The Park Lane Hotel Limited

Report and Financial Statements

31 December 2006

Regıstered No 158092

Directors
M P Wale
R L Scott
P Dıvall

Secretary
S Haegeman (appoınted 12 May 2006)

Audıtors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office
Park Lane Hotel
Pıccadılly
London W1J 7BX

Directors' report

The dırectors present theır report and financıal statements for the year ended 31 December 2006

Results and dividends

The profit for the year amounted to £2,645,000 (2005 – £1,684,000) Dıvıdends of £4,000,000 (2005 – £nıl) were paıd durıng the year

Principal actıvities and review of the business

The prıncıpal actıvıty of the company contınues to be the ownershıp and operatıon of the Park Lane Hotel located ın London, England The dırectors expect these actıvıtıes to contınue ınto the future

The company's key financıal and other performance ındıcators durıng the year were as follows

	2006	*2005*	
	£000	*£000*	*Change*
Group Turnover	22,833	19,908	15%
EBITDA	4,816	3,946	22%
Profit after tax	2,645	1,684	57%
Customer satısfactıon (score out of 10)	6 65	7 10	-6%
Employee satısfactıon (score out of 5)	4 06	3 90	4%

Company revenue ıncreased ın 2006 prımarıly due to an ıncrease ın the average rate per room sold In addıtıon a 4% ıncrease ın occupancy contrıbuted to thıs result The posıtıve results ın average room rate were drıven by an ıncrease ın the number of corporate clıents vısıtıng London ın a strong economıc clımate

EBITDA ıncreased by 22% durıng the year Thıs ımprovement was drıven by the addıtıonal revenues and strong cost controls These results ıncluded a reductıon of £1 1 mıllıon for certaın employees who now perform servıces for sıster hotels and whose costs have been recharged ın 2006

Customer satısfactıon ıs a key ındıcatıon to the company, and all customer questıonnaıres are completed through an ındependent thırd party Whılst customer satısfactıon may have slıghtly decreased thıs can be maınly attrıbuted to product related questıons, whılst customer servıce elements contınue to score hıghly

Principle risks and uncertainties

The company contınues to look at rısks and uncertaıntıes durıng ıts budgetıng process and monthly strategıc meetıngs

Competıtıve rısks

The company operates at the upper end of a hıghly competıtıve London hotel market Rısks are from eıther new competıtor openıngs or exıstıng competıtors ınvestıng ın product refurbıshments

Economıc rısks

The company ıs relıant on healthy economıes ın all ıts major markets, beıng UK, USA and Europe

Exchange rate rısks

A sıgnıficant element of the company's revenues ıs dependant on non UK based busınesses and therefore the exchange rates of major currencıes (specıfically USD and Euros) are a rısk to the company

Future developments

The dırectors aım to maıntaın the management polıcıes whıch have resulted ın the company's substantıal growth ın recent years They consıder that 2007 wıll show a further growth ın sales, partıcularly ın the average room rate sole

Directors' report

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes for 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

Employee involvement

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 matters affecting the performance of the company This is achieved through formal and informal meetings

Directors and their interests

The directors who served the company during the year are as shown on page 1

Secretary

J Grime resigned as secretary on 12 May 2006 and S Haegeman was appointed as secretary on that date

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

At 31 December 2006, the company had an average of 28 days purchases outstanding in trade creditors

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquires of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

By order of the board

Secretary

31 OCT 2007

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to 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 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, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements 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 financial statements 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

Independent auditors' report

to the members of The Park Lane Hotel Limited

We have audited the company's financial statements for the year ended 31 December 2006, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 19 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 to you whether, in our opinion, the Directors' Report is not consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, 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

Independent auditors' report

to the members of The Park Lane Hotel Lımıted (contınued)

Opinion

In our opınıon

- the financıal statements gıve a true and faır vıew, ın accordance wıth Unıted Kıngdom Generally Accepted Accountıng Practıce, of the state of the company's affaırs as at 31 December 2006 and of ıts profit for the year then ended,
- the financıal statements have been properly prepared ın accordance wıth the Companıes Act 1985, and
- the ınformatıon gıven ın the Dırectors' Report ıs consıstent wıth the financıal statements

Ernst & Young LLP

Ernst & Young LLP
Regıstered Audıtor
London
31 October 2007

Profit and loss account

for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Turnover	2	22,833	19,908
Cost of sales		(9,009)	(8,392)
Gross profit		13,824	11,516
Administrative expenses		(10,771)	(9,003)
Operating profit	3	3,053	2,513
Interest receivable	6	49	18
Other finance costs	7	(27)	(49)
Profit on ordinary activities before taxation		3,075	2,482
Tax charge on profit on ordinary activities	8	(430)	(798)
Profit for the financial year		2,645	1,684

The results have been derived wholly from continuing operations in both years

Statement of total recognised gains and losses

for the year ended 31 December 2006

	2006 £000	2005 £000
Profit for the financial year	2,645	1,684
Actuarial gain/(loss) recognised on the pension scheme	170	(24)
Deferred tax (credit)/charge relating to actuarial gain on the pension scheme	(51)	7
Total gains and losses for the year	2,764	1,667

Balance sheet

at 31 December 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Tangible assets	9	9,119	11,104
Investments	10	10	10
		9,129	11,114
Current assets			
Stocks	11	319	329
Debtors	12	25,639	23,999
Cash at bank		1,416	1,708
		27,374	26,036
Creditors. amounts falling due within one year	13	8,325	7,276
Net current assets		19,049	18,760
Total assets less current liabilities		28,178	29,874
Provisions for liabilities and charges	8	405	612
		27,773	29,262
Net pension liability	14	668	921
		27,105	28,341
Capital and reserves			
Called up share capital	16	1,320	1,320
Profit and loss account	17	25,785	27,021
Equity shareholders' funds		27,105	28,341

Director

31 OCT 2007

Notes to the financial statements

at 31 December 2006

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards

Share-based payments

Equity settled transactions

The cost of equity settled transactions – restricted stock – with employees is measured by reference to the fair value at the date at which they are granted and is recognised an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award Fair value is determined by using market values The movement in cumulative expense since the previous balance sheet date is recognised in the income statement with a corresponding entity in equity

Cash settled transactions

The cost of cash settled transactions – stock options – with employees is measured by reference to the fair value at the date at which they are granted and is recognised an expense over the vesting period, which ends on the date on which the stock options becomes fully vested Fair value is determined by using market values Changes in the carryings amount for the liability are recognised in the profit and loss account for the period

Statement of cash flows

The company has taken advantage of the exemption afforded by section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of Starwood Hotels & Resorts Worldwide Inc , which prepares consolidated financial statements which are publicly available On this basis the company is exempt from the requirement of FRS 1 to present a statement of cash flows

Related party transactions

As a subsidiary undertaking of Starwood Hotels & 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 & Resorts Worldwide Inc

Fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset, evenly over its expected useful life, as follows

Short leasehold land and buildings	–	unexpired term of the lease
Fixtures, fittings and equipment	–	3 to 15 years

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

Investments

Fixed assets investments are shown at cost less provision for impairment

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 financial statements

at 31 December 2006

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold,
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable,
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date

All differences are taken to the profit and loss account

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

Pension schemes

For defined benefit schemes the amounts charged to operating profit are the current service costs and any gains and losses on settlements and curtailments They are included as part of staff costs Past service costs are charged to operating profit immediately if the benefits have vested If the benefits have not vested immediately, the costs are recognised by equal annual instalments until vesting occurs The interest cost and the expected return on assets are included as other finance costs Actuarial gains and losses net of deferred tax are recognised immediately in the statement of total recognised gains and losses

Defined benefit schemes are either externally funded, with the assets of the scheme held separately from those of the group in separate trustee administered funds, or are unfunded Pension scheme assets are measured at fair value, and liabilities are measured on an actuarial basis and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities Full actuarial valuations are obtained at least triennially and are updated at each balance sheet date The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet

1 Accounting policies (continued)

Pension schemes (continued)

Contributions are also made to the SHUK Pension Plan, and though the scheme is a multi-employer defined benefit scheme, it is accounted for in the financial statements of The Park Lane Hotel Limited as a defined contribution scheme, as a fixed contribution is made to the scheme and any surpluses or deficits

Notes to the financial statements

at 31 December 2006

are accounted for by Sheraton Hotels (UK) plc

2. 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 Turnover arises solely from the company's principal activity within the United Kingdom

3. Operating profit

This is stated after charging/(crediting)

	2006	*2005*
	£000	*£000*
Auditors' remuneration – audit services	54	50
Depreciation of owned fixed assets	1,763	1,464
Operating lease rentals – land and buildings	13	13
– plant and machinery	69	64
Rental income	(59)	(54)

4 Staff costs

	2006	*2005*
	£000	*£000*
Wages and salaries	5,305	5,416
Social security costs	558	541
Other pension costs	392	43
Share-based payments	351	103
	6,606	6,106

The monthly average number of employees during the year was 292 (2005 – 277)

5. Directors' emoluments

Two of the directors are directors of other undertakings within the Sheraton Hotels (UK) group The directors' remuneration for the year was paid by the other undertakings The directors do not believe that it is practical to apportion their emoluments between their services as directors of the company and their services as directors of the other group undertakings and their emoluments are disclosed in Sheraton Hotels (UK) plc

The other director does not receive remuneration for his services as a director of the company

6. Interest receivable

	2006	*2005*
	£000	*£000*
Interest receivable	49	18

7. Other finance costs

	2006	*2005*

Notes to the financial statements

at 31 December 2006

	£000	£000
Expected return on pension scheme assets	111	89
Interest on pension scheme liabilities	(138)	(138)
	(27)	(49)

8. Tax on profit on ordinary activities

(a) Tax charge on profit on ordinary activities

The tax charge is made up as follows

	2006 £000	2005 £000
Current tax		
Group relief payable	1,328	457
Tax (over)/under provided in previous years	(749)	340
UK Corporation tax	–	321
Total current tax (note 8(b))	579	1,118
Deferred tax		
Origination and reversal of timing differences	(207)	(320)
Charge in respect of FRS 17	58	–
Tax charge on profit on ordinary activities	430	798

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2005 – 30%) The differences are reconciled below

Notes to the financial statements

at 31 December 2006

8. Tax on profit on ordinary activities (continued)

	2006	*2005*
	£000	*£000*
Profit on ordinary activities before taxation	3,050	2,482
Profit on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 30% (2005 – 30%)	915	745
Expenses not deductible for tax purposes	16	6
Depreciation in excess of capital allowances	454	27
Tax (over)/under provided in previous years	(749)	340
Pensions items recognised in excess of contributions	(57)	–
Total current tax (note 8(a))	579	1,118

(c) Factors that may affect future tax charges

From 1 April 2008 the rate of UK corporation tax will reduce from 30% to 28%

The company does not expect there to be any other significant factors that may affect its future tax charges

(d) Deferred tax

Deferred tax is provided at 30% (2005 – 30%) in the financial statements as follows

	2006	*2005*
	£000	*£000*
Accelerated capital allowances	405	612
Deferred tax asset arising on premium deficit (note 14)	(286)	(395)

	2006	*2005*
	£000	*£000*
At 1 January	217	544
Profit and loss account movement arising during the year	(149)	(320)
STRGL movement arising during the year	51	(7)
At 31 December	119	217

	2006	*2005*
	£000	*£000*
Deferred tax is included within		
Provisions for liabilities and charges	405	612
Net pension liabilities (note 14)	(286)	(395)
	119	217

Notes to the financial statements

at 31 December 2006

9. Tangible fixed assets

	Freehold land	*Short leasehold*	*Fixtures, fittings and equipment*	*Total*
	£000	*£000*	*£000*	*£000*
Cost				
At 1 January 2006	34	13,738	25,098	38,870
Additions	–	336	364	700
Disposals	–	–	(922)	(922)
At 31 December 2006	34	14,074	24,540	38,648
Depreciation				
At 1 January 2006	–	8,795	18,971	27,766
Provided during the year	–	331	1,432	1,763
At 31 December 2006	–	9,126	20,403	29,529
Net book value				
At 31 December 2006	34	4,948	4,137	9,119
At 31 December 2005	34	4,943	6,127	11,104

10. Investments

	£000
Cost	
At 1 January 2006	101
Disposals	91
Net book value	
At 31 December 2006	10
At 31 December 2005	10

11. Stocks

	2006	*2005*
	£000	*£000*
Finished goods and consumables	319	329

The directors consider that there is no significant difference between the balance sheet value and the replacement cost of stocks at the balance sheet date

Notes to the financial statements

at 31 December 2006

12. Debtors

	2006	*2005*
	£000	*£000*
Trade debtors	2,430	1,479
Amounts owed by other group undertakings	22,502	22,108
Corporation tax recoverable	247	–
Prepayments and accrued income	460	412
	25,639	23,999

13. Creditors: amounts falling due within one year

	2006	*2005*
	£000	*£000*
Trade creditors	1,284	447
Other taxation and social security	747	1,037
Amounts owed to group undertakings	4,745	4,299
Accruals and deferred income	1,516	1,402
Corporation tax payable	–	91
Other creditors	33	–
	8,325	7,276

14. Net pension liability

The company operates The Park Lane Hotel (1977) Retirement Fund The scheme was closed to new members in December 1996 The scheme's assets consist of a Unitised With Profit policy in addition to annuity policies held in the name of the trustees The scheme is a funded defined benefits scheme based on final pensionable pay and the related costs and assets are assessed in accordance with the advice of professionally qualified actuaries

The most recent valuation was conducted on 1 December 2004 using the attained age method The main assumptions are as follows

Rate of return on investments – pre retirement (% per annum)	6 25
Rate of return on investments – post retirement (% per annum)	4 00
Rate of increase in salaries (% per annum)	5 00
Rate of increase in pensions payments (% per annum)	3 25
Market value of scheme's assets (£000)	1,327
Level of funding, being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases	101%

14 Net pension liability (continued)

Contributions of £254,000 (employer contributions of 60% of pensionable pay and employee contributions of 5% of pensionable pay) were paid in respect of members of the scheme during the accounting year

Notes to the financial statements

at 31 December 2006

As the scheme is closed to new entrants, the valuation method used is the attained age method The attained age method is expected to give rise to a stable overall contribution rate providing that any surplus or deficit is amortised over the future service of the active members

On 31 March 2006, the scheme was closed to future accruals

FRS17 disclosures

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation as at 1 December 2004 and updated by a qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2006 Scheme assets are stated at their market value at the respective balance sheet dates

	2006	*2005*	*2004*
	%	*%*	*%*
Main assumptions			
Rate of increase in salaries	5 0	4 9	5 0
Rate of increase in pensions in payment	3 0	3 3	3 3
Discount rate	5 0	4 8	5 3
Inflation assumption	3 0	2 9	3 0

The assets and liabilities of the scheme and the expected rate of return at 31 December are

		2006		*2005*		*2004*
	Long-term rate of return expected	*Value*	*Long-term rate of return expected*	*Value*	*Long-term rate of return expected*	*Value*
	%	*£000*	*%*	*£000*	*%*	*£000*
Total market value of assets	5 0	1,893	6 6	1,627	6 6	1,332
Present value of scheme liabilities		(2,847)		(2,943)		(2,649))
Pension liability before deferred tax		(954)		(1,316)		(1,317)
Related deferred tax asset		286		395		395
Net pension liability		(668)		(921)		(922)

Notes to the financial statements

at 31 December 2006

14. Net pension liability (continued)

An analysis of the defined benefit cost for the year ended 31 December is as follows

	2006 £000	2005 £000
Current service cost	(14)	(41)
Curtailment	(21)	–
Total operating charge	(35)	(41)
Other finance costs Expected return on pension scheme assets	111	89
Other finance costs Interest on pension scheme liabilities	(138)	(138)
Total other finance costs	(27)	(49)

The following amounts are included in the statement of recognised gains and losses

	2006 £000	2005 £000
Actual return less expected return on pension scheme assets	36	158
Experience gains arising on scheme liabilities	237	76
Loss arising from changes in assumptions underlying the present value of scheme liabilities	(103)	(258)
Actuarial gains/(losses) recognised in the statement of total recognised gains and losses	170	(24)

Analysis of movements in deficit during the year

	2006 £000	2005 £000
At 1 January	(1,316)	(1,317)
Total operating charge	(35)	(41)
Total other finance costs	(27)	(49)
Actuarial gains/(losses) recognised in the statement of total recognised gains and losses	170	(24)
Contributions	254	115
At 31 December	(954)	(1,316)

Notes to the financial statements

at 31 December 2006

14. Net pension liability (continued)

History of experience gains and losses

	2006	*2005*	*2004*	*2003*
Difference between expected return and actual return on pension scheme assets				
– amount (£000)	36	158	46	(35)
– % of scheme assets	1 9	9 7	3 5	(2 5)
Experience gains/(losses) arising on scheme liabilities				
– amount (£000)	237	76	(36)	(18)
– % of the present value of scheme liabilities	(8 3)	(2 6)	1 4	0 7
Total actuarial gains/(losses) recognised in the statement of total recognised gains and losses				
– amount (£000)	170	(24)	(124)	(130)
– % of the present value of scheme liabilities	(6 0)	0 8	4 7	4 9

15. Commitments under operating leases

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below

	2006		*2005*	
	Land and buildings £000	*Other £000*	*Land and buildings £000*	*Other £000*
Operating leases which expire				
Within one year	–	31	–	13
In two to five years	–	38	–	51
In over five years	13	–	13	–
	13	69	13	64

16. Share capital

Authorised	*2006 £000*	*2005 £000*
Ordinary shares of £0 25 each	2,320	2,320

Allotted, called up and fully paid	*2006 No*	*2006 £000*	*2005 No*	*2005 £000*
Ordinary shares of £0 25 each	5,280,000	1,320	5,280,000	1,320

17. Reconciliation of shareholders' funds and movement on reserves

Total

Notes to the financial statements

at 31 December 2006

	Share capital £000	*Profit and loss account £000*	*shareholders' funds £000*
At 31 December 2004	1,320	25,354	26,674
Profit for the year	–	1,684	1,684
Actuarial loss recognised on pensions	–	(24)	(24)
Deferred tax gain relating to actuarial loss on pensions	–	7	7
At 31 December 2005	1,320	27,021	28,341
Profit for the year	–	2,645	2,645
Actuarial gain recognised on pensions	–	170	170
Deferred tax relating to actuarial gain on pensions	–	(51)	(51)
Dividends paid	–	(4,000)	(4,000)
At 31 December 2006	1,320	25,785	27,105

18. Share-based payments

Certain employees are granted stock options and restricted stock in the equity of our ultimate parent undertaking, Starwood Hotels & Resorts Worldwide Inc The number of stock options and restricted stock received depends upon grade level and performance The employees will receive cash or equity (depending on the scheme) that is linked to the price of equity instruments of the parent undertaking It is the parent undertaking that is obliged to make the payments to the employees

The company recognised a charge for employee compensation expense of £351,000 (2005 £100,000) during the year The awards are settled by the parent company and the employee compensation expense is recharged to Park Lane Hotel over the vesting period for the accruals At period end the company has no direct liability to settle the awards through cash or equity

2004 Long-Term Incentive Compensation Plan

Stock options have a vesting schedule (typically 4 years at 25% per annum) The expiry date of stock options is 8-10 years after vesting Stock options entitle the employee to a future cash payment which can be redeemed at any time between vesting and expiry Market values are used to calculate the stock values at date of grant

Restricted stocks generally vest after 3 years There is no expiry period on restricted stocks Restricted stocks are equity settled once the vesting period has expired Market values are used to calculate the stock values at date of grant

All stocks are traded in the USA and valued in US Dollars An exchange rate of 1 958 as at 31 December 2006 has been used to convert all values in sterling

Notes to the financial statements

at 31 December 2006

18. Share-based payments (continued)

The following table illustrates the number and weighted average exercise process (WAEP) and movements in stock options during the year

	2006	*2006*	*2005*	*2005*
		WAEP		*WAEP*
	No	*£*	*No*	*£*
Outstanding as at 1 January	101,921	17 36	109,308	16 61
Granted during the year	43,933	25 07	30,016	24 72
Forfeited during the year	–	–	–	–
Exercised during the year	(37,212)	31 10	(36,525)	24 37
Expired during the year	–	–	–	–
Outstanding as at 31 December	108,642	21 18	101,921	21 45
Exercisable as at 31 December	24,686	13 73	30,821	17 36

The weighted average share price at the date of exercise for the options exercised in 2006 is £31 10 (2005 – £24 37)

The weighted average fair value per option for options granted during 2006 was £8 23 (2005 – £8 80)

The fair value of the options granted is determined using a lattice valuation model The following table lists the inputs to the model used for the year ending 31 December 2006 and 31 December 2005

	2006	*2005*
Dividend Yield	1 41%	1 80%
Volatility		
Near term	26%	25%
Long term	40%	40%
Expected Life	6 years	6 years
Yield Curve (risk free interest rate)		
6 month	4 68%	2 80%
1 year	4 66%	2 98%
3 year	4 58%	3 45%
5 year	4 53%	3 66%
10 year	4 58%	4 08%

The dividend yield is based on historical data for the 12 month period immediately prior to the date of the grant

The estimated volatility is based on a combination of historical share price volatility as well as implied volatility based on market analysis The expected life represents the period that the parent company's (Starwood Hotels & Resorts Worldwide Inc) stock based awards are expected to be outstanding

The yield is based on the implied zero coupon yield from the US Treasury yield curve over the expected term of the option

For the share options outstanding as at 31 December 2006, the weighted average remaining contractual life is 18 months (2005 – 14 months)

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at 31 December 2006

19. Ultimate parent undertaking

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

Sheraton International Inc is the parent undertaking of the smallest group of which the company is a member and for which group financial statements are drawn up Copies of the financial statements are available from 1111 Westchester Avenue, White Plains, New York, NY 10604, USA

Starwood Hotels and Resorts Worldwide Inc , a company incorporated in the United States of America, is the parent undertaking of the largest group of which the company is a member and for which group financial statements are drawn up Copies of the financial statements are available from 1111 Westchester Avenue, White Plains, New York, NY 10604, USA