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THE DORCHESTER LIMITED

DIRECTORS' REPORT AND ACCOUNTS

COMPANIES NO. 31ST DECEMBER, 1989

- 4 AUG 1990

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KPMG PEAT MARWICK McLINTOCK  
1 Puddle Dock, Blackfriars, London EC4V 3PD

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THE DORCHESTER LIMITEDDIRECTORS' REPORT

The directors present their report together with the audited accounts for the year ended 31st December, 1989.

RESULTS AND DIVIDENDS

The consolidated loss on ordinary activities after taxation is £7,751,385 (1988: loss of £10,086,789).

The directors do not recommend the payment of a dividend (1988: £nil).

REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

The group continues to own the Dorchester Hotel, Park Lane, London.

In May 1988, the directors announced the details of a major refurbishment plan for the hotel. Following the announcement, the hotel undertook a progressive closure programme in October 1988 which culminated in the temporary closure of the hotel as from 23rd December, 1988.

During 1989, capital expenditure in respect of the refurbishment programme amounted to £33.8m. In addition to this the group had placed contracts to the value of £30.4m.

The group has at its disposal a bank credit facility of £40.0m to fund part of the refurbishment programme.

The hotel will re-open for business in the Autumn of 1990, with improved facilities to include an Oriental restaurant, night club, health club, business centre and improved standard of decoration in the rooms, suites and public areas and upgraded electrical and plumbing installations, kitchen and staff facilities.

The loss for the year includes a charge of £2,677,206 in respect of direct expenses arising out of the temporary closure of the hotel. For further details refer to note 5.

With due regard to the aforementioned events, the directors consider the results for the year to be satisfactory.

SHARE CAPITAL

During October 1989 the authorised share capital of the company was increased from £14,000,000 to £20,600,000; 8,600,000 ordinary shares of £1 each were issued as fully paid as part of the funding arrangement for the refurbishment of the Dorchester Hotel. In February 1990, the authorised share capital was further increased to £38,000,000 and 5,000,000 ordinary shares of £1 each were issued as fully paid.

THE DORCHESTER LIMITED

DIRECTORS' REPORT  
(continued)

DIRECTORS

The names of the present directors are:

Lord Bramall (Chairman)  
M. Al Fayed  
C. Hanbury  
F.J. Klein  
R. Obertelli (appointed 17th March, 1989)  
A. Tanna  
A. Versolato

The directors do not have any beneficial interests in the share capital of the company.

EMPLOYEE INVOLVEMENT

The board and management of The Dorchester Limited recognise the importance of good communications and industrial relations and many efforts were directed in 1989 to the furtherance of these objectives.

DISABLED PERSONS

The company's policy is to give fair consideration to the employment of disabled persons having regard to their particular aptitude. If any existing employee became disabled, every effort would be made to ensure continuity of employment and appropriate training would be given.

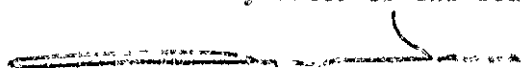
DONATIONS

During the year the group donated £393 (1988: £1,643) for charitable purposes. There were no political donations.

AUDITORS

On 1st January, 1990 our auditors changed the name under which they practise to KPMG Peat Marwick McLintock. In accordance with Section 384 of the Companies Act 1965, a resolution for the re-appointment of KPMG Peat Marwick McLintock as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

  
Secretary

AUDITORS' REPORT TO THE MEMBERS OF  
THE DORCHESTER LIMITED

We have audited the accounts on pages 4 to 16 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31st December, 1989 and of the loss and source and application of funds of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London

29th June, 1990

*W.H. Rea & Warwick Solicitors*  
Chartered Accountants

THE DORCHESTER LIMITEDCONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31ST DECEMBER, 1989

	<u>Note</u>	<u>1989</u> £	<u>1988</u> £
TURNOVER	2	-	19,696,083
Cost of sales		-	(12,024,643)
GROSS PROFIT		-	7,671,440
Administrative costs		-	(5,623,711)
OPERATING PROFIT		-	2,047,729
Interest receivable		624,338	241,801
Interest payable	4	(5,698,517)	(4,430,304)
Exceptional items	5	(2,677,206)	(7,946,015)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	6	(7,751,385)	(10,086,789)
Taxation	7	-	-
LOSS FOR THE FINANCIAL YEAR	8	(7,751,385)	(10,086,789)
Deficit brought forward		(12,925,462)	(2,838,673)
DEFICIT CARRIED FORWARD		(20,676,847)	(12,925,462)

The notes on pages 8 to 16 form part of these accounts.

THE DORCHESTER LIMITEDCONSOLIDATED BALANCE SHEET AT 31ST DECEMBER, 1989

	<u>Note</u>	<u>1989</u>	<u>1988</u>
		£	£
<b>FIXED ASSETS</b>			
Tangible fixed assets	9	84,474,899	50,706,642
Investments	10	193	193
		<u>84,475,092</u>	<u>50,706,835</u>
<b>CURRENT ASSETS</b>			
Stocks	11	317,898	337,179
Debtors	12	798,925	1,851,387
Investments		18,746	18,746
Bank and cash balances		<u>4,310,517</u>	<u>4,711,182</u>
		5,446,086	6,918,494
<b>CREDITORS: amounts falling due within one year</b>	13	<u>(6,105,253)</u>	<u>(3,274,139)</u>
<b>NET CURRENT (LIABILITIES)/ ASSETS</b>		<u>(659,167)</u>	<u>3,644,355</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		83,815,295	54,351,190
<b>CREDITORS: amounts falling due after more than one year</b>	14	<u>(83,892,772)</u>	<u>(55,276,652)</u>
<b>NET LIABILITIES</b>		<u>(76,847)</u>	<u>(925,462)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	20,600,000	12,000,000
Profit and loss account		<u>(20,676,847)</u>	<u>(12,925,462)</u>
		<u>(76,847)</u>	<u>(925,462)</u>

These accounts were approved by the board of directors on 29th June, 1990

*Samuel*

} Directors

The notes on pages 8 to 16 form part of these accounts.

THE DORCHESTER LIMITEDBALANCE SHEET AT 31ST DECEMBER, 1989

	<u>Note</u>	<u>1989</u>	<u>1988</u>
		£	£
FIXED ASSETS			
Investments	10	27,738,920	19,139,920
CURRENT ASSETS			
Debtors	12	1,041	641
Investments		18,746	18,746
Bank and cash balances		<u>22,967</u>	<u>19,684</u>
		42,754	39,071
CREDITORS: amounts falling due within one year	13	<u>(1,083,086)</u>	<u>(1,084,086)</u>
NET CURRENT LIABILITIES		(1,040,332)	(1,045,015)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>26,698,588</u>	<u>18,094,905</u>
CREDITORS: amounts falling due after more than one year	14	(8,336,743)	(8,336,743)
NET ASSETS		<u>18,361,845</u>	<u>9,758,162</u>
CAPITAL AND RESERVES			
Called up share capital	15	20,600,000	12,000,000
Profit and loss account		<u>(2,238,155)</u>	<u>(2,241,838)</u>
		<u>18,361,845</u>	<u>9,758,162</u>

The accounts were approved by the board of directors on 29th June, 1990.

*For and all*

) Directors

The notes on pages 8 to 16 form part of these accounts.

## THE DORCHESTER LIMITED

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS  
FOR THE YEAR ENDED 31ST DECEMBER, 1989

	£	<u>1989</u>	£	£	<u>1988</u>	£
<b>SOURCE OF FUNDS</b>						
Loss on ordinary activities before taxation		(7,751,385)			(10,086,789)	
Adjustment for items not involving the movement of funds:						
Depreciation	60,392			1,100,412		
Loss on disposal of fixed assets	11,287			3,120,095		
Loss on translation of foreign currency loan	63,276			7,026		
Profit on disposal of investments	-			(913)		
		134,955			4,226,620	
<b>FUNDS ABSORBED BY OPERATIONS</b>		(7,616,430)			(5,860,169)	
<b>FUNDS FROM OTHER SOURCES</b>						
Increase in share capital	8,600,000			11,000,000		
Sale of tangible fixed assets	4,476			28,694		
Loan from fellow subsidiary	5,644,788			2,393,821		
Loan from holding company	22,000,000			-		
Amounts retained on purchase of fixed assets	908,056			-		
Sale of stock	-			16,172		
		37,157,320			13,438,687	
		29,540,890			7,578,518	
<b>APPLICATION OF FUNDS</b>						
Additions to fixed assets	(33,844,412)			(3,702,034)		
Purchase of investments	-			(18,746)		
Tax paid	-			(57,242)		
		(33,844,412)			(3,778,022)	
		(4,303,522)			3,000,496	
<b>(DECREASE)/INCREASE IN WORKING CAPITAL</b>						
Stocks	(19,281)			(218,127)		
Debtors	(1,052,462)			(206,923)		
Creditors	(2,831,114)			70,240		
		(3,902,857)			(354,810)	
<b>Movement in net liquid funds:</b>						
Bank and cash balances		(400,665)			4,155,306	
		(4,303,522)			3,800,496	

The notes on pages 8 to 16 form part of these accounts.



THE DORCHESTER LIMITEDNOTES TO THE ACCOUNTS1. ACCOUNTING POLICIESConsolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries made up to the end of the financial year, and have been prepared under the historical cost accounting rules as adjusted by the revaluation of certain fixed assets.

Turnover

Turnover represents amounts invoiced to outside customers excluding value added tax.

Depreciation

Prior to the closure of the hotel for refurbishment it has been the group's practice to maintain freehold property, which comprises the Dorchester Hotel in a continual state of sound repair and to extend and improve it from time to time. The cost of all repairs is charged in the profit and loss account. The directors consider the residual value of the hotel building to be at least equal to its book value and accordingly no provision for depreciation is made.

The group has applied the following policy to the hotel's major refurbishment programme:

Freehold property has been reclassified as Freehold property in the course of construction. The cost of the refurbishment will be included within freehold property in the course of construction and re-allocated between plant and equipment and freehold property when the work is complete.

Plant and equipment which is to be replaced will be written off.

Fixed assets will be carried at cost to the group subject to a professional valuation which the group proposes will be undertaken as at 31st December, 1991.

The cost of long leasehold property is written off in equal annual instalments over the period of the leases.

Depreciation is provided to write off the cost of all other tangible fixed assets over their expected useful lives in equal annual instalments at the following rates:

Long leasehold improvements	- 25%
Plant and equipment	- 10% to 20%
Motor vehicles	- 25%

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is calculated using the average purchase price method.

Foreign currency

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances denominated in a foreign currency are translated into sterling at the exchange rate ruling on the balance sheet date.

THE DORCHESTER LIMITEDNOTES TO THE ACCOUNTS1. ACCOUNTING POLICIES (continued)Deferred taxation

Provision is made for deferred taxation expected to become payable in the foreseeable future using the liability method.

Pension costs

The anticipated cost of pensions in respect of the Group's defined benefit scheme is charged to the profit and loss account so as to spread the cost of the pensions over the working lives of employees in the Scheme. The pension cost is assessed in accordance with the advice of an independent qualified actuary on the basis of triennial valuations using the projected unit method.

2. TURNOVER AND PROFIT

All the group's turnover and profit on ordinary activities before taxation is derived from the operation of the Dorchester Hotel, London and therefore arose within the United Kingdom.

3. DIRECTORS AND EMPLOYEES

(a) Excluding pension contributions, the emoluments of the chairman were £21,154 (1988: £21,454), the emoluments of the highest paid director were £57,327 (1988: £71,938), the emoluments of the other directors were within the following ranges:

	<u>1989</u>	<u>1988</u>
£nil	3	1
£1 - £ 5,000	-	2
£25,001 - £30,000	1	1
£50,001 - £55,000	1	-
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(b) The number of employees whose emoluments, excluding pension contributions, fell within the following range were:

	<u>1989</u>	<u>1988</u>
£35,001 - £40,000	3	2
£40,001 - £45,000	1	1
£55,001 - £60,000	-	1
£60,001 - £65,000	-	2
£70,001 - £75,000	-	1
	---	---

(c) The average number of persons employed by the group during the year was 33 (1988: 569).

(d) The aggregate remuneration of all employees of the group comprised:

	<u>1989</u>	<u>1988</u>
	<u>£</u>	<u>£</u>
Wages and salaries	784,106	7,337,579
Social security costs	76,582	587,826
Other pension costs	56,438	346,812
	<u>917,126</u>	<u>8,272,208</u>
	*****	*****

THE DORCHESTER LIMITEDNOTES TO THE ACCOUNTS4. INTEREST PAYABLE

	<u>1989</u> £	<u>1988</u> £
Interest payable on bank and other borrowings repayable within five years	-	1,173
Interest payable to fellow subsidiary company	5,646,089	4,429,131
Finance charges in connection with Bank Loan facility	52,428	-
	<u>5,698,517</u>	<u>4,430,304</u>

5. EXCEPTIONAL ITEM

	<u>1989</u> £	<u>1988</u> £
Additional provisions made as a result of a reassessment of employees' remuneration package (see note 17)	-	177,000
Ex gratia payment to former employee	-	57,500
Expenses attributable to temporary closure of hotel:		
Redundancy payments	-	4,017,361
Disposal of fixed assets	12,553	3,133,964
Other	-	560,190
Staff costs	1,045,977	-
Administrative costs	967,396	-
Storage and warehousing	423,539	-
Insurances	227,741	-
	<u>2,677,206</u>	<u>7,946,015</u>

6. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The loss on ordinary activities before taxation is stated after charging the following:

	<u>Note</u>	<u>1989</u> £	<u>1988</u> £
Depreciation		60,392	1,100,412
Auditors' remuneration		18,000	19,800
Hire of plant and machinery		230,186	132,386
Foreign exchange losses on loans		60,927	6,820
Directors' emoluments	3	155,131	129,777
Employment costs	3	761,995	8,142,431

THE DORCHESTER LIMITEDNOTES TO THE ACCOUNTS7. TAXATION

A corporation tax provision is not required due to the availability of tax losses (1988: fnil).

No provision has been made for deferred taxation. The full potential liability to deferred taxation is as follows:

	<u>1989</u>		<u>1988</u>	
	Amount	Full	Amount	Full
	provided	potential	provided	potential
	<u>£'000</u>	liability/ <u>(asset)</u>	<u>£'000</u>	liability/ <u>(asset)</u>
		<u>£'000</u>		<u>£'000</u>
Accelerated capital allowances	1,215	1,215	1,215	1,215
Short term timing differences	(1,215)	(5,288)	(1,215)	(3,309)
	<u>—</u>	<u>(4,073)</u>	<u>—</u>	<u>(2,094)</u>
	=====	=====	=====	=====

8. RESULTS FOR THE FINANCIAL YEAR

A profit for the financial year after taxation dealt with within the accounts of the parent company amounted to £3,683 (1988: £3,089). A separate profit and loss account for the company is not presented.

THE DORCHESTER LIMITEDNOTES TO THE ACCOUNTS9. TANGIBLE FIXED ASSETS

<u>Group</u>	<u>Long leasehold property £</u>	<u>Plant equipment and vehicles £</u>	<u>Freehold property in the course of construction £</u>	<u>Total £</u>
Cost or valuation:				
At 1st January, 1989	181,209	1,005,651	49,978,688	51,165,548
Additions	-	324,869	33,519,543	33,844,412
Disposals	-	(52,602)	-	(52,602)
At 31st December, 1989	181,209	1,277,918	83,498,231	84,957,358
Depreciation:				
At 1st January, 1989	1,821	457,085	-	458,906
Charge for the year	1,715	58,577	-	60,392
Disposals	-	(36,839)	-	(36,839)
At 31st December, 1989	3,536	478,923	-	482,459
Net book value:				
At 31st December, 1989	177,673	798,995	83,498,231	84,474,899
At 31st December, 1988	179,388	548,566	49,978,688	50,706,642

In July 1984, the Dorchester Hotel was revalued to £45m which approximates to the amount arrived at by a valuation of the hotel by Pannell Kerr Forster Associates calculated on an open market value basis having regard to the trading potential of the property. Subsequent additions to freehold property are included at cost.

The net book value of fixed assets at 31st December, 1989 using the historical cost basis unadjusted by revaluations would be as follows:

	<u>Long leasehold property £</u>	<u>Plant equipment and vehicles £</u>	<u>Freehold property in the course of construction £</u>	<u>Total £</u>
Net book value:				
31st December, 1989	177,673	798,995	51,506,939	52,483,607
31st December, 1988	179,388	548,566	17,987,396	18,715,350

THE DORCHESTER LIMITEDNOTES TO THE ACCOUNTS9. TANGIBLE FIXED ASSETS (continued)

A tax liability could arise if the freehold property were disposed of at its book value. However, since there is no intention to dispose of the property, this liability is unlikely to arise and no provision has been made in these accounts.

Company

The company has no tangible fixed assets.

10. INVESTMENTS

<u>Cost</u>	<u>Group</u> £	<u>Company</u> £
Investment in subsidiary company	-	27,738,920
Other investments:		
Unquoted shares	193	-
	<u>193</u>	<u>27,738,920</u>

The company's subsidiaries are:

<u>Company name</u>	<u>Country of incorporation</u>	<u>Shares and proportion held</u>
Dorchester Hotel Limited	United Kingdom	Ordinary shares 100%
Pageguide Limited	United Kingdom	Ordinary shares 100%
		Preference shares 100%
Dorchester Jewellers Limited	United Kingdom	Ordinary shares 100%
New London Dorchester Jewellers Limited	United Kingdom	Ordinary shares 100%

11. STOCKS

<u>Group</u>	<u>1989</u> £	<u>1988</u> £
Food and beverage	106,896	101,168
Consumable stock	211,002	236,011
	<u>317,898</u>	<u>337,179</u>

Company

The company has no stocks.

THE DORCHESTER LIMITEDNOTES TO THE ACCOUNTS12. DEBTORS

<u>Group</u>	<u>1989</u> £	<u>1988</u> £
Trade debtors	28,684	1,328,105
Other debtors	36,451	122,005
Prepayments and accrued income	136,554	401,277
VAT recoverable	597,136	-
	<u>798,925</u>	<u>1,851,387</u>
	=====	=====
<u>Company</u>		
Other debtors	949	-
Prepayments and accrued income	92	641
	<u>1,041</u>	<u>641</u>
	=====	=====

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

<u>Group</u>	<u>1989</u> £	<u>1988</u> £
Trade creditors	-	928,637
Other creditors including taxation and social security	66,485	1,613,639
Accruals and deferred income	6,038,768	731,863
	<u>6,105,253</u>	<u>3,274,139</u>
	=====	=====
Other creditors including taxation and social security:		
Other taxation	20,482	627,069
Social security	10,115	189,104
Other creditors	35,888	797,466
	<u>66,485</u>	<u>1,613,639</u>
	=====	=====
<u>Company</u>	£	£
Trade creditors	1,000	1,000
Amounts owed to subsidiary company	1,082,086	1,083,086
	<u>1,083,086</u>	<u>1,084,086</u>
	=====	=====

THE DORCHESTER LIMITEDNOTES TO THE ACCOUNTS14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

<u>Group</u>	<u>1989</u> £	<u>1988</u> £
Loans from holding company. The loans are unsecured, subordinated, interest free and not repayable before 2014 and 1995 (see loans to company below)	30,336,743	8,336,743
Loans from fellow subsidiary including interest payable. The loans are unsecured, subordinated and not repayable before 1999	52,647,973	46,939,909
	<u>82,984,716</u>	<u>55,276,652</u>
Other: Amounts retained on purchase of fixed assets	908,056	-
	<u>83,892,772</u>	<u>55,276,652</u>
Loans from fellow subsidiary at floating rate	37,537,570	37,474,294
Accrued interest	15,110,403	9,465,615
	<u>52,647,973</u>	<u>46,939,909</u>

The interest on the floating rate loans is related to prevailing market rates. At 31st December, 1989, the interest rate on these loans was 16.125% (1988: 15.125%). No interest is charged on the accrued interest.

<u>Company</u>	<u>1989</u> £	<u>1988</u> £
Loan from holding company. The loan is unsecured, subordinated, interest free and not repayable before 1995	8,336,743	8,336,743

15. CALLED UP SHARE CAPITAL

	<u>1989</u> £	<u>1988</u> £
Authorised:		
Ordinary shares of £1 each	20,600,000	14,000,000

At the Annual General Meeting held on 16th October, 1989 the authorised share capital of the company was increased to 20,600,000 ordinary shares of £1 each.

Allotted and fully paid:		
Ordinary shares of £1 each	20,600,000	12,000,000



THE DORCHESTER LIMITEDNOTES TO THE ACCOUNTS15. CALLED UP SHARE CAPITAL (continued)

A further 5,000,000 ordinary shares of £1 each were issued fully paid in February 1990. At an Extraordinary General Meeting held on 15th February, 1990, the authorised ordinary share capital of the company was further increased to 38,000,000 Ordinary shares of £1 each.

16. CAPITAL COMMITMENTS

<u>Group</u>	<u>1989</u> <u>£</u>	<u>1988</u> <u>£</u>
Contracted but not provided	30,359,928	11,092,221
Authorised but not contracted	7,267,568	51,653,454

Company

The company has no capital commitments.

17. PENSION SCHEME

The Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held independently from those of The Dorchester Limited and its subsidiaries.

The Dorchester Hotel Retirement Benefits Scheme was the subject of an actuarial valuation as at 6th April, 1988. The valuation was carried out by an independent qualified actuary using the projected unit method and on an ongoing basis. The principal assumptions applied in the valuation calculation 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 exceed the average salary increases by 1% per annum compound and future pensions would increase at the rate of 3% per annum compound.

The most recent actuarial valuation showed that the market value of the Scheme's assets was £4.7m and that the actuarial value of those assets represented 100% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees will remain at 4% and 12.4% of earnings respectively.

The pension cost for the Group for the year was £62,436 (1988: £346,812). Pension benefits of certain long serving employees were improved during 1987 for which an additional final provision of £177,000 was made in the 1988 accounts (note 5).

18. POST BALANCE SHEET EVENT

During February 1990, the authorised share capital was increased to £38,000,000 and the company issued a further 5,000,000 ordinary shares of £1 each, bringing the total issued share capital to 25,600,000 ordinary shares of £1 each.

19. ULTIMATE HOLDING COMPANY

The company's ultimate holding company is Azim Investment Establishment, a company incorporated in Liechtenstein.