

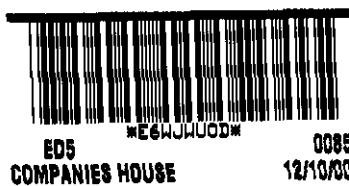


ARTHUR ANDERSEN

The Park Lane Hotel Limited

Annual report and accounts
for the year ended 31 December 1999

Registered number: 158092



Directors' report

For the year ended 31 December 1999

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report for the year ended 31 December 1999.

Principal activity and business review

The principal activity of the company is the ownership and operation of the Park Lane Hotel located in London, England.

The directors expect the general level of activity to continue in 2000.

Results and dividends

The audited accounts for the year ended 31 December 1999 are set out on pages 5 to 14. The profit for the year after taxation was £2,727,000 (1998 – £1,673,000).

The directors do not recommend the payment of a dividend (1998 – £nil).

Directors

The directors who served during the year were as follows:

M.P. Wale
J. Grime
R.F. Cotter
R.L. Scott

Directors' interests

There are no directors' interests in the shares of the company which are required to be disclosed under schedule 7 of the Companies Act 1985.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees. The company is an equal opportunities employer.

The company recognises the high standards required to ensure the health, safety and welfare of its employees at work, its customers and the general public. Company policies in this regard are regularly reviewed with the objective of ensuring that these standards are achieved.

Directors' report (continued)

Employee consultation

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings.

Supplier payment policy

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

The average number of days credit taken for trade purposes at 31 December 1999 was 45 days (1998: 45 days).

Year 2000

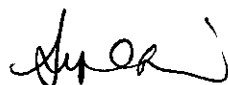
The directors' plans for addressing the effects of Year 2000 related issues were completed successfully and no problems have come to light since 31 December 1999. However, the directors' are continuing to monitor the situation on an ongoing basis.

Auditors

In accordance with s386 of the Companies Act 1985, the directors passed a resolution to dispense with the obligation to re-appoint auditors annually.

Sheraton Skyline Hotel
Bath Road
Hayes
Middlesex
UB3 5BP

By order of the Board,



J. Grime

Secretary

29 September 2000

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, 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, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

To the Shareholders of The Park Lane Hotel Limited:

We have audited the accounts on pages 5 to 14 which have been prepared under the historical cost convention, and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the company's state of affairs at 31 December 1999 and of the company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

29 September 2000

Profit and loss account

For the year ended 31 December 1999

	Notes	1999 £'000	1998 £'000
Turnover	1	20,766	19,314
Cost of sales		(10,285)	(10,090)
Gross profit		10,481	9,224
Administrative expenses		(7,055)	(6,577)
Operating profit		3,426	2,647
Interest receivable and similar income	2	56	49
Profit on ordinary activities before taxation	3	3,482	2,696
Tax on profit on ordinary activities	6	(755)	(1,023)
Retained profit for the year	14	2,727	1,673

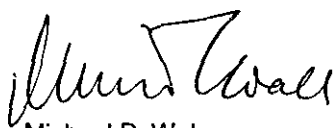
There are no recognised gains or losses in either year other than in the profit for that year. All profit arose from continuing operations in both years.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet
31 December 1999

	Notes	1999 £'000	1998 £'000
Fixed assets			
Tangible assets	8	16,912	18,657
Investments	9	5	5
		<u>16,917</u>	<u>18,662</u>
Current assets			
Stocks	10	435	436
Debtors due within one year	11	4,515	3,891
Cash at bank and in hand		4,087	1,036
		<u>9,037</u>	<u>5,363</u>
Creditors: Amounts falling due within one year	12	<u>(4,289)</u>	<u>(5,087)</u>
Net current assets		<u>4,748</u>	<u>276</u>
Net assets		<u>21,665</u>	<u>18,938</u>
Capital and reserves			
Called up share capital	13, 14	1,320	1,320
Profit and loss account	14	20,345	17,618
Shareholders' funds: all equity	14	<u>21,665</u>	<u>18,938</u>

Signed on behalf of the Board



Michael P. Wale
Director

29 September 2000

The accompanying notes are an integral part of this balance sheet.

Statement of accounting policies

31 December 1999

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The company has taken advantage of the exemptions afforded by Section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of Sheraton Hotels and Resorts Worldwide Inc. which prepares consolidated accounts which are publicly available. On this basis the company is exempt from the requirement of FRS 1 to present a cash flow statement.

Related party transactions

As a subsidiary of Starwood Hotels and Resorts Worldwide Inc., the company has taken advantage of the exemption in FRS 8 'Related party disclosures' not to disclose transactions with other members of the group headed by Starwood Hotels and Resorts Inc.

Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land and buildings, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Short leasehold land and buildings	unexpired term of the lease
Plant and equipment	3 to 15 years

Refurbishment of the leasehold property is treated as an addition to short leasehold land and buildings.

Leases

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

Taxation

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

Deferred tax is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

Statement of accounting policies (continued)

Pension schemes

For defined benefit schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members.

Defined benefit schemes are either externally funded, with the assets of the scheme held separately from those of the company in separate trustee administered funds, or are unfunded. Differences between amounts charged to the profit and loss account and amounts funded or paid directly to members of unfunded schemes are shown as either provisions or prepayments in the balance sheet.

Further information on pension costs is provided in note 16.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

Stocks

Stocks are stated at the lower of cost and net realisable value. Provision is made for obsolete, slow-moving or defective items where appropriate.

Notes to the accounts

31 December 1999

1 Turnover

Turnover comprises amounts derived from the provision of goods and services falling within the company's ordinary activities after deduction of value added tax, other sales related taxes and trade discounts and arises solely from the company's principal activity within the United Kingdom.

2 Interest receivable and similar income

	1999 £'000	1998 £'000
Income from short term deposits	<u>56</u>	<u>49</u>

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	1999 £'000	1998 £'000
Depreciation of tangible fixed assets	2,366	2,337
Management fee charge	1,685	1,539
Operating lease costs – plant and machinery	44	44
Rental income	(68)	(71)
Auditor's remuneration:		
– audit services	44	35
Staff costs (note 4)	<u>5,938</u>	<u>5,777</u>

4 Staff costs

The average monthly number of employees, including executive directors, employed by the company during the year was:

	1999 Number	1998 Number
	<u>293</u>	<u>290</u>

The aggregate payroll costs of all employees, including executive directors, during the year amounted to:

	1999 £'000	1998 £'000
Wages and salaries	5,499	5,309
Social security costs	394	427
Other pension costs	45	41
	<u>5,938</u>	<u>5,777</u>

Notes to the accounts (continued)

5 Directors' remuneration

Remuneration

The remuneration of the directors' was as follows:

	1999 £'000	1998 £'000
Emoluments	100	55
	<u>100</u>	<u>55</u>

One of the directors is also a director of the parent company and fellow subsidiaries, this director received a total remuneration for the year of £158,522 (1998 - £156,985) from this company. This remuneration related to the services rendered to each of these companies together with management services provided to the Sheraton Park Tower Hotel. The directors do not believe that it is practicable to apportion the amount of director services between each of these companies.

6 Taxation on profit on ordinary activities

The tax charge comprises:

	1999 £'000	1998 £'000
UK corporation tax	(1,326)	(1,023)
Under provision in respect of prior year	(18)	-
Group relief in current year	589	-
	<u>(755)</u>	<u>(1,023)</u>

The current year tax charge is expected to be reduced as a result of group relief surrendered by another group company. No charge was made for the group relief received.

The company has unprovided deferred taxation of £2,177,843 (1998 - £2,259,016). These amounts arise due to accelerated capital allowances and have not been provided as it is anticipated that this liability will not crystallise in the foreseeable future.

7 Dividends

In 1999 the parent company, Sheraton Hotels (UK) plc, waived its right to cumulative preference share dividends.

The directors do not recommend the payment of a dividend on the ordinary shares (1998 - £nil).

Notes to the accounts (continued)

8 Tangible fixed assets

	Land and buildings		Plant and equipment £'000	Total £'000
	Freehold £'000	Short leasehold £'000		
Cost				
1 January 1999	34	13,793	21,833	35,660
Additions	-	-	621	621
31 December 1999	34	13,793	22,454	36,281
Depreciation				
1 January 1999	-	5,226	11,777	17,003
Charge for the year	-	573	1,793	2,366
31 December 1999	-	5,799	13,570	19,369
Net book value				
31 December 1999	34	7,994	8,884	16,912
31 December 1998	34	8,567	10,056	18,657

9 Investments

	£'000
Cost and net book value at 31 December 1998 and 31 December 1999	5

There was no material difference between the book value and the market value of these investments at 31 December 1999.

At 31 December 1999 the company held 15% (1998 – 15%) of the issued ordinary share capital of Daniele Ryman Limited, an unlisted company registered in England and Wales. This investment was fully provided against at the year end.

10 Stocks

	1999 £'000	1998 £'000
Finished goods and consumables	435	436

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

Notes to the accounts (continued)

11 Debtors: Amounts falling due within one year

	1999 £'000	1998 £'000
Trade debtors	2,721	3,192
Amounts due from group undertakings	1,291	167
Prepayments and accrued income	503	532
	<u>4,515</u>	<u>3,891</u>

12 Creditors: Amounts falling due within one year

	1999 £'000	1998 £'000
Trade creditors	1,030	580
Amounts owed by group undertakings	1,787	2,149
UK corporation tax	431	1,023
Other taxes and social security costs	387	531
Accruals and deferred income	654	804
	<u>4,289</u>	<u>5,087</u>

In March 1999 Sheraton Hotels (UK) plc refinanced its parent company borrowings through a new bank loan facility of £51.4 million which is secured in part through fixed and floating charges on the company's assets.

13 Called up share capital

	1999 £'000	1998 £'000
<i>Authorised</i>		
160,000 5.6% cumulative preference shares of £1 each	160	160
160,000 10.5% second preference shares of £1 each	160	160
8,000,000 ordinary shares of 25 pence each	2,000	2,000
	<u>2,320</u>	<u>2,320</u>
<i>Allotted, called up and fully paid</i>		
Equity shares:		
160,000 5.6% cumulative preference shares of £1 each	160	160
160,000 10.5% second preference shares of £1 each	160	160
4,000,000 ordinary shares of 25 pence each	1,000	1,000
	<u>1,320</u>	<u>1,320</u>

Notes to the accounts (continued)

14 Reconciliation of movements in shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total £'000
At 1 January 1999	1,320	17,618	18,938
Retained profit for the year	-	2,727	2,727
At 31 December 1999	1,320	20,345	21,665

15 Financial commitments

Annual commitments under operating leases are as follows:

	1999		1998	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiry date:				
- within one year	-	29	-	29
- between two and five years	-	15	-	15
- after five years	13	-	13	-
	13	44	13	44

16 Pension schemes

The company provides pension arrangements for certain permanent employees through the ITT 1996 Pension Plan (formerly known as the Sheraton United Kingdom Senior Staff Pension plan). The scheme is a defined benefit scheme based on final pensionable pay and the related costs are assessed in accordance with the advice of professionally qualified actuaries.

The most recent valuation was conducted on 1 January 1999 using the projected unit method. The main assumptions are as follows:

Rate of interest	6% per annum
Rate of increase in salaries	3.5% per annum
Rate of increase in pensions payment	2.5% per annum

Notes to the accounts (continued)

16. Pension schemes (continued)

The most recent actuarial valuation disclosed a funding level of 109%. The pension cost charge for the year was £45,335 (1998: £41,380). The past service excess of assets over liabilities has been used to reduce the rate of employers' contributions for ten years from 1 January 1999. Due to the implications of the Government's 1997 Budget the 5% employers contribution will be increasing to 10% of pensionable pay as at 1 January 2001. The employer's normal cost was reduced from 14.8% of pensionable pay to 4% of pensionable pay until 1 April 1997 and thereafter to 5% of pensionable pay.

The company also operates a non-contributory defined benefit scheme for one of its former directors. The assets of the scheme are held separately from those of the company, being invested with an insurance company. The company has been advised that the scheme is fully funded at 31 December 1999.

17. Ultimate controlling party

The directors regard Starwood Hotels and Resorts Worldwide Inc., a company incorporated in the United States of America, as the ultimate parent company and the ultimate controlling party.

Sheraton Hotels (UK) plc is the parent company of the smallest group of which the company is a member and for which group accounts are drawn up. Copies of the accounts are available from the Sheraton Skyline Hotel, Bath Road, Hayes, Middlesex, UB3 5BP.

Starwood Hotels and Resorts Worldwide Inc, a company incorporated in the United States of America is the parent company of the largest group of which the company is a member and for which group accounts are drawn up. Copies of the accounts are available from 777 Westchester avenue, White Plains, New York, NY 10604, USA.