italy		
	Actual	Decrease	Increase
	impairment	growth	discount
	analysis	rate by	rate by
		1%	1%
	£'000	£'000	£'000
As at 31 December 2015			
Value in use	150,399	146,216	139,158
Less carrying value of land and buildings	(119,074)	(119,074)	(119,074)
Less carrying value of goodwill	(20,167)	(20,167)	(20,167)
Headroom	<u>11,158</u>	<u>6,975</u>	<u>(83)</u>

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

15. Other intangible assets

	Computer software £'000	Hotel Eden Trademark £'000	Total £'000
Cost			
At 1 January 2016	7,416	1,102	8,518
Additions	386	-	386
Foreign exchange	516	185	701
At 31 December 2016	8,318	1,287	9,605
Accumulated amortisation			
At 1 January 2016	(4,584)	-	(4,584)
Charge	(968)	-	(968)
Foreign exchange	(491)	-	(491)
At 31 December 2016	(6,043)	-	(6,043)
Carrying amount			
At 31 December 2016	2,275	1,287	3,562
At 31 December 2015	2,832	1,102	3,934

The amortisation charge and foreign exchange movement is included in administration expenses in the consolidated statement of comprehensive income.

The hotel trademark is reviewed annually for impairment.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

16. Property, plant and equipment

	Land and buildings £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Assets under construction £'000	Total £'000
Cost or valuation					
At 1 January 2015	1,377,716	109,147	205,380	7,882	1,700,125
Capital additions	260	3,394	7,347	9,923	20,924
Transfers	616	1,897	1,390	(3,903)	-
Disposals/write-offs	(912)	(1,090)	(1,813)	-	(3,815)
Revaluation	91,583	-	-	-	91,583
Foreign exchange	(18,858)	(3,760)	(5,466)	(5)	(28,089)
At 31 December 2015	1,450,405	109,588	206,838	13,897	1,780,728
Capital additions	4,239	6,239	2,341	20,353	33,172
Transfers	817	(296)	(521)	-	-
Disposals/write-offs	-	-	(165)	-	(165)
Devaluation	(283)	-	-	-	(283)
Foreign exchange	166,890	14,170	25,821	3,393	210,274
At 31 December 2016	1,622,068	129,701	234,314	37,643	2,023,726
Accumulated depreciation					
At 1 January 2015	(179)	(58,023)	(117,650)	-	(175,852)
Charge	(988)	(7,419)	(17,423)	-	(25,830)
Transfers	-	156	(156)	-	-
Disposals/write-offs	70	799	1,198	-	2,067
Revaluation	909	-	-	-	909
Foreign exchange	(42)	1,466	2,990	-	4,414
At 31 December 2015	(230)	(63,021)	(131,041)	-	(194,292)
Charge	(1,029)	(7,387)	(17,712)	-	(26,128)
Transfers	-	481	(481)	-	-
Disposals/write-offs	-	-	165	-	165
Revaluation	978	-	-	-	978
Foreign exchange	1	(7,773)	(15,916)	-	(23,688)
At 31 December 2016	(280)	(77,700)	(164,985)	-	(242,965)
Carrying amount					
Net book value					
At 31 December 2016	1,621,788	52,001	69,329	37,643	1,780,761
At 31 December 2015	1,450,175	46,567	75,797	13,897	1,586,436

No income was generated as part of the disposal of PPE (2015: nil). The disposals noted above relate to write-downs and have been taken to the statement of comprehensive income.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

16. Property, plant and equipment (continued)

The net book value of land and buildings comprise:

	2016 £'000	2015 £'000
Freehold	1,620,706	1,449,042
Long leasehold	118	119
Short leasehold	964	1,014
	<u>1,621,788</u>	<u>1,450,175</u>

The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's land and buildings were revalued at 31 December 2016 and at 31 December 2015 by HVS, independent valuers not connected with the Group who are qualified for the purpose of the valuation in accordance with the RICS Red Book.

The fair value of the freehold land and buildings was determined using the discounted cash flows approach which involves applying a yield and discount rate to the cash flows. There has been no change to the valuation technique during the year.

The Group's freehold land and buildings have been classified as Level 3 within the fair value hierarchy as at 31 December 2016 and 2015.

Assumption	Change in assumption %	Impact on valuation	
		Increase £'000	Decrease £'000
Discount rate	Increase by 1%		134,836
Discount rate	Decrease by 1%	148,486	
Capitalisation rate	Increase by 1%		210,074
Capitalisation rate	Decrease by 1%	333,475	
Cash flow	Increase by 5%	89,389	
Cash flow	Decrease by 5%		89,389

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

16. Property, plant and equipment (continued)

The sensitivities regarding the principal assumptions used to value land and buildings are set out below:

There are inter-relationships between all these unobservable inputs as they are determined by market conditions. The existence of an increase in more than one unobservable input would be to magnify the impact on the valuation. The impact on the valuation will be mitigated by the interrelationship of two unobservable inputs moving in opposite directions e.g. an increase in cash flows may be offset by an increase in yield, resulting in no net impact on the valuation.

At 31 December 2016, 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 £964 million (2015: £840 million).

The revaluation surplus is disclosed in note 28. The revaluation surplus arises in subsidiaries and cannot be distributed to the parent due to legal restrictions in the countries of incorporation.

17. Investment property

	2016 £'000	2015 £'000
Fair value:		
At 1 January	172,653	141,741
Additions	2,847	2,449
Revaluation	(11,075)	20,844
Foreign exchange translation differences	35,576	7,619
At 31 December	<u>200,001</u>	<u>172,653</u>
Lease incentives within debtors (note 20)	4,827	4,147
Fair value per valuation report	<u>204,828</u>	<u>176,800</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 £133,779,000 (2015: £108,391,000).

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

17. Investment property (continued)

The fair value of the Group's investment property at 31 December 2016 has been arrived at on the basis of a valuation carried out at that date by CBRE (USA) and Bonz & Company Inc, independent valuers not connected with the Group. The valuation conforms to International Valuation Standards. The fair value was determined based on the income capitalisation approach which involves applying a yield to rental income streams. Inputs include yield, current rent and estimated rental values. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

The investment properties have been classified as Level 3 within the fair value hierarchy as at 31 December 2016 and 2015. There were no transfers into/out of level 3 in the year (2015: nil). All movements are taken to the statement of comprehensive income.

The sensitivities regarding the principal assumptions used to value the investment properties are set out below:

Assumption	Change in assumption %	Impact on valuation	
		Increase £'000	Decrease £'000
Discount rate	Increase by 1%	-	15,926
Discount rate	Decrease by 1%	17,621	-
Capitalisation rate	Increase by 1%	-	19,978
Capitalisation rate	Decrease by 1%	30,257	-
Cash flow	Increase by 5%	10,160	-
Cash flow	Decrease by 5%	-	10,160

There are inter-relationships between all these unobservable inputs as they are determined by market conditions. The existence of an increase in more than one unobservable input would be to magnify the impact on the valuation. The impact on the valuation will be mitigated by the interrelationship of two unobservable inputs moving in opposite directions e.g. an increase in rent may be offset by an increase in yield, resulting in no net impact on the valuation.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to £16,884,000 (2015: £15,480,000). Direct operating expenses (including repairs and maintenance) arising on the investment property, all of which generated rental income in the year, amounted to £8,472,000 (2015: £7,424,000). The Group has committed to capital expenditure on its investment properties over the next three years totalling £1,456,000 (2015: £184,000).

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

18. Subsidiaries

The company and the Group have investments in the following principal subsidiary undertakings:

Subsidiary undertakings	Principal activity	Country of incorporation	Shareholding and percentage voting rights
Dorchester Hotel Limited	Hotel operations	United Kingdom	100% (Direct)
The Dorchester Limited	Dormant	United Kingdom	100% (Indirect)
Dorchester Services Limited	Hotel management	United Kingdom	100% (Direct)
Coworth Park Limited	Hotel management	United Kingdom	100% (Direct)
Meurice Limited	Hotel investment	United Kingdom	100% (Direct)
Principe di Savoia Limited	Hotel investment	United Kingdom	100% (Direct)
Hotel Plaza Athenee Limited	Hotel investment	United Kingdom	100% (Direct)
Kava Holdings LLC (was Kava Holdings Inc)	Hotel operations	USA	100% (Indirect)
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 Eden srl	Hotel operations	Italy	100% (Direct)
Hotel Plaza Athenee SA	Hotel operations	France	100% (Indirect)
Plaza Athenee Holdings SA	Hotel investment	France	100% (Indirect)

Kava Holdings LLC (formerly known as Kava Holdings Inc.) was contributed to the Group in April 2015 from the shareholder as part of a wider Group restructuring program.

19. Inventories

	2016 £'000	2015 £'000
Consumables	6,246	5,363
Goods for resale	2,060	1,878
	<u>8,306</u>	<u>7,241</u>

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

The cost of inventories recognised as an expense during the year in respect of continuing operations was £29m (2015: £28m).

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

20. Trade and other receivables

Due within one year

	2016 £'000	2015 £'000
Trade debtors	18,213	16,029
Provision for bad debts	(713)	(656)
Net trade debtors	17,500	15,373
Other debtors	4,335	2,570
Amounts owed by fellow subsidiary undertakings	666	8,257
Overseas corporation tax receivable	3,859	3,111
Prepayments and accrued income	17,233	12,635
	<u>43,593</u>	<u>41,946</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:

	2016 £'000	2015 £'000
Neither past due nor impaired	9,320	10,466
Less than 1 month past due	5,088	1,778
1 to 3 months past due	1,361	1,546
More than 3 months past due	1,731	1,583
Total	<u>17,500</u>	<u>15,373</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

	2016 £'000	2015 £'000
Prepayments and accrued income	<u>2,066</u>	<u>2,324</u>

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

21. Financial liabilities	2016 £'000	2015 £'000
Included within current liabilities		
Loans from ultimate parent undertakings	269,567	212,026
	<u>269,567</u>	<u>212,026</u>
Included within non-current liabilities		
Loans from fellow subsidiary undertakings:		
Unsecured, subordinated and interest free	197,068	174,700
Unsecured, subordinated and interest bearing	185,518	183,100
	<u>382,586</u>	<u>357,800</u>
Total Borrowings	<u>652,153</u>	<u>569,826</u>

The interest bearing loans from fellow subsidiary undertakings of the Brunei Investment Agency ("BIA") bear interest at both fixed and floating rates. The weighted average year end interest rate for these loans was 2.88% (2015: 3.02%).

	2016 £'000	2015 £'000
Loans maturing between:		
Within 1 year	269,567	212,026
1 to 2 years amount to	310,762	276,934
2 to 5 years amount to	71,824	80,866
	<u>652,153</u>	<u>569,826</u>

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

22. Deferred Tax

The following are the major deferred tax assets and (liabilities) recognised by the Group and movements during the current and prior reporting year.

	Land and buildings £'000	Investment properties £'000	Pension £'000	Tax losses £'000	Other temporary differences £'000	Total £'000
Asset/(liability) at 1 January 2015	(267,067)	(18,065)	1,471	30,811	2,616	(250,234)
Credit/(charge) to profit or loss	(3,876)	(6,518)	(106)	(2,999)	2,749	(10,750)
Credit/(charge) to other comprehensive income	(16,142)	-	(217)	-	-	(16,359)
Exchange differences	(1,973)	(1,155)	-	(1,661)	(226)	(5,015)
At 31 December 2015	<u>(289,058)</u>	<u>(25,738)</u>	<u>1,148</u>	<u>26,151</u>	<u>5,139</u>	<u>(282,358)</u>
(Charge)/credit to profit or loss	(4,651)	4,124	(37)	(8,038)	480	(8,122)
(Charge)/credit to other comprehensive income	2,176	-	618	-	-	2,794
Exchange differences	(38,952)	(4,876)	-	4,015	976	(38,837)
At 31 December 2016	<u><u>(330,485)</u></u>	<u><u>(26,490)</u></u>	<u><u>1,729</u></u>	<u><u>22,128</u></u>	<u><u>6,595</u></u>	<u><u>(326,523)</u></u>

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:

	2016 £'000	2015 £'000
Deferred tax liabilities	(357,344)	(315,112)
Deferred tax assets	30,821	32,754
	<u><u>(326,523)</u></u>	<u><u>(282,358)</u></u>

No deferred tax asset has been recognised in respect of tax losses of £126,849,000 (2015: £56,293,000) as it is not considered probable that there will be future taxable profits available against which to offset them. The majority of these relate to Italy and US trapped losses of GBP £126,660,000 (2015 £56,104,000) which cannot be utilised by the Group.

No deferred tax liability is recognised on temporary differences of £340m (2015: £235m) 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 2016

23. Trade and other payables

	2016 £'000	2015 £'000
Due within one year		
Amounts owed to ultimate parent undertakings	9,954	7,517
Trade creditors	19,756	16,823
Other creditors	5,305	5,279
Accruals, deferred income and guest deposits	37,183	33,702
VAT and other sales taxes	4,088	4,620
PAYE and other payroll taxes	3,812	3,910
	<u>80,098</u>	<u>71,851</u>

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

	2016 £'000	2015 £'000
Due after more than one year		
Operating lease rental straight-line accrual	3,177	3,307
Deferred Income	1,110	1,510
	<u>4,287</u>	<u>4,817</u>

The operating lease rental straight line accrual relates to adjustments to equalise three (2015: three) 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 over the life of the leases.

Deferred income relates to a technical services contract for which cash payment has been received. The services will be completed by October 2020 and income is spread on a straight line basis.

24. Current tax liabilities

	2016 £'000	2015 £'000
Amounts due for UK corporation tax	<u>517</u>	<u>4,101</u>

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

25. Provisions

	£'000
Balance at 1 January 2015	3,444
Utilisation	(798)
Charged to consolidated income statement	40
Foreign exchange loss	34
Balance at 31 December 2015	2,720
Utilisation	(1,526)
Charged to consolidated income statement	1,315
Foreign exchange loss	499
Balance at 31 December 2016	3,008

These provisions relate to potential payments in respect of a number of outstanding claims in the European and US hotels and are analysed below. It is expected that the provisions will be settled between one to two years at the amounts provided.

Analysis of provisions at 31 December 2016

	£'000
Legal fees regarding employment issues	2,560
Other	448
Balance at 31 December 2016	3,008

26. Share capital

Called up share capital:	2016 £'000	2015 £'000
Authorised:		
Ordinary shares of £1 each	200,000	200,000
	<u>2016</u> <u>£'000</u>	<u>2015</u> <u>£'000</u>
Allotted, called up and fully paid:		
Ordinary shares of £1 each	120,009	120,009

27. Share premium

Movements in share premium are included in the consolidated statement of changes in equity on page 14.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

28. Revaluation reserve

	Land and buildings £'000
Balance at 1 January 2015	402,861
Revaluation increase on land and buildings	79,910
Deferred tax charge arising on revaluation of land and buildings	(16,142)
Foreign exchange	(9,746)
Balance at 31 December 2015	<u>456,883</u>
Transfers from retained earnings and translation reserves (note 39)	72,882
Revaluation increase on land and buildings	3,554
Deferred tax credit arising on revaluation of land and buildings	2,176
Foreign exchange	30,702
Balance at 31 December 2016	<u><u>566,197</u></u>

29. Retained earnings

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

30. 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 14.

31. Merger reserve

Merger reserve comprises amounts recorded under merger accounting upon the acquisition of Sajahtera Inc and Kava Holdings LLC. Movements in merger reserve are included in the consolidated statement of changes in equity on page 14.

32. Dividends paid

No dividends were paid in 2016 and 2015.

33. Notes to the cash flow statement

Cash and cash equivalents

	2016 £'000	2015 £'000
Cash and bank balances	91,866	72,838
	<u>91,866</u>	<u>72,838</u>

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 2016

34. Operating lease arrangements

The Group as a lessee

At the balance sheet date, the future minimum lease payments payable under the remainder of the life of non-cancellable operating leases is set out below:

	2016		2015	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	9,264	385	9,957	364
Between one and five years	30,452	514	33,643	626
After five years	142,881	-	184,290	-
	<u>182,597</u>	<u>899</u>	<u>227,890</u>	<u>990</u>

Operating lease payments relating to land and buildings represent rentals payable by the Group for hotel properties. The majority of leases are negotiated for an average term of 25 years and rentals are fixed for an average of 5 years and are then set at the prevailing market rate.

The Group as a 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

	2016 £'000	2015 £'000
Within one year	2,180	2,262
Between one and five years	3,961	5,289
After five years	-	-
	<u>6,141</u>	<u>7,551</u>

Investment properties

	2016 £'000	2015 £'000
Within one year	17,040	13,742
Between one and five years	38,383	37,760
After five years	5,280	5,390
	<u>60,703</u>	<u>56,892</u>

The Group's properties held for rental purposes are expected to generate average rental yields of 5.63% (2015: 5.88%) on an ongoing basis. All of the properties held have committed tenants with leases expiring within one to ten years' time. The lessee does not have an option to purchase the property at the expiry of the lease period.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

35. 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.

Defined contribution scheme

The company operates a defined contribution scheme for which the Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. The pension cost charged for and paid for the year amounted to £906,356 (2015: £906,661).

Defined benefit scheme

The pension liabilities are as follows:

	2016 £'000	2015 £'000
UK Pension scheme (see below)	10,152	6,038
French state pension scheme termination indemnity	1,562	1,328
Italian state pension scheme termination indemnity	1,952	1,827
	<u>13,666</u>	<u>9,193</u>

Pension arrangements in France and Italy are through the state scheme but the employers have deferred retirement liabilities in the form of termination indemnities.

Pension scheme in the UK

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 in investment management funds. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

The pension scheme typically exposes the Group to actuarial risks such as: investment risk, interest rate risk, mortality risk and inflation risk. The risk relating to benefits to be paid to the dependents of scheme members is re-insured by an external insurance company.

Investment risk	The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide the real returns over the long-term the short-term volatility can cause additional funding to be required if deficit emerges.
Interest rate risk	The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds assets such as equities the value of the assets and liabilities may not move in the same way.
Mortality risk	In the event that members live longer than assumed a deficit will emerge in the Scheme.
Inflation risk	A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long-term, movements over the short term could lead to deficits emerging.

Qualified actuaries carry out full valuations on a triennial basis, the last one being to 6 April 2014, using the projected unit 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 4.95% per annum, that salary increases would average 4.75% per annum and that a proportion of members would withdraw from service each year other than by retirement.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

35. Retirement benefit schemes (continued)

The pension charge under this scheme for the year includes current service costs of £112,000 (2015: £128,000), and the total included in finance costs was £215,000 (2015: £240,000). The most recent actuarial valuation showed that the market value of the schemes assets was £26,513,000 giving a funding level of 72% (2015: 80%).

Actuarial assumptions

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

	2016 %	2015 %
Discount rate for plan liabilities	2.80	3.80
Rate of inflation (RPI)	3.60	3.10
Rate of inflation (CPI)	2.60	2.40
Rate of increase in salaries	5.10	4.60
Rate of increase of pensions in payment	2.60	2.40

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

	2016		2015	
	Male	Female	Male	Female
Member age 65 (current life expectancy)	22.2	24.2	22.1	24.1
Member age 45 (life expectancy at age 65)	23.7	25.7	23.5	25.6

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

Assumption	Change in assumption %	Impact on Scheme liabilities	
		Increase %	Decrease %
Discount rate	Increase by 0.5%	-	7.9
Discount rate	Decrease by 0.5%	8.9	-
Rate of inflation	Increase by 0.5%	3.8	-
Rate of inflation	Decrease by 0.5%	-	3.6
Rate of salary growth	Increase by 0.5%	0.6	-
Rate of salary growth	Decrease by 0.5%	-	0.6
Rate of mortality	Increase by 1 year	5.0	-
Rate of mortality	Decrease by 1 year	-	4.9

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit liability recognised in the statement of financial position. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

35. Retirement benefit schemes (continued)

Balance sheet disclosure

	2016	2015
	Fair value £'000	Fair value £'000
Equity	11,330	10,254
Government Bonds	4,121	3,413
Corporate Bonds	3,844	3,363
Diversified growth fund	2,971	2,951
Absolute return bond fund	3,989	3,855
Net current assets	258	466
Total market value of assets	26,513	24,302
Present value of scheme liabilities	(36,665)	(30,340)
Deficit in the pension plan/pension liability	(10,152)	(6,038)

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. Virtually all equity and debt instruments have quoted prices in active markets.

Amounts recognised in income are as follows:

	2016 £'000	2015 £'000
Analysis of the amount charged to administration expenses		
Current service cost	(112)	(128)
Administration costs	(134)	(193)
Total charge to administration expenses	(246)	(321)
Analysis of the amount charged to finance costs		
Expected return on plan assets	920	845
Interest cost on plan liabilities	(1,135)	(1,085)
Net charge to finance costs	(215)	(240)
Total charge to income for the year	(461)	(561)

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

35. Retirement benefit schemes (continued)

Amounts included in other comprehensive income in respect of the defined benefits plan are as follows:

	2016 £'000	2015 £'000
Gain/(loss) on scheme assets in excess of interest	1,476	(603)
(Loss)/gains from changes to financial assumptions	(6,038)	1,483
Total actuarial (losses)/gains recognised in other comprehensive income	<u>(4,562)</u>	<u>880</u>

The gain (2015: loss) on scheme assets in excess of interest of £1,476,000 (2015: £603,000) is 5.6% (2015: 2.5%) of the plan assets as at 31 December 2016. The total actuarial loss of £4,562,000 represents 12.4% of the present value of scheme liabilities as at 31 December 2016.

The cumulative amount of actuarial gains and losses recognised in other comprehensive income since the date of transition to IFRS is £6,117,000 net loss (2015: £1,555,000 net loss).

Analysis of movement in the present value of defined benefit obligations

	2016 £'000	2015 £'000
As at 1 January	(30,340)	(31,556)
Current service cost	(112)	(128)
Member contributions	(30)	(32)
Interest on pension scheme liabilities	(1,135)	(1,085)
Benefits paid	990	978
Re-measurement (losses)/gains:		
Actuarial (losses)/gains arising	(6,038)	1,483
As at 31 December	<u>(36,665)</u>	<u>(30,340)</u>

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

35. Retirement benefit schemes (continued)

Analysis of return on plan assets

	2016 £'000	2015 £'000
As at 1 January	24,302	24,208
Interest on assets	920	845
Return on plan assets less interest	1,476	(603)
Employer contributions	909	991
Member contributions	30	32
Benefits paid	(990)	(978)
Administration expenses	(134)	(193)
As at 31 December	<u>26,513</u>	<u>24,302</u>

The Group should fund the cost of the entitlements expected to be earned on a yearly basis. Employees pay a fixed percent of pensionable salary and the residual contribution is paid by the entities of the Group. The funding requirements are based on a local actuarial measurement framework. In this framework the discount rate is based on the assets held by the scheme, and using cautious estimates of the expected returns from each asset class. The cost of benefits is calculated using several assumptions, and by projecting salaries up to retirement date. An additional liability may stem from actual experience being different to these assumptions, in which case the Group is responsible for putting in place a recovery plan in order to address any additional liabilities. Any additional liabilities are a debt to the Group.

The average duration of the benefit obligation at the end of the reporting period is 18 years (2015: 17 years). This number can be subdivided into the duration related to:

- active members: 23 years (2015: 21 years)
- deferred members: 23 years (2015: 21 years)
- retired members: 14 years (2015: 13 years)

The estimated amount of contributions expected to be paid to the scheme during the 2017 financial year is £916,000. (2016:£924,000)

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

36. Financial instruments

Categories of financial instruments

	2016 £'000	2015 £'000
Financial assets		
Loans and receivables		
Loans	666	8,257
Trade and other receivables	36,039	27,815
Cash and bank balances	91,866	72,838
	<u>128,571</u>	<u>108,910</u>
Financial liabilities measured at amortised cost		
Loans	652,153	569,826
Trade and other payables	84,385	76,668
	<u>736,538</u>	<u>646,494</u>

Fair value of financial assets and liabilities

All financial assets and liabilities 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 the shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2014. The Group aims to achieve a debt/equity ratio of 60/40.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 21 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.

The Group is not subject to any externally imposed capital requirements.

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.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses local currency bank accounts and loans for each hotel within the Group to manage its exposure to interest rate and foreign currency risks.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

36. Financial instruments (continued)

Interest rate risk

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

The Group seeks to minimise 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. The Group did not hedge its interest rate risk in 2016.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the 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 2016 would decrease/increase by £466,000 (2015: decrease/increase by £436,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters at the ultimate parent level. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
US Dollar	66,638	39,685	95,403	57,690
Euro	569,967	447,465	25,089	21,765
Other	-	679	-	-

Foreign currency sensitivity analysis

The Group is mainly exposed to the 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 £28,905,000 at 31 December 2016 (2015: £15,136,000) and increased profit before tax by £8,629,000 (2015: increased by £6,157,000). A 5% weakening of sterling would exactly reverse the position whereby net assets would increase and profit would decrease by the same amounts.

Credit risk

Credit risk refers to the risk that a counter party 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 cash equivalents 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.

Dorchester Group Limited

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

36. Financial instruments (continued)

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 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.

Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its 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
31 December 2016						
Non-interest bearing loans	448,493	251,425	197,068	-	-	448,493
Variable interest rate loans	87,771	1,148	88,862	-	-	90,010
Fixed interest rate loans	115,889	22,738	29,738	73,268	-	125,744
Trade and other payables	84,385	80,269	612	1,223	2,282	84,386
Current tax liabilities	517	517	-	-	-	517
	<u>737,055</u>	<u>356,097</u>	<u>316,280</u>	<u>74,491</u>	<u>2,282</u>	<u>749,150</u>
31 December 2015						
Non-interest bearing loans	371,833	197,133	174,700	-	-	371,833
Variable interest rate loans	84,625	2,006	85,247	-	-	87,253
Fixed interest rate loans	113,368	18,745	22,217	85,185	-	126,147
Trade and other payables	76,668	71,890	661	1,664	2,453	76,668
Current tax liabilities	4,101	4,101	-	-	-	4,101
	<u>650,595</u>	<u>293,875</u>	<u>282,825</u>	<u>86,849</u>	<u>2,453</u>	<u>666,002</u>

Dorchester Group Limited

Notes to the consolidated financial statements (continued) For the year ended 31 December 2016

36. Financial instruments (continued)

Financial assets

The following table details the Group's 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
31 December 2016			
Trade and other receivables, excluding prepayments	36,039	36,039	36,039
Amounts owed by fellow subsidiary undertakings – interest bearing	-	-	-
Amounts owed by fellow subsidiary undertaking – non-interest bearing	666	666	666
Cash and cash equivalents	91,866	91,866	91,866
	<u>128,571</u>	<u>128,571</u>	<u>128,571</u>
31 December 2015			
Trade and other receivables, excluding prepayments	27,815	27,815	27,815
Amounts owed by fellow subsidiary undertakings – interest bearing	239	239	239
Amounts owed by fellow subsidiary undertaking – non-interest bearing	8,018	8,018	8,018
Cash and cash equivalents	72,838	72,838	72,838
	<u>108,910</u>	<u>108,910</u>	<u>108,910</u>

37. Related party transactions

The company is a subsidiary undertaking of Ammar Holding Cooperatief a Dutch COOP, the immediate controlling party. The consolidated financial statements of Ammar Holding Cooperatief are available to the public and may be obtained from the Chamber of Commerce, De Ruyterkade 5, 1013 AA Amsterdam, Holland. The ultimate parent and controlling party is the Brunei Investment Agency, a statutory body incorporated in Brunei. Consequently, as a statutory body, related parties to the company include all Brunei government ministries, departments, agencies and their subsidiary undertakings and also include Bruneian citizens holding office within Brunei and its government.

The Group provided hotel services to these related parties amounting to £1,407,000 (2015: £2,518,000). Amounts owed for these services as at 31 December 2016 amounted to £553,400 (2015: £988,000). The Group occupies space owned by fellow related parties in two (2015: two) buildings in London, one on an annually renewable agreement the other on a fixed term and also four (2015: four) buildings in Paris, all on fixed term leases. The total rent charged for the year was £2,864,543 (2015: £2,711,586). It is estimated that the market rent for the year of the space occupied is £2,864,543 (2015: £2,711,586). Amounts owed for the rental, associated rates and services as at 31 December 2016 amounted to £2,491,000 (2015: £857,000). Loans from fellow Group companies are covered in note 21.

The Group has loans that are interest free at rates comparable to the average commercial rate of interest (see note 21).

During the year the company incurred branding and trademark licence fees of £2,445,439 (2015: £2,506,322) from a fellow related parties. Amounts owed for these fees at 31 December 2016 amounted to £2,445,439 (2015: £2,506,322).

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 9.

Dorchester Group Limited

Notes to the consolidated financial statements (continued) **For the year ended 31 December 2016**

38. Capital commitments

Capital commitments at the end of the financial year for which no provision has been made are as follows:

	2016	2015
	£000	£000
Contracted	20,780	7,448
Authorised not contracted	<u>13,626</u>	<u>12,929</u>

39. Transfer between Reserves

The Group transitioned to IFRS on 1 January 2010, producing its first set of IFRS financial statements for the year ended 2012. As at transition date, items were taken to the revaluation reserve rather than directly to retained earnings and to the translation reserve. The cumulative impact reversing the items of £72,882,000, including foreign exchange movements is included in the transfers between reserves in 2016. This transfer does not impact the statement of comprehensive income or distributable reserves.

40. Post balance sheet Event

EU Referendum

On 23 June 2016 the UK electorate voted to leave the European Union and the UK government exercised article 50 on 29 March 2017 to officially start the Brexit process. This decision and action has commenced a process that is likely to take a minimum of two years to complete, and during this time the UK remains a member of the European Union. The first major impact has been on the sterling currency which fell substantially against both the Euro and US dollar. Whilst there is a resulting period of uncertainty for the UK economy with increased volatility expected in financial markets, this does not impact the fair value of assets and liabilities, including intangibles and property plant and equipment reported at the balance sheet date of 31 December 2016.

Management Contracts

On 22 June 2017 Dorchester Services Limited and the owners of the Hotel Le Richemond, Geneva, agreed that the hotel management agreement between them would cease as at 31 October 2017.

Dorchester Group Limited

Company financial statements As at 31 December 2016

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Independent auditors' report to the members of Dorchester Group Limited

Report on the parent company financial statements

Our opinion

In our opinion, Dorchester Group Limited's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

Company

- Statement of financial position as at 31 December 2016;
- Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Dorchester Group Limited

Report on the parent company financial statements (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 8, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and the Directors' Report, we consider whether this report includes the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the group financial statements of Dorchester Group Limited for the year ended 31 December 2016.

Tina Ahuja (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

September 2017

Dorchester Group Limited

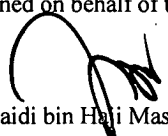
Company statement of financial position As at 31 December 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Property, plant and equipment	F	31	37
Investment in subsidiaries	G	407,924	414,075
Trade and other receivables	H	132,751	111,839
Deferred tax asset		0	12
		<u>540,706</u>	<u>525,963</u>
Current assets			
Trade and other receivables	H	53,912	34,698
Cash and cash equivalents		9,509	5,980
		<u>63,421</u>	<u>40,678</u>
Total assets		<u>604,127</u>	<u>566,641</u>
Current liabilities			
Trade and other payables	I	923	705
Current tax liabilities		-	1,350
Financial liabilities	J	132,288	108,716
		<u>133,211</u>	<u>110,771</u>
Net current liabilities		<u>(69,790)</u>	<u>(70,093)</u>
Non-current liabilities			
Financial liabilities	J	214,371	192,425
Total liabilities		<u>347,582</u>	<u>303,196</u>
Net assets		<u>256,545</u>	<u>263,445</u>
Equity			
Called up share capital	K	120,009	120,009
Capital reserve		11,201	11,201
Share premium account		37,711	37,711
Retained earnings		87,624	94,524
Total equity		<u>256,545</u>	<u>263,445</u>

The notes on pages 61 to 68 form an integral part of these financial statements.

These financial statements of Dorchester Group Limited (company no. 01823605) were approved and authorised for issue by the Board of Directors on September 2017.

Signed on behalf of the Board


Junaidi bin Haji Masri
Director

Dorchester Group Limited

Company statement of changes in equity For the year ended 31 December 2016

	Called up share capital £'000	Capital reserve £'000	Share Premium account £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2015	120,009	11,201	37,711	79,174	248,095
Profit for the year	-	-	-	15,350	15,350
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	15,350	15,350
Dividend paid	-	-	-	-	-
Balance at December 2015	120,009	11,201	37,711	94,524	263,445
Loss for the year	-	-	-	(6,900)	(6,900)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive expense for the year	-	-	-	(6,900)	(6,900)
Dividend paid	-	-	-	-	-
Balance at 31 December 2016	120,009	11,201	37,711	87,624	256,545

The notes on pages 61 to 68 form an integral part of these financial statements.

Dorchester Group Limited

Notes to the company financial statements For the year ended 31 December 2016

A. General Information

The principal activity of the Company is the holding of investments in companies owning, leasing and managing deluxe five-star hotels. In addition the Company owns indirectly commercial properties in the USA. Dorchester Group Limited is a limited liability company domiciled and registered in England and Wales.

The registered office is located at 3 Tilney Street, London, W1K 1BJ.

B. Accounting policies

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

The functional and presentational currency is sterling.

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101: FRS 101 – Reduced Disclosure Framework: Disclosure exemptions from EU-adopted International Financial Reporting Standards ("IFRS") for qualifying entities ("FRS 101"). The financial statements have been prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note D.

In the preparation of these financial statements, in accordance with FRS 101 the following exemptions from the requirements of IFRS have been applied:

- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1.
- The following paragraphs of IAS 1, 'Presentation of financial statements':
- 10(d), (statement of cash flows);
- 10(f), (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
- 16, (statement of compliance with all IFRS);
- 38B-D, (additional comparative information);
- 40A-D, (requirement for a third statement of financial position);
- 111, (cash flow statement information); and
- 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- The requirement in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Accounting convention

The Company has taken advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own statement of comprehensive income. The loss after tax dealt with in the accounts of Dorchester Group Limited, determined in accordance with the Act, was £6,900,000 (2015: £15,350,000 profit)

Dorchester Group Limited

Notes to the company financial statements (continued) For the year ended 31 December 2016

B. Accounting policies (continued)

Changes in accounting policies and disclosures

On 1 January 2015, the Company adopted Financial Reporting Standard 101: FRS 101 – Reduced Disclosures Framework: Disclosure exemptions from EU-adopted International Financial Reporting Standards (“IFRS”) for qualifying entities (“FRS 101”). The date of transition to FRS 101 was 1 January 2014.

The Company has adopted new or amended IFRS’s and International Accounting Standards (“IAS”) as adopted by the EU that are mandatory for application from that date. Changes to the Company’s accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective IFRS and IAS.

The adoption of these new or amended IFRS and IAS did not result in substantial changes to the Company’s accounting policies and had no effect on the amounts reported for the current or prior financial years.

Investment in subsidiaries

Investments are carried at historical cost less any provision for impairment in value. Investments denoted in foreign currencies borrowings are retranslated at the year-end rate. The gain or loss on the investment is taken directly to the statement of comprehensive income.

Finance income

Interest income is recognised as it accrues using the effective interest rate method. Dividend income from investments is recognised on the date that the right to receive payment has been established.

Financial liabilities

Financial liabilities are recognised in the Statement of financial position, when the company becomes party to the contractual provisions of an instrument. Upon initial recognition, financial liabilities are recognised at the fair value of the consideration payable.

Financial liabilities including trade payables are stated at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. A financial liability ceases to be recognised when the obligation under the liability has been discharged, cancelled or expired.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/ loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Dorchester Group Limited

Notes to the company financial statements (continued)

For the year ended 31 December 2016

B. Accounting policies (continued)

Dividends

Dividends payable by the Company are recognised gross of withholding taxes and are recognised in the financial statements in the year that they are declared and authorised by the directors and shareholders and as a deduction from shareholders' equity. Dividends proposed after the year end date will be recognised in the financial statements in subsequent financial years.

Share capital

Ordinary shares are classified as equity.

Cash flow statement

The Company's parent undertaking prepares and publishes financial statements that are publicly available. Those financial statements include a consolidated cash flow statement. For this reason the exemption requirements of IAS 1 "Cash Flow Statements" are met and the Company has therefore not prepared a cash flow statement.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, 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:

Plant & machinery	-	5 years
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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 statement of comprehensive income.

Trade and other receivables

Trade and other receivables are amounts due for services performed in the ordinary course of business, which generally have 30 day payment terms. Provision for specific doubtful debts is made when there is evidence that the Company will not be able to recover balances in full. Balances are written off when the receivable amount is deemed irrecoverable.

Trade and other receivables are initially recognised at fair value, normally equivalent to the invoice amount, and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Dorchester Group Limited

Notes to the company financial statements (continued) For the year ended 31 December 2016

C. New standards and amendments

(a) New standards, amendments and interpretations adopted by the company

The following standards and interpretations from the IFRS Interpretations Committee, ("IFRIC") have been adopted by the Company for the first time for the financial year beginning on or after 1 January 2016 and have not had a material impact on the Company:

Annual Improvements to IFRSs: 2010 - 2012 Cycle and 2011 – 2013 Cycle

IFRIC 21, 'Levies' (effective annual periods on or after 1 January 2014 endorsed 17 June 2014): This interpretation is on IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

There have been no changes as a result of these

(b) New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

D. Critical accounting estimates and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Investment in subsidiary

Investments in subsidiary are held at cost. Significant judgement is involved in determining whether the carrying value of the investment in subsidiary is impaired. The impairment assessment is based on the fair value of the hotel operations. The valuation is driven by a discounted cashflow as valued by an external valuer on an annual basis.

E. Directors' remuneration and employees

Details of Directors' remuneration in the current and prior year are given in note 9 of the consolidated financial statements on page 27.

The average number of employees excluding Directors during the year was 8 (2015: 6).

Dorchester Group Limited

Notes to the company financial statements (continued) For the year ended 31 December 2016

F. Property, plant and equipment

	Plant and machinery £'000	Total £'000
Cost		
At 1 January 2016	39	39
Additions	-	-
Disposals	-	-
	<hr/>	<hr/>
At 31 December 2016	39	39
	<hr/>	<hr/>
Accumulated depreciation		
At 1 January 2016	(2)	(2)
Charge	(6)	(6)
Disposals	-	-
	<hr/>	<hr/>
At 31 December 2016	(8)	(8)
	<hr/>	<hr/>
Net book value		
At 31 December 2016	31	31
	<hr/>	<hr/>
At 31 December 2015	37	37
	<hr/>	<hr/>

Dorchester Group Limited

Notes to the company financial statements (continued) For the year ended 31 December 2016

G. Investment in subsidiaries

	2016 £'000	2015 £'000
Cost at 1 January		
Investment in subsidiary undertakings at cost	238,754	238,754
Investment in subsidiary undertakings by means of share for share exchange	182,711	182,711
Sub total	421,465	421,465
Loans to subsidiary undertakings	123,391	123,391
Cost at 31 December	<u>544,856</u>	<u>544,856</u>
Provision for impairment		
At 1 January	130,781	126,667
Impairment charge	6,151	4,114
At 31 December	<u>136,932</u>	<u>130,781</u>
Net book value	<u>407,924</u>	<u>414,075</u>

The company has investments in subsidiary undertakings as outlined in note 18.

H. Trade and other receivables

	2016 £'000	2015 £'000
Amounts due within one year		
Amounts owed by subsidiary undertakings	52,072	34,692
Prepayments	3	3
Taxation	1,837	-
Other debtors	-	3
	<u>53,912</u>	<u>34,698</u>

Amounts owed by subsidiary undertakings are repayable on demand and are interest free.

	2016 £'000	2015 £'000
Amounts due after more than one year		
Loans to subsidiary undertakings at floating rates	9,191	7,871
Loans to subsidiary undertakings interest free	123,560	103,968
	<u>132,751</u>	<u>111,839</u>

The loans at floating rates are at 12 month EURIBOR plus 2%.

	2016 £'000	2015 £'000
Loans maturing within:		
Over 5 years	<u>132,751</u>	<u>111,839</u>

Dorchester Group Limited

Notes to the company financial statements (continued) For the year ended 31 December 2016

I. Trade and other payables

	2016 £'000	2015 £'000
Due within one year		
Amounts owed to subsidiary undertakings	51	53
Trade creditors	52	8
Other creditors	542	237
Accruals and deferred income	278	407
	<u>923</u>	<u>705</u>

Amounts owed to subsidiary undertakings and ultimate parent undertakings are payable on demand and are non-interest bearing.

J. Financial liabilities

	2016 £'000	2015 £'000
Included within current liabilities		
Loans from ultimate parent undertakings	124,857	108,716
Loans from subsidiary undertaking	7,431	-
	<u>132,288</u>	<u>108,716</u>

	2016 £'000	2015 £'000
Loans from subsidiary undertaking – unsecured, subordinated	35,583	27,455
Loan from fellow subsidiary undertaking – unsecured, subordinated and interest free	178,788	164,970
	<u>214,371</u>	<u>192,425</u>
Total Financial liabilities	<u>346,659</u>	<u>301,141</u>

The interest bearing loans from fellow subsidiary undertakings of the Brunei Investment Agency (“BIA”) bear interest at a fixed rate of 4%

	2016 £'000	2015 £'000
Loans maturing between:		
Within 1 year	132,288	108,716
1 to 2 years amount to	199,200	177,651
2 to 5 years amount to	15,171	14,774
	<u>346,659</u>	<u>301,141</u>

Dorchester Group Limited

Notes to the company financial statements (continued) For the year ended 31 December 2016

K. Called up share capital

	2016 £'000	2015 £'000
Authorised:		
Ordinary share of £1 each	<u>200,000</u>	<u>200,000</u>
	£'000	£'000
Allotted, called up and fully paid:		
Ordinary share of £1 each	<u>120,009</u>	<u>120,009</u>

L. Financial Commitments

	Land and buildings	
	2016 £'000	2015 £'000
Operating leases which expire:		
Within one year	<u>133</u>	<u>133</u>

At 31 December 2016, the company had no capital commitments (2015: £Nil)

M. Contingent liabilities

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

N. Related parties

Other than those parties identified in note 37, all other related party transactions were with subsidiary undertakings.

O. 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 consolidated accounts of Ammar Holding Cooperatief are available to the public and may be obtained from the Chamber of Commerce, De Ruyterkade 5, 1013 AA Amsterdam, Holland. 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.