

158092

# **The Park Lane Hotel Limited**

## **Report and Financial Statements**

31 December 2012

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COMPANIES HOUSE

# The Park Lane Hotel Limited

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Registered No 158092

## **Directors**

M P Wale  
B E Cameron  
P Dival

## **Secretary**

S Haegeman

## **Auditors**

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

## **Registered Office**

Park Lane Hotel  
Piccadilly  
London W1J 7BX

## Directors' report

The directors present their report and financial statements for the year ended 31 December 2011

### Results and dividends

The profit for the year amounted to £4,092,000 (2011 – £3,960,000) Dividends of £4,900,000 (2011 – £6,400,000) were paid during the year

### Principal activities and review of the business

The principal activity of the company continues to be the ownership and operation of the Park Lane Hotel located in London, England

The company's key financial and other performance indicators during the year were as follows

	2012 £000	2011 £000	Change
Turnover	23,383	23,973	(2%)
Profit before taxation	5,392	5,780	(7%)
Profit after tax	4,092	3,960	3%
Customer satisfaction (score out of 10)	6.51	6.86	(0.35) pts
Employee satisfaction	76%	76%	-

Company revenue decreased in 2012. The decline is due to continued challenging trading conditions in Conference and Banqueting and flat accommodation revenues. Cost saving initiatives continued in 2012, however there were some increases in administrative expenses, which contributed to the decrease in profit before taxation.

The directors consider customer satisfaction is a key indicator of performance and all customer questionnaires are completed through an independent third party.

### Principal risks and uncertainties

The company continues to monitor risks and uncertainties during its budgeting process and monthly strategic meetings.

#### *Competitive risks*

The company operates at the upper end of a highly competitive London hotel market. Risks are from either new competitor openings or existing competitors investing in product refurbishments.

#### *Economic risks*

The company is reliant on healthy economies in all its major markets, being the UK, USA and Europe. It is highly aware of the current economic uncertainty and has a robust forecasting process in place to enable the company to identify market trends as early as possible.

#### *Exchange rate risks*

A significant element of the company's revenues is dependent on non UK based businesses and therefore the exchange rates of major currencies (specifically USD and Euros) are a risk to the company.

### Future developments

The directors aim to maintain the management policies which have resulted in the company's growth in recent years. General trading conditions are still challenging given the economic environment and the Eurozone activity. In addition, management intend to invest in a material refurbishment of the hotel in either late 2013 or early 2014.

### Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## Directors' report (continued)

### 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

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

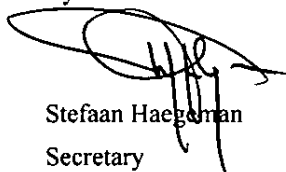
### Disclosure of information to the auditors

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 enquiries of fellow directors and the company's auditor, the directors have taken all the steps that they are obliged to take as directors in order to make themselves 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



Stefaan Haegeman

Secretary

29 April 2013

## Statement of directors' responsibilities

The directors are responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations

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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 auditor's report**

## **to the members of The Park Lane Hotel Limited**

We have audited the financial statements of The Park Lane Hotel Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 explained more fully in the statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

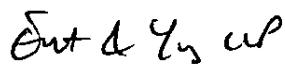
# Independent auditor's report

to the members of The Park Lane Hotel Limited (continued)

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



G Cullen (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
29 April 2013

## Profit and loss account

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
<b>Turnover</b>	2	23,383	23,973
Cost of sales		(7,865)	(8,166)
<b>Gross profit</b>		15,518	15,807
Administrative expenses	5	(10,143)	(10,046)
<b>Operating profit</b>	3	5,375	5,761
Interest receivable	6	1	2
Other finance income	7	16	17
<b>Profit on ordinary activities before taxation</b>		5,392	5,780
Tax charge on profit on ordinary activities	8	(1,300)	(1,820)
<b>Profit for the financial year</b>		4,092	3,960

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 2012

	2012 £000	2011 £000
Profit for the financial year	4,092	3,960
Actuarial loss recognised on the pension scheme	(21)	(353)
Deferred tax relating to actuarial loss on the pension scheme	(5)	86
<b>Total recognised gains and losses for the year</b>	<b>4,066</b>	<b>3,693</b>



## Balance sheet

at 31 December 2012

	Notes	2012 £000	2011 £000
<b>Fixed assets</b>			
Tangible assets	9	6,741	7,210
		<u>6,741</u>	<u>7,210</u>
<b>Current assets</b>			
Stocks	10	340	358
Debtors	11	11,835	14,108
Cash at bank		1,754	922
		<u>13,929</u>	<u>15,388</u>
<b>Creditors</b> amounts falling due within one year	12	4,276	5,174
		<u>9,653</u>	<u>10,214</u>
<b>Net current assets</b>		<u>16,394</u>	<u>17,424</u>
<b>Total assets less current liabilities</b>		<u>16,394</u>	<u>17,424</u>
<b>Provisions for liabilities and charges</b>	8	51	196
		<u>16,343</u>	<u>17,228</u>
<b>Net pension liability</b>	13	321	372
		<u>16,022</u>	<u>16,856</u>
<b>Capital and reserves</b>			
Called up share capital	15	1,320	1,320
Profit and loss account	16	14,702	15,536
		<u>16,022</u>	<u>16,856</u>
<b>Equity shareholders' funds</b>		<u>16,022</u>	<u>16,856</u>



Michael P Wale  
Director  
29 April 2013

## Notes to the financial statements

at 31 December 2012

### 1. Accounting policies

#### *Basis of preparation*

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

#### *Statement of cash flows*

The company is exempt, according to FRS1 (Revised 1996) from the requirement to prepare a statement of cash flow, as it is a wholly owned subsidiary of Starwood Hotels & Resorts Worldwide Inc, the consolidated financial statements of which will incorporate a consolidated statement of cash flows, including those of the company

#### *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 wholly owned 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

#### *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, and
- 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

## Notes to the financial statements

at 31 December 2012

### 1. Accounting policies (continued)

#### *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.

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 are accounted for by Sheraton Hotels (UK) plc.

#### *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 as 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 entry 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 as an expense over the vesting period, which ends on the date on which the stock options become fully vested. Fair value is determined by using market values. Changes in the carrying amount for the liability are recognised in the profit and loss account for the period.

### 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.

## Notes to the financial statements

at 31 December 2012

### 3. Operating profit

This is stated after charging/(crediting)

	2012 £000	2011 £000
Auditor's remuneration – audit services	62	60
Depreciation of owned fixed assets	1,201	1,225
Operating lease rentals – land and buildings	13	13
– plant and machinery	58	61
Rental income	(79)	(85)
	<u>          </u>	<u>          </u>

### 4. Directors' emoluments

The directors of the company are also directors of the holding company and fellow subsidiaries. The directors received remuneration apportioned to The Park Lane Hotel Limited for the year of £106,000 (2011: £91,000), paid by The Park Lane Hotel Limited and fellow group companies.

### 5. Staff costs

	2012 £000	2011 £000
Wages and salaries	5,127	5,135
Social security costs	521	512
Other pension costs	289	276
Share-based payments	322	341
	<u>6,259</u>	<u>6,264</u>
	<u>          </u>	<u>          </u>

The monthly average number of employees during the year was 256 (2011 – 247)

## Notes to the financial statements

at 31 December 2012

### 6. Interest receivable

	2012 £000	2011 £000
Interest receivable	1	2

### 7. Other finance income /(costs)

	2012 £000	2011 £000
Expected return on pension scheme assets	(159)	(152)
Interest on pension scheme liabilities	143	135
	(16)	(17)

### 8. Tax

(a) Tax charge on profit on ordinary activities

The tax charge is made up as follows

	2012 £000	2011 £000
<i>Current tax</i>		
UK corporation tax	1,239	1,031
Group relief payable	173	695
Tax (over)/under provided in previous years	(80)	87
Total current tax (note 8(b))	1,332	1,813
<i>Deferred tax</i>		
Origination and reversal of timing differences	(17)	22
Effect of changes in tax rate	(15)	(15)
Tax over provided in previous years	-	-
Total deferred tax (note 8(d))	(32)	7
Tax charge on profit on ordinary activities	1,300	1,820

## Notes to the financial statements

at 31 December 2012

### 8. Tax (continued)

#### (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 24.5% (2011 – 26.5%). The differences are reconciled below

	2012 £000	2011 £000
Profit on ordinary activities before taxation	5,392	5,780
Profit on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%)	1,321	1,532
Expenses not deductible for tax purposes	(47)	41
Other permanent differences	92	168
Accelerated capital allowances	46	42
Tax (over)/under provided in previous years	(80)	87
Pensions contributions in excess of pension accounting items	-	(57)
Total current tax (note 8(a))	1,332	1,813

#### (c) Factors that may affect future tax charges

The UK corporation tax rate reduced to 24% from April 2012 and 23% from April 2013. A further 2% reduction was proposed in the Chancellor's December 2012 Autumn Statement, taking the rate to 21% by April 2014. In addition, a further 1% reduction was proposed in the March 2013 budget taking the rate to 20% by April 2015. As at the balance sheet date, only the first 1% tax reduction from April 2013 had been 'substantively enacted' and hence in accordance with accounting standards it is only the impact of this 1% reduction that has been reflected in the company's financial statements as at 31 December 2012.

The reduction in rates to 21% and 20% have both still to be included in the 2013 Finance Bill to ratify the change.

#### (d) Deferred tax

The deferred tax included in the balance sheet is as follows

	2012 £000	2011 £000
Included in provisions for liabilities and charges	143	196
Included in net pension liabilities (note 13)	(92)	(124)
	51	72
	2012 £000	2011 £000
Accelerated capital allowances	143	196
Deferred tax asset arising on premium deficit (note 13)	(92)	(124)
Provision for deferred tax	51	72

## Notes to the financial statements

at 31 December 2012

### 8. Tax (continued)

	2012 £000	2011 £000
At 1 January	72	150
Profit and loss account movement arising during the year	(26)	7
STRGL movement arising during the year	5	(85)
At 31 December including deferred tax	51	72

### 9. Tangible fixed assets

	Freehold land £000	Short leasehold £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 31 December 2011	34	20,089	21,643	41,766
Additions	-	333	399	732
Disposals	-	-	(2)	(2)
At 31 December 2012	34	20,422	22,040	42,496
Depreciation				
At 31 December 2011	-	15,105	19,451	34,556
Provided during the year	-	608	593	1,201
Disposals	-	-	(2)	(2)
At 31 December 2012	-	15,713	20,042	35,755
Net book value				
At 31 December 2011	34	4,984	2,192	7,210
At 31 December 2012	34	4,709	1,998	6,741

## Notes to the financial statements

at 31 December 2012

### 10. Stocks

	2012	2011
	£000	£000
Finished goods and consumables	340	358

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

### 11. Debtors

	2012	2011
	£000	£000
Trade debtors	1,373	1,251
Amounts owed by other group undertakings	9,997	12,398
Prepayments and accrued income	451	458
Other debtors	14	1
	<u>11,835</u>	<u>14,108</u>

### 12. Creditors: amounts falling due within one year

	2012	2011
	£000	£000
Trade creditors	710	1,136
Amounts owed to group undertakings	43	1,048
Corporation tax payable	742	426
Other taxation and social security costs	983	855
Accruals and deferred income	1,798	1,709
	<u>4,276</u>	<u>5,174</u>



## Notes to the financial statements

at 31 December 2012

### 13. Net pension liability

The company operates The Park Lane Hotel (1977) Retirement Fund. The scheme was closed to new members in December 1996 and to future accrual on 31 March 2006. 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.

Contributions of £180,000 were paid in respect of members of the scheme during the year.

The valuation used for FRS17 purposes has been based on the most recent actuarial valuation as at 1 December 2010 and updated by a qualified actuary to take account of the requirements of FRS17 in order to assess the liabilities of the scheme at 31 December 2012. Scheme assets are stated at their market value at the respective balance sheet dates.

	2012 £000	2011 £000
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	2,874	2,482
Interest cost	143	135
Actuarial losses	125	282
Benefits paid	(28)	(25)
Benefit obligation at end of year	3,114	2,874
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	2,377	2,142
Expected return on plan assets	159	152
Actuarial (losses)/gains	104	(71)
Company contribution	180	179
Benefits paid	(28)	(25)
Fair value of plan assets at end of year	2,792	2,377
Fair value of scheme assets	2,792	2,377
Present value of scheme liabilities	(3,114)	(2,874)
Pension liability before deferred tax	(322)	(497)
Related deferred tax asset	92	124
Net pension liability	(230)	(373)

## Notes to the financial statements

at 31 December 2012

### 13. Net pension liability (continued)

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

	2012 £000	2011 £000
<b>Components of pension cost</b>		
Interest cost	143	135
Expected return on plan assets	(159)	(152)
Total pension (income)/cost recognised in the profit and loss account	(16)	(17)
Difference between expected and actual return on scheme assets	104	(71)
Experience gains and losses arising on scheme liabilities	(34)	(24)
Effect of changes in the demographic and financial assumptions underlying the present value of scheme liabilities	(91)	(258)
Total loss recognised in the statement of total recognised gains and losses	(21)	(353)
Cumulative amount of actuarial (gains) and losses immediately recognised	372	351

#### Plan assets

The weighted average asset allocation at the year end was as follows

	2012 £000	2011 £000
Unitised With Profits	2,792	2,377
At 31 December	2,792	2,377

None of the fair values of the assets shown include any of the company's own financial instruments or any property occupied by, or any other assets used by, the company

## Notes to the financial statements

at 31 December 2012

### 13. Net pension liability (continued)

#### Assumptions

	2012	2011
	%	%
Inflation	3.25	3.50
Discount rate	4.75	5.00
Rate of increase in pensions in payment	3.25	3.50
Expected long term return on plan assets	6.50	6.90

#### Weighted average life expectancy for mortality tables used to determine benefit obligations

	2012	2011
	Years	Years
Male retiring at age 65 in 2012	21.2	21.1
Female retiring at age 65 in 2012	24.0	23.9
Male retiring at age 65 in 2032	23.1	23.0
Female retiring at age 65 in 2032	25.9	25.8

#### Five year history

	2012	2011	2010	2009	2008
	£000	£000	£000	£000	£000
Fair value of plan assets at end of year	2,792	2,377	2,142	1,975	1,852
Benefits obligation at end of year	(3,114)	(2,874)	(2,482)	(2,388)	(2,264)
Deficit at end of year	(322)	(497)	(340)	(413)	(412)
Experience gains and (losses) on scheme assets					
Amount £000	104	(71)	154	(175)	(168)
Percentage of scheme assets	4%	(3)%	7%	(9)%	(9)%
Experience gains and (losses) on scheme liabilities					
Amount £000	34	24	24	-	(94)
Percentage of scheme liabilities	1%	1%	1%	-	(4)%

#### Contributions

The Company expects to contribute £179,000 to the scheme in 2013

# Notes to the financial statements

at 31 December 2012

## 14. Commitments under operating leases

At 31 December 2012 the company had annual commitments under non-cancellable operating leases as set out below

	2012		2011	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire				
Within one year	–	18	–	42
In two to five years	–	8	–	16
In over five years	13	–	13	–
	<u>13</u>	<u>26</u>	<u>13</u>	<u>58</u>

## 15. Called up share capital

	2012	2012	2011	2011
	<i>No</i>	<i>£000</i>	<i>No</i>	<i>£000</i>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £0.25 each	5,280,000	1,320	5,280,000	1,320

## 16. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total share- holders' funds</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 31 December 2010	1,320	18,244	19,563
Profit for the year	–	3,960	3,960
Actuarial loss recognised on pensions	–	(353)	(353)
Deferred tax relating to actuarial loss on pensions	–	85	85
Dividends	–	(6,400)	(6,400)
At 31 December 2011	<u>1,320</u>	<u>15,536</u>	<u>16,856</u>
Profit for the year	–	4,092	4,092
Actuarial loss recognised on pensions	–	(21)	(21)
Deferred tax relating to actuarial loss on pensions	–	(5)	(5)
Dividends	–	(4,900)	(4,900)
At 31 December 2012	<u>1,320</u>	<u>14,702</u>	<u>16,022</u>

## Notes to the financial statements

at 31 December 2012

### 17. 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 £322,000 (2011: £341,000) during the year. The awards are settled by the parent company and the employee compensation expenses 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 1.615 as at 31 December 2012 (1.545 for 2011) has been used to convert all values in GBP.

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

	2012		2011	
	No.	WAEP	No.	WAEP
Outstanding as at 1 January	127,035	£21.03	141,821	£21.09
Granted during the year	9,312	£34.02	9,512	£39.12
Exercised during the year	(52,933)	£33.42	(24,298)	£37.87
Adjustment during the year	-			
Forfeited during the year	-			
Outstanding as at 31 December	<u>83,414</u>	£23.59	<u>127,035</u>	£21.03
Exercisable as at 31 December	<u>63,215</u>	£21.60	<u>54,073</u>	£27.07

The weighted average share price at the date of exercise for the options exercised in 2012 was £33.42 (2011: £37.87).

The weighted average fair value per option for options granted during 2012 was £34.02 (2011: £39.12).

## Notes to the financial statements

at 31 December 2012

### 17. Share-based payments (continued)

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 2012 and 31 December 2011.

	31 December 2012	31 December 2011
Dividend Yield	1.25%	0.75%
Volatility		
Near term	37%	36%
Long term	46%	44%
Expected Life	6 years	6 years
Yield Curve		
6 month	0.14%	0.18%
1 year	0.18%	0.25%
3 year	0.41%	1.18%
5 year	0.84%	2.13%
10 year	1.94%	3.42%

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 and Resorts Worldwide Inc) stock based awards are expected to be outstanding.

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

For the share options outstanding as at 31 December 2012, the weighted average remaining contractual life is 10 months (2011: 6 months).

### 18. Ultimate parent undertaking and controlling party

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.

SII Real Estate Holdings 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 One StarPoint, Stamford, CT 06902, 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 One StarPoint, Stamford, CT 06902, USA.