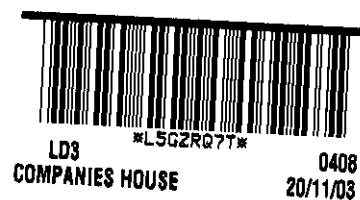


Company Registration No. 01823605

DORCHESTER GROUP LIMITED

Report and Financial Statements

31 December 2002



**Deloitte & Touche LLP
London**

DORCHESTER GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2002

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DORCHESTER GROUP LIMITED

OFFICERS AND FINANCIAL STATEMENTS 2002

DIRECTORS

Haji Ali Apong (Chairman)
Haji Saifulbahri Haji Mansor
Haji Ghani Hamid
Pg Hj Md Airudin Pg Hj Mohamad
Dayang Haslina Binti Haji Mohd Taib
Mr Riccardo Obertelli

SECRETARY

Dayang Haslina Binti Haji Mohd Taib

REGISTERED OFFICE

3 Tilney Street
London
W1K 1BJ

AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

DORCHESTER GROUP LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES AND FUTURE PROSPECTS

During the year, the group continued to own and manage The Dorchester Hotel, Park Lane, London, The Beverly Hills Hotel in Los Angeles, Hotel Meurice in Paris and four commercial properties in the United States of America.

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

BUSINESS REVIEW

The consolidated profit on ordinary activities after taxation is £13.3m (2001: £13.4m). The directors consider the results for the year to be satisfactory.

PROPOSED DIVIDEND AND TRANSFER TO RESERVES

The directors do not recommend the payment of a dividend (2001: £nil). The retained profit of £13.3m (2001: £13.4m) was transferred to reserves.

DIRECTORS AND THEIR INTERESTS

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

Dato Paduka Haji Abdul Rahman Haji Ibrahim (Chairman)	(resigned 15 May 2003)
Haji Saifulbahri Haji Mansor	
Dayang Haslina Binti Haji Mohd Taib	
Mr Riccardo Obertelli	
Pg Hj Husainey Bin Pg Hj Mohamad	(resigned 15 May 2003)

The following have been appointed as directors since the year end:

Haji Ali Apong (Chairman)	(appointed 15 May 2003)
Haji Ghani Hamid	(appointed 15 May 2003)
Pg Hj Md Airudin Pg Hj Mohamad	(appointed 15 May 2003)

The directors do not have any beneficial interests in the share capital of the company or its subsidiary undertakings. According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

EMPLOYEES

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

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

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, the group donated £10,517 (2001: £9,430) for charitable purposes. There were no political donations.

DORCHESTER GROUP LIMITED

DIRECTORS' REPORT (continued)

THE SINGLE EUROPEAN CURRENCY

We continue to monitor the expected entry date for the United Kingdom and will be ensuring that our systems will be prepared if the United Kingdom enters monetary union. The costs of this transition have not yet been quantified but are not expected to be significant at this stage.

AUDITORS

On 1 August 2003, Deloitte & Touche, the company's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to reappoint Deloitte & Touche LLP as auditors will be put to the members at the Annual General Meeting.

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



Dayang Haslina Binti Haji Mohd Taib
Secretary

19 NOVEMBER 2003

DORCHESTER GROUP LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
DORCHESTER GROUP LIMITED**

We have audited the financial statements of Dorchester Group Limited for the year ended 31 December 2002 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheets, the cash flow statement and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

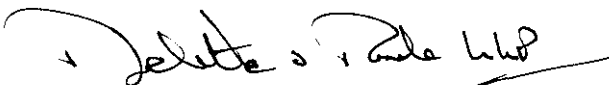
Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

20 January 2003

DORCHESTER GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 December 2002

	Note	2002 £'000	2001 restated* £'000
TURNOVER	3	102,198	99,846
Cost of sales		(46,035)	(44,524)
Gross profit		56,163	55,322
Operating expenses		(35,828)	(34,015)
OPERATING PROFIT		20,335	21,307
Interest receivable and similar income	5	3,474	902
Interest payable and similar charges	6	(6,858)	(5,599)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	16,951	16,610
Tax charge on profit on ordinary activities	7	(3,619)	(3,176)
PROFIT FOR THE FINANCIAL YEAR	18	13,332	13,434

*The profit and loss account for the year ended 31 December 2001 has been restated for the adoption of FRS 19 and the change of accounting policy concerning investment properties (see note 1).

All activities are derived from continuing operations.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES Year ended 31 December 2002

	2002 £'000	2001 restated* £'000
Profit for the financial year	13,332	13,434
Currency translation differences on foreign currency net investments	(18,552)	7,095
Total recognised gains and losses relating to the year	(5,220)	20,529
Prior period adjustment (note 1)	(22,010)	
Total gains and losses recognised since the last annual report and financial statements	(27,230)	

*The consolidated statement of total recognised gains and losses for the year ended 31 December 2001 has been restated for the adoption of FRS 19 and the change of accounting policy concerning investment properties (see note 1).

DORCHESTER GROUP LIMITED

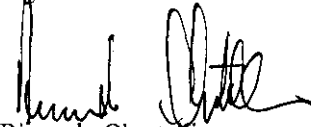
CONSOLIDATED BALANCE SHEET Year ended 31 December 2002


	Note	2002 £000	2001 restated* £000
FIXED ASSETS			
Investment properties	8	77,489	85,400
Tangible assets	9	373,329	377,805
		<u>450,818</u>	<u>463,205</u>
CURRENT ASSETS			
Stocks	11	3,690	3,528
Debtors: amounts falling due within one year	12	14,945	9,115
Debtors: amounts falling due after more than one year	13	6,415	3,736
Investments	14	7,485	8,871
Cash at bank and in hand		22,542	18,463
		<u>55,077</u>	<u>43,713</u>
CREDITORS: amounts falling due within one year	15	<u>(29,339)</u>	<u>(15,288)</u>
NET CURRENT ASSETS		<u>25,738</u>	<u>28,425</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>476,556</u>	<u>491,630</u>
CREDITORS: amounts falling due after more than one year	16	(123,106)	(136,149)
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>(26,496)</u>	<u>(23,307)</u>
NET ASSETS		<u>326,954</u>	<u>332,174</u>
CAPITAL AND RESERVES			
Called up share capital	18, 19	120,009	120,009
Share premium account	18	182,711	182,711
Other reserves	18	72,668	72,668
Profit and loss account	18	(48,434)	(43,214)
EQUITY SHAREHOLDERS' FUNDS	18	<u>326,954</u>	<u>332,174</u>

* The balance sheet for the year ended 31 December 2001 has been restated for the adoption of FRS 19 and the change of accounting policy concerning investment properties (see note 1).

These financial statements were approved by the Board of Directors on 19 NOVEMBER 2003.

Signed on behalf of the Board of Directors


Riccardo Obertelli
Director


Dayang Haslina Binti Haji Mohd Taib
Director

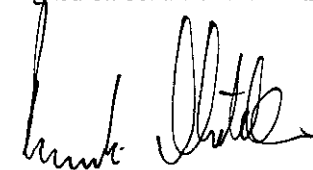
DORCHESTER GROUP LIMITED

COMPANY BALANCE SHEET Year ended 31 December 2002

	Note	2002 £000	2001 £000
FIXED ASSETS			
Investments	10	319,481	319,481
CURRENT ASSETS			
Debtors: amounts falling due within one year	12	2,218	-
Debtors: amounts falling due after more than one year	13	126,450	119,080
Cash at bank and in hand		7,388	12,934
		<u>136,056</u>	<u>132,014</u>
CREDITORS: amounts falling due within one year	15	<u>(14,604)</u>	<u>(16,633)</u>
NET CURRENT ASSETS		<u>121,452</u>	<u>115,381</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>440,933</u>	<u>434,862</u>
CREDITORS: amounts falling due after more than one year	16	<u>(120,212)</u>	<u>(118,324)</u>
NET ASSETS		<u><u>320,721</u></u>	<u><u>316,538</u></u>
CAPITAL AND RESERVES			
Called up share capital	18, 19	120,009	120,009
Share premium account	18	182,711	182,711
Profit and loss account	18	18,001	13,818
EQUITY SHAREHOLDERS' FUNDS	18	<u><u>320,721</u></u>	<u><u>316,538</u></u>

These financial statements were approved by the Board of Directors on 19 NOVEMBER 2003.

Signed on behalf of the Board of Directors



Riccardo Obertelli
Director



Dayang Haslina Binti Haji Mohd Taib
Director

DORCHESTER GROUP LIMITED

CONSOLIDATED CASH FLOW STATEMENT Year ended 31 December 2002

	Note	2002 £000	£000	2001 £000	£000
Net cash inflow from operating activities	23		23,864		27,211
Returns on investments and servicing of finance					
Interest received		805		902	
Interest paid		(13,192)		(11,239)	
Interest element of finance leases		(7)		-	
		<u> </u>		<u> </u>	
Net cash outflow from returns on investments and servicing of finance			(12,394)		(10,337)
Taxation			(155)		(2,089)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(8,716)		(3,256)	
Sale of tangible fixed assets		57		-	
		<u> </u>		<u> </u>	
Net cash outflow from capital expenditure and financial investment			(8,659)		(3,256)
Cash inflow before management of liquid resources and financing			2,656		11,529
Management of liquid resources					
Cash withdrawn from/(paid into) short term deposits			1,386		(2,585)
			<u> </u>		<u> </u>
			4,042		8,944
Financing					
New bank loans/overdraft drawn down		100		18,899	
Repayment of finance leases		(63)		-	
Repayment of loan from ultimate parent company		-		(24,800)	
		<u> </u>		<u> </u>	
Net cash inflow/ (outflow) from capital expenditure and financial investment			37		(5,901)
Increase in cash in the year	24		<u> 4,079 </u>		<u> 3,043 </u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below and have been applied consistently and throughout the year and the preceding year with the exception of the accounting policies for deferred taxation and investment properties which are explained below.

Accounting convention

The financial statements are prepared under the historical cost convention, modified to include the revaluation of certain fixed assets.

Basis of consolidation

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

Investment properties

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

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

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

Investments

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

Tangible fixed assets

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

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

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

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

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

1. ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

Pension costs

The group operates three pension schemes, two providing benefits based on final pensionable pay and one based on the contributions made to the scheme. The assets of all schemes are held separately from those of the group in independently administered funds. Contributions to the defined benefits schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. Contributions to the defined contribution scheme are charged to the profit and loss account as they become payable.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used.

Leases

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

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on the current rates and law, except that no provision is made for taxation that may arise on the future disposal of the Company's properties. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Turnover

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

Change in accounting policy

The adoption of FRS 19 "Deferred Tax" has required changes in the method of accounting for deferred tax assets and liabilities. Under FRS 19, the Company is required to make a full provision for deferred tax in respect of timing differences, recognising in total the potential future tax impact of past transactions excluding deferred tax on revaluation surpluses on investment properties. Under SSAP 15, provision for deferred tax was only required if it was expected that timing differences would reverse in the foreseeable future.

In addition the directors have reviewed the accounting policy with regard to the Company's property holdings in the United States of America. The properties were previously treated as fixed assets and recorded at cost less depreciation as the difference between this and the market value was not considered material. The directors have reviewed the accounting policy with regard to the properties and decided that it would be more appropriate to follow SSAP 19 "Investment Properties" and revalue the properties annually.

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

1. ACCOUNTING POLICIES (continued)

As a result of these changes in accounting policy the comparatives have been restated as follows:

a) Balance sheet

	Fixed assets £'000	Investment properties £'000	Provisions for liabilities and charges £'000	Profit and loss account £'000	Equity Shareholders' Funds £'000
2001 as previously reported	463,205	-	(1,297)	(21,204)	354,184
Adoption of FRS 19:					
At 1 January 2001	-	-	(18,613)	(18,613)	(18,613)
During the year	-	-	(3,397)	(3,397)	(3,397)
At 31 December 2001	-	-	(22,010)	(22,010)	(22,010)
Change of accounting policy re: properties:					
At 1 January 2001	(85,100)	85,100	-	-	-
During the year	(300)	300	-	-	-
At 31 December 2001	(85,400)	85,400	-	-	-
2001 restated	377,805	85,400	(23,307)	(43,214)	332,174

b) Profit and loss account

	Tax on profit on ordinary activities £'000	Profit on ordinary activities after taxation £'000
Year to December 2001 as previously reported	221	16,831
Adoption of FRS 19	(3,397)	(3,397)
Change accounting policy re properties	-	-
2001 restated	(3,176)	13,434

If FRS 19 had not been adopted in 2002 the tax on profit on ordinary activities for the year to 31 December 2002 would have reduced by £3,064,000 to £555,000 and the profit for the financial year to 31 December 2002 would have increased by £3,064,000 to £16,396,000.

The change of accounting policy for investment properties had no impact on the profit before taxation and the profit on ordinary activities after taxation.

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2002 £'000	2001 restated* £'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	5,862	5,318
Provision for impairment of investment properties	-	2,500
Loss on sale of tangible fixed assets	7	-
Rentals under operating leases		
Land and buildings	248	194
Plant and machinery	36	44
Auditors' remuneration		
Group audit fees	219	157
Company audit fees	32	5
Other services	286	235

The consolidated result for the financial year includes a profit of £4,183,000 (2001: £1,820,000) dealt with in the financial statements of the company. In accordance with the exemption conferred by section 230 of the Companies Act 1985, the company has not published its own profit and loss account.

All of the Group's turnover except for rents receivable and similar income from property, disclosed above, is derived from hotel operations.

3. SEGMENTAL ANALYSIS OF TURNOVER, OPERATING PROFIT AND NET ASSETS

	Turnover		Operating Profit		Net Assets	
	2002 £'000	2001 £'000	2002 £'000	2001 restated* £'000	2002 £'000	2001 restated* £'000
Hotel operations:						
USA	27,171	29,621	5,763	4,318	142,588	162,058
Europe	24,031	18,800	3,212	(52)	19,608	18,454
United Kingdom	38,529	38,786	6,605	10,791	108,328	93,754
	89,731	87,207	15,580	15,057	270,524	274,266
Property investment:						
USA	12,467	12,639	4,755	6,250	56,430	57,908
	102,198	99,846	20,335	21,307	326,954	332,174

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2002 £000	2001 £000
Directors' emoluments		
Remuneration as executives	297	275

The aggregate of emoluments, excluding pension contributions of the highest paid director were £198,000 (2001: £180,000). The highest paid director is a member of a defined benefits pension scheme, under which his accrued pension at the year end was £33,000 (2001: £32,000).

Retirement benefits are accruing to two (2001: two) directors under a defined benefits scheme. No directors received benefits under money purchase schemes.

	2002 No.	2001 No.
Average number of persons employed		
Operations	1,098	1,135
Sales and marketing	25	26
Administration	107	107

1,230 1,268

	2002 £000	2001 £000
Staff costs during the year		
Wages and salaries	26,328	25,926
Social security costs	6,454	6,020
Other pension costs (see note 21)	840	866

33,622 32,812

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2002 £000	2001 £000
On bank deposits	767	901
Foreign exchange movements	2,660	-
Other	47	1

3,474 902

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £000	2001 £000
On bank loans and overdrafts	2,248	1,974
Other loans	4,506	2,338
Foreign exchange movements	-	1,151
On finance leases	7	-
Amortisation of loan issue costs	97	136

6,858 5,599

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

7. TAX CHARGE ON ORDINARY ACTIVITIES

	2002 £'000	2001 restated* £'000
Current taxation		
United Kingdom corporation tax at 30%	(263)	(12)
Foreign tax	(292)	165
Adjustment in respect of prior years	-	68
	<u>(555)</u>	<u>221</u>
Deferred taxation		
Origination and reversal of timing differences	(3,112)	(2,902)
Adjustment in respect of prior years	48	(495)
	<u>(3,064)</u>	<u>(3,397)</u>
	<u>(3,619)</u>	<u>(3,176)</u>

* The comparatives have been restated for the adoption of FRS 19 (see note 1).

Factors affecting the tax charge for the year

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

	2002 £	2001 £
Profit on ordinary activities before tax	<u>16,951</u>	<u>16,610</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2001: 30%)	(5,085)	(4,983)
Effect of:		
Expenses not deductible for tax purposes	1,429	2,234
Capital allowances in excess of depreciation	1,642	1,429
Other deferred tax movements	1,460	1,475
Double tax relief	13	11
Foreign tax	(14)	(13)
Prior period adjustments	-	68
Current tax (charge)/credit	<u>(555)</u>	<u>221</u>

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

8. INVESTMENT PROPERTIES

	2002 £'000	2001 restated* £'000
Cost or valuation:		
At 1 January (restated)	85,400	85,100
Additions	153	370
Foreign exchange translation differences	(8,064)	2,430
Provision for impairment	-	(2,500)
At 31 December	<u>77,489</u>	<u>85,400</u>

* The comparatives have been restated for the change of accounting policy concerning investment properties (see note 1).

All of the Group's investment properties are freehold properties. The comparable amount of the investment properties according to the historical cost convention was £77,489,000 (2001: £85,400,000).

The Group's investment properties were valued at open market value by the Directors at 31 December 2002.

9. TANGIBLE FIXED ASSETS

Group	Land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Assets in the course of construction £000	Total £000
Cost					
At 1 January 2002 (restated*)	357,438	25,182	44,344	1,290	428,254
Foreign exchange translation differences	(10,750)	532	310	40	(9,868)
Additions	-	695	8,110	707	9,512
Reclassifications	327	(226)	565	(666)	-
Disposals	(32)	(9,279)	(8,697)	-	(18,008)
At 31 December 2002	<u>346,983</u>	<u>16,904</u>	<u>44,632</u>	<u>1,371</u>	<u>409,890</u>
Accumulated depreciation					
At 1 January 2002 (restated*)	12,579	14,634	23,236	-	50,449
Foreign exchange translation differences	(1,193)	-	(613)	-	(1,806)
Charge	-	1,743	4,119	-	5,862
Disposals	(6)	(9,278)	(8,660)	-	(17,944)
At 31 December 2002	<u>11,380</u>	<u>7,099</u>	<u>18,082</u>	<u>-</u>	<u>36,561</u>
Net book value					
At 31 December 2002	<u>335,603</u>	<u>9,805</u>	<u>26,550</u>	<u>1,371</u>	<u>373,329</u>
At 31 December 2001 (restated*)	<u>344,859</u>	<u>10,548</u>	<u>21,108</u>	<u>1,290</u>	<u>377,805</u>

* The comparatives have been restated for the change of accounting policy concerning investment properties (see note 1).

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

9. TANGIBLE FIXED ASSETS (continued)

The net book value of land and buildings comprise:

	2002 £000	2001 restated* £000
Freehold	335,446	344,707
Long leasehold	157	152
	<u>335,603</u>	<u>344,859</u>

Land and buildings with a net book value of £335,446,000 (2001: £344,707,000) are not depreciated.

10. FIXED ASSET INVESTMENTS

Company	2002 £000	2001 £000
Investment in subsidiary undertaking at cost	136,770	136,770
Investment in subsidiary undertakings by means of share for share exchange	182,711	182,711
	<u>319,481</u>	<u>319,481</u>

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

Subsidiary undertakings	Principal activity	Class and percentage of shares held and voting rights
United Kingdom		
Dorchester Hotel Limited	Hotel	Ordinary 100%
The Dorchester Limited	Private members club	Ordinary 100% Preference 100%
Dorchester Services Limited	Hotel management	Ordinary 100%
Audley Hotels and Resorts Services Limited	Hotel management	Ordinary 100%
Meurice Limited	Hotel investment	Ordinary 100%

All the above companies are incorporated in Great Britain, registered in England and Wales and included within these financial statements. The shares of Dorchester Hotel Limited, Dorchester Services Limited, Audley Hotels and Resorts Services Limited and Meurice Limited are held directly by the company. The shares of The Dorchester Limited are held by Dorchester Hotel Limited.

Subsidiary undertakings	Principal activity	Class and percentage of shares held and voting rights
United States of America		
Sajahtera Inc, incorporated in USA	Hotel	Common stock 100%
Aman Inc, incorporated in USA	Investment property	Common stock 100%
Raqib Inc, incorporated in USA	Investment property	Common stock 100%

The shares of Sajahtera Inc are held directly by the company. The shares of Aman Inc and Raqib Inc are held by Sajahtera Inc.

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

10. FIXED ASSETS INVESTMENTS (continued)

<i>Subsidiary undertakings</i>	<i>Principal activity</i>	<i>Class and percentage of shares held and voting rights</i>
Italy		
Meurice SpA, incorporated in Italy	Hotel	Common stock 100%

In the opinion of the directors the investments in the company's subsidiary undertakings are worth at least the amounts at which they are stated in the company's balance sheet.

11. STOCKS

	2002	2001
	£000	£000
Group		
Consumables	2,572	2,617
Goods for resale	1,118	911
	<u>3,690</u>	<u>3,528</u>

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

12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002	2001
	£000	£000
Group		
Trade debtors	12,704	6,302
Other debtors	335	1,448
Prepayments and accrued income	1,906	1,365
	<u>14,945</u>	<u>9,115</u>
 Company	 2002	 2001
	£000	£000
Bank interest receivable	48	-
Amounts owed by subsidiary undertakings	2,170	-
	<u>2,218</u>	<u>-</u>

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

13. DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Group	2002 £000	2001 £000
Trade debtors	2,776	2,892
Other debtors	3,639	844
	<u>6,415</u>	<u>3,736</u>

Company	2002 £000	2001 £000
Loans to subsidiary undertakings at floating rates	93,833	88,261
Loans to subsidiary undertakings free of interest	32,615	30,817
Other debtors	2	2
	<u>126,450</u>	<u>119,080</u>

14. INVESTMENTS

Group	2002 £000	2001 £000
Cash deposits with terms in excess of seven days	<u>7,485</u>	<u>8,871</u>

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Group	2002 £000	2001 £000
Bank loans and overdrafts	10,097	-
Obligations under finance leases	362	-
Trade creditors	9,642	7,937
United Kingdom corporation tax	136	-
Other taxation and social security		
VAT and other sales taxes	922	882
PAYE and other payroll taxes	1,600	1,354
Other taxes	131	138
Other creditors	1,446	1,364
Accruals and deferred income	5,003	3,613
	<u>29,339</u>	<u>15,288</u>

Company	2002 £000	2001 £000
Amounts owed to subsidiary undertakings	13,684	15,951
Trade creditors	9	51
Other creditors	541	541
Accruals and deferred income	370	90
	<u>14,604</u>	<u>16,633</u>

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Group	2002 £000	2001 £000
Bank loans	41,128	49,236
Obligations under finance leases	463	-
Loans from fellow subsidiary undertakings:		
unsecured, subordinated and interest free	41,633	41,633
unsecured, subordinated and interest bearing	37,539	37,601
Other creditors	419	475
Accrued interest	1,924	7,204
	<u>123,106</u>	<u>136,149</u>

During the previous year a bank loan of £25,000,000 and €40,783,592 was taken out. In accordance with FRS 4 "Capital Instruments" the bank loan issue costs have been accounted for as a reduction in the loan amounts received. These costs are then amortised over the life of the loan at a constant rate. At 31 December 2002 the amount of unamortised loan issue costs were £589,000 (2001: £686,000). Bank loans are secured and subject to interest at floating rates linked to interbank rates of the country in which currency the loans are denominated, plus a premium ranging between 0.2% - 0.5%.

The interest bearing loans from fellow subsidiary undertakings bear interest at floating rates.

	2002 £000	2001 £000
Loans maturing between:		
1 year or less amount to	9,996	-
1 to 2 years amount to	11,004	7,488
2 to 5 years amount to	30,124	41,748
Over 5 years amount to	81,096	86,438
	<u>132,220</u>	<u>135,674</u>

Company	2002 £000	2001 £000
Bank loan	51,124	49,236
Loan from subsidiary undertaking	27,455	27,455
Loan from fellow subsidiary undertaking	41,633	41,633
	<u>120,212</u>	<u>118,324</u>

During the previous year a bank loan of £25,000,000 and €40,783,592 was taken out. In accordance with FRS 4 "Capital Instruments" the bank loan issue costs have been accounted for as a reduction in the loan amounts received. These costs are then amortised over the life of the loan at a constant rate. At 31 December 2002 the amount of unamortised loan issue costs was £589,000 (2001: £686,000). Bank loans are secured and subject to interest at floating rates linked to interbank rates of the country in which currency the loans are denominated, plus a premium ranging between 0.2% - 0.5%.

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

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

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

17. PROVISIONS FOR LIABILITIES AND CHARGES

Group	Deferred taxation £'000	Pension contributions £'000	Hotel renovation £'000	Total £'000
Balance at beginning of year (restated*)	22,010	1,154	143	23,307
Additions	3,064	-	125	3,189
Balance at end of year	<u>25,074</u>	<u>1,154</u>	<u>268</u>	<u>26,496</u>

* The comparatives have been restated for the adoption of FRS 19 (see note 1).

18. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

Group	Share capital £000	Share premium £000	Merger reserve £000	Profit and loss account £000	Total £000
Balance at beginning of year (restated*)	120,009	182,711	72,668	(43,214)	332,174
Profit retained for year	-	-	-	13,332	13,332
Currency translation difference	-	-	-	(18,552)	(18,552)
Balance at end of year	<u>120,009</u>	<u>182,711</u>	<u>72,668</u>	<u>(48,434)</u>	<u>326,954</u>
Company					
Balance at beginning of year	120,009	182,711	-	13,818	316,538
Profit retained for year	-	-	-	4,183	4,183
Balance at end of year	<u>120,009</u>	<u>182,711</u>	<u>-</u>	<u>18,001</u>	<u>320,721</u>

* The comparatives have been restated for the adoption of FRS19 and the change of accounting policy concerning investment properties (see note 1).

19. CALLED UP SHARE CAPITAL

Group and company	2002 £000	2001 £000
Authorised:		
Ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>120,009</u>	<u>120,009</u>

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

20. FINANCIAL COMMITMENTS

Group

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

	2002 £000	2001 £000
Contracted	-	143

At 31 December 2002, the group had annual commitments under non-cancellable operating leases as set out below:

	2002		2001	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	173	24	186	8
Between two and five years	-	-	-	36
After five years	8	-	8	-
	<u>181</u>	<u>24</u>	<u>194</u>	<u>44</u>

Company

At 31 December 2002, the company had no financial commitments (2001: £nil).

At 31 December 2002 the company had no operating lease commitments (2001: £nil).

21. PENSION SCHEME

The group operates two pension schemes in the United Kingdom, a defined contribution scheme and a defined benefit scheme. The schemes are funded and the assets of the schemes are held separately from those of the group in independently administered funds.

The defined benefit scheme provides benefits based on final pensionable pay. The pension costs are assessed by a qualified actuary and are charged to the profit and loss account so as to spread those costs over employees' working lives with the group.

The valuation on which pension costs were assessed was carried out as at 6 April 2002, and the Projected Unit Method was used. The scheme's assets were taken into account at market value. It was assumed that the investment return would exceed the average salary increase by 1.75% per annum. At the valuation date, the market value of the assets of the scheme was £10.2m, representing 94% of the value of the benefits that had accrued to members, after allowing for future increases in earnings.

The employer contributed 20.5% of pensionable earnings to the scheme from 1 January to 1 November 2002 increasing to 22.5% and a fixed additional contribution of £156,000 per annum thereafter (2001: 20.5%). Contributions from employees increased from 4% to 5% from 6 September 2002. Contributions are based on pension costs across the group as a whole.

The pension charge for the period for the United Kingdom defined benefit scheme was £477,000 (2001: £490,000). The amount included within provisions for liabilities and similar charges at 31 December 2002 for the excess of the accumulated pension cost over the amount funded was £1,154,000 (2001: £1,154,000).

For the defined contribution scheme, contributions are charged to the profit and loss account as incurred.

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

21. PENSION SCHEME (CONTINUED)

The group operates a defined contribution scheme in the United States of America. The scheme allows individuals to make pre-tax income contributions and provides for a profit-sharing contribution plus a partial matching by the company for all eligible employees. The group contribution to this scheme for the year was £363,000 (2001: £376,000).

Additional disclosures regarding the defined benefit pension scheme are required under Financial Reporting Standard 17 "Retirement Benefits" ("FRS 17") and these are set out below. The disclosures relate to the first year transitional provisions.

The most recent actuarial valuation as at 6 April 2002 has been updated by qualified actuaries, Mercer Human Resource Consulting, using revised assumptions that are consistent with the requirements of FRS 17.

Scheme assets are stated at their market value at 31 December 2002.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

Valuation method	Projected unit 2002	Projected unit 2001
Discount rate	5.50%	5.75%
Increase in pensionable salaries	4.25%	4.50%
Increase in pensions in payment	2.25%	2.50%
Inflation assumption	2.25%	2.50%

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	Long term expected rate of return 2002	Value at 31 December 2002 £'000	Long term expected rate of return 2001	Value at 31 December 2001 £000
Equities	7.00%	6,991	7.00%	8,717
Bonds	5.00%	1,392	5.00%	1,314
Total fair value of assets		8,383		10,031
Present value of scheme liabilities		(14,222)		(13,234)
Deficit in the scheme		(5,839)		(3,203)
Related deferred tax asset		1,752		961
Net pension deficit under FRS17		(4,087)		(2,242)

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

21. PENSION SCHEME (CONTINUED)

	31 December 2002 £'000	31 December 2001 restated £'000
Net assets		
Net assets	326,954	332,174
Pension deficit currently included	1,154	1,154
Net assets excluding pension deficit	328,108	333,328
Net pension deficit under FRS17	(4,087)	(2,242)
Net asset including pension deficit	324,021	331,086
Reserves		
Profit and loss reserve	(48,434)	(43,214)
Pension deficit currently included	1,154	1,154
Profit and loss reserve excluding pension deficit	(47,280)	(42,060)
Net pension deficit under FRS17	(4,087)	(2,242)
Profit and loss reserve including pension deficit	(51,367)	(44,302)

Analysis of the amount that would be debited to operating income:

	2002 £'000
Current service cost	358
Total operating charge	358

Analysis of the amount that would be debited to other finance charges:

	2002 £'000
Expected return on pension scheme assets	675
Interest costs	(758)
Net finance charge	(83)

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

21. PENSION SCHEME (CONTINUED)

Analysis of the amount that would be recognised in statement of total recognised gains and losses:

	2002 £'000
Actual return less expected return on pension scheme assets	(2,297)
Changes in assumptions underlying the present value of the scheme liability	(251)
Experience gains and losses arising on the scheme liability	(73)
	<hr/>
Actuarial deficit that would be recognised in statement of gains and losses	(2,621)
	<hr/>

Movement in deficit during year:

	2002 £'000
Deficit in scheme at beginning of year	(3,203)
Movement in year:	
Contributions	426
Current service costs	(358)
Other finance charges	(83)
Actuarial deficit	(2,621)
	<hr/>
Deficit in scheme at end of year	(5,839)
	<hr/>

History between the expected and actual return on scheme assets:

	2002
Difference between the expected and actual return on scheme assets	
Amount (£'000)	(2,297)
Percentage of scheme assets	(27%)
Experience gains and losses on scheme liabilities	
Amount (£'000)	(73)
Percentage of the present value of the scheme liabilities	(1%)
Total amount recognised in statement of total recognised gains and losses	
Amount (£'000)	(2,621)
Percentage of the present value of the scheme liabilities	(18%)

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

22. RELATED PARTY TRANSACTIONS

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

The group provided hotel services to these related parties amounting to £1,317,168 (2001: £874,000). Amounts owed for these services as at 31 December 2002 amounted to £306,554 (2001: £108,345). Of the amounts owed at 31 December 2002 from Brunei Investment Agency related parties, £nil (2001: £2,008,000) was owed by Ernst Inc. A provision of £ nil (2001: £2,008,000) has been made against these amounts owed as recoverability is uncertain.

The group occupies a building in London owned by a fellow subsidiary undertaking, on an annually renewable agreement. The total annual rent is £239,457 (2001: £302,000). It is estimated that the market rent of the building occupied is £510,000. Amounts owed for the rental, associated rates and services as at 31 December 2002 amounted to £46,718 (2001: £nil).

During the year, the cost of seconded staff charged to the group by its ultimate parent company amounted to £21,618 (2001: £34,043).

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

23. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002 £000	2001 £000
Operating profit	20,335	21,307
Depreciation charges	5,862	5,318
Provision for impairment of investment properties	-	2,500
Loss on sale of tangible fixed assets	7	-
Increase in stocks	(206)	(307)
Increase in debtors	(5,536)	(874)
Increase/(decrease) in creditors	3,277	(694)
Increase/(decrease) in provisions	125	(39)
Net cash inflow from operating activities	<u>23,864</u>	<u>27,211</u>

24. ANALYSIS OF CHANGE IN NET DEBT

	At 1 January 2002 £000	Cash flow £000	Other non cash movements £000	Translation differences £000	At 31 December 2002 £000
Cash in hand and at bank	18,463	4,079	-	-	22,542
Current asset investments	8,871	(1,386)	-	-	7,485
Debt due within 1 year	-	(100)	(9,997)	-	(10,097)
Debt due after 1 year	(128,470)	-	9,900	(1,730)	(120,300)
Finance leases	-	63	(888)	-	(825)
Total	<u>(101,136)</u>	<u>2,656</u>	<u>(985)</u>	<u>(1,730)</u>	<u>(101,195)</u>

DORCHESTER GROUP LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

25. RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

	2002 £000	2001 £000
Increase in cash in year	4,079	3,043
Cash outflow/(inflow) from increase/(decrease) in liquid resources	(1,386)	2,585
Cash inflow (outflow) from decrease in net debt	(37)	5,901
Change in debt resulting from cash flows	2,656	11,529
Amortisation of loan issue costs	(97)	(136)
New finance leases	(888)	-
Translation differences	(1,730)	890
Movement in net debt during year	(59)	12,283
Net debt at 1 January 2002	(101,136)	(113,419)
Net debt at 31 December 2002	(101,195)	(101,136)

26. POST BALANCE SHEET EVENTS

On 30 June 2003 the group acquired the Hotel Principe di Savoia, in Milan, for a consideration of approximately 275m Euro. The acquisition was financed by a combination of debt and existing funds.

27. ULTIMATE PARENT AND CONTROLLING PARTY

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