

The Park Lane Hotel Limited

Annual report and accounts
for the year ended 31 December 2001

Registered number: 158092



Directors' report

For the year ended 31 December 2001

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 2001.

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 2002.

Results and dividends

The audited accounts for the year ended 31 December 2001 are set out on pages 6 to 17. The profit for the year after taxation was £2,725,000 (2000 – £2,420,000).

The directors do not recommend the payment of a dividend (2000 – £nil).

Directors

The directors who served during the year were as follows:

M.P. Wale

J. Grime

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.

Sheraton Skyline Hotel
Bath Road
Hayes
Middlesex
UB3 5BP

By order of the Board,

A handwritten signature in black ink, appearing to read 'M. Wale', with a stylized flourish at the end.

M. Wale
Director

31 July 2002

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 of The Park Lane Hotel Limited for the year ended 31 December 2001, which comprise the profit and loss account, balance sheet, and the related notes numbered 1 to 18. These accounts have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of directors' responsibilities. Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards.

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

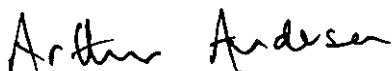
Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 of the company at 31 December 2001 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

180 Strand
London
WC2R 1BL

31 July 2002

Profit and loss account

For the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
Turnover	1	19,561	21,552
Cost of sales		(10,101)	(10,341)
Gross profit		9,460	11,211
Administrative expenses		(6,480)	(7,118)
Operating profit		2,980	4,093
Interest receivable and similar income	2	36	78
Profit on ordinary activities before taxation	3	3,016	4,171
Tax on profit on ordinary activities	6	(291)	(1,751)
Retained profit for the year	15	2,725	2,420

There are no recognised gains or losses in either year other than 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 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Tangible assets	8	14,740	16,301
Investments	9	5	5
		<u>14,745</u>	<u>16,306</u>
Current assets			
Stocks	10	455	422
Debtors due within one year	11	15,855	8,856
Cash at bank and in hand		790	2,197
		<u>17,100</u>	<u>11,475</u>
Creditors: Amounts falling due within one year	12	(4,733)	(3,394)
Net current assets		<u>12,367</u>	<u>8,081</u>
Total assets less current liabilities		<u>27,112</u>	<u>24,387</u>
Provisions for liabilities and charges	13	(302)	(302)
Net assets		<u>26,810</u>	<u>24,085</u>
Capital and reserves			
Called up share capital	14, 15	1,320	1,320
Profit and loss account	15	25,490	22,765
Shareholders' funds		<u>26,810</u>	<u>24,085</u>
Shareholders' funds may be analysed as:			
Equity interests		26,490	23,765
Non-equity interests		320	320
		<u>26,810</u>	<u>24,085</u>

Signed on behalf of the Board



Michael P. Wale
Director

31 July 2002

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

Statement of accounting policies

31 December 2001

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 Starwood Hotels & 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 & 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.

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.

The company has adopted the transitional disclosures required by FRS 17 (see note 17).

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 2001

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

	2001 £'000	2000 £'000
Income from short term deposits	<u>36</u>	<u>78</u>

3 Profit on ordinary activities before taxation

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

	2001 £'000	2000 £'000
Depreciation of tangible fixed assets	2,057	2,332
Management fee charge	1,568	1,809
Operating lease costs – plant and machinery	58	47
Operating lease costs – land and buildings	13	13
Rental income	(73)	(75)
Auditor's remuneration	31	30
Staff costs (note 4)	<u>6,007</u>	<u>5,983</u>

4 Staff costs

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

	2001 Number	2000 Number
	<u>278</u>	<u>295</u>

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

	2001 £'000	2000 £'000
Wages and salaries	5,389	5,463
Social security costs	433	430
Other pension costs	185	90
	<u>6,007</u>	<u>5,983</u>

Notes to the accounts (continued)

5 Directors' remuneration

Remuneration

The remuneration of the directors' was as follows:

	2001 £'000	2000 £'000
Emoluments	213	170
	<u>213</u>	<u>170</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 £223,000 (2000 - £170,000) 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:

	2001 £'000	2000 £'000
UK corporation tax	828	1,561
Over provision in respect of prior year	(537)	(112)
Deferred taxation (note 13)	-	302
	<u>291</u>	<u>1,751</u>

7 Dividends

In 2001 the parent company, Sheraton Hotels (UK) plc, waived its right to cumulative preference share dividends (2000 - £nil). The directors do not recommend the payment of a dividend on the ordinary shares (2000 - £nil).

Notes to the accounts (continued)

8 Tangible fixed assets

	Land and buildings		Plant and equipment £'000	Total £'000
	Freehold land £'000	Short leasehold £'000		
Cost				
31 December 2000	34	14,078	23,890	38,002
Additions	-	207	289	496
31 December 2001	34	14,285	24,179	38,498
Depreciation				
31 December 2000	-	6,387	15,314	21,701
Charge for the year	-	977	1,080	2,057
31 December 2001		7,364	16,394	23,758
Net book value				
31 December 2001	34	6,921	7,785	14,740
31 December 2000	34	7,691	8,576	16,301

9 Investments

	£'000
Cost and net book value at 31 December 2000 and 31 December 2001	5

There was no material difference between the book value and the market value of these investments at 31 December 2001.

At 31 December 2001 the company held 15% (2000 – 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

	2001 £'000	2000 £'000
Finished goods and consumables	455	422

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

	2001 £'000	2000 £'000
Trade debtors	2,624	2,571
Amounts due from group undertakings	12,105	5,576
Prepayments and accrued income	1,126	709
	<u>15,855</u>	<u>8,856</u>

12 Creditors: Amounts falling due within one year

	2001 £'000	2000 £'000
Trade creditors	779	910
Amounts owed to group undertakings	2,717	678
UK corporation tax	229	894
Other taxation and social security	338	289
Accruals and deferred income	670	623
	<u>4,733</u>	<u>3,394</u>

In March 2000 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 Provisions for liabilities and charges

	2001 £'000	2000 £'000
At 1 January		-
Charged to profit and loss account	302	302
At 31 December	<u>302</u>	<u>302</u>
	2001 £'000	2000 £'000
Deferred taxation on accelerated capital allowances	<u>302</u>	<u>302</u>

There was £1,365,590 of unprovided deferred tax at 31 December 2001 (2000 - £1,571,769).

Notes to the accounts (continued)

14 Called up share capital

	2001 £'000	2000 £'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>		
<i>Non-equity shares:</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
<i>Equity shares:</i>		
4,000,000 ordinary shares of 25 pence each	1,000	1,000
	<u>1,320</u>	<u>1,320</u>

15 Reconciliation of movements in shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2001	1,320	22,765	24,085
Retained profit for the year		2,725	2,725
At 31 December 2001	<u>1,320</u>	<u>25,490</u>	<u>26,810</u>

16 Financial commitments

Annual commitments under operating leases are as follows:

	2001		2000	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiry date:				
- within one year	-	10	-	-
- between two and five years	-	23	-	34
- after five years	13	-	13	-
	<u>13</u>	<u>33</u>	<u>13</u>	<u>34</u>

Notes to the accounts (continued)

17 Pension schemes

The company provides pension arrangements for certain permanent employees through the SHUK 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

The most recent actuarial valuation as at 1 January 1999 disclosed a funding level of 109%. The pension charge for the year was £38,885 (2000: £90,301). The past service excess of assets over liabilities has been used to reduce the rate of employers' contributions for ten years from 1 January 2000. Due to the implications of the Government's 1997 Budget the 5% employers contribution was increased 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 actuarial valuation described above has been updated at 1 January 2002 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17.

Investments have been valued, for this purpose, at fair value.

The major assumptions used for the actuarial valuation as at 1 January 2002 were:

	1999 % pa
Rate of increase in salaries	3.5
Rate of increase in pensions in payment	2.5
Discount rate	6.0
Inflation assumption	2.5

Notes to the accounts (continued)

17 Pension schemes (continued)

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

	2002 %	2002 £'000
Equities	7% p.a.	8,076
Bonds/fixed interest stock	5% p.a.	1,136
Property	7% p.a.	264
Cash	-	371
Total fair value of assets		9,847
Present value of scheme liabilities		11,000
Surplus in the scheme		(1,153)

The company contribution rate for 2001 was 10% of pensionable pay and this is being reviewed as part of the 1 January 2002 valuation.

The company also operates the Park Lane (1997) Retirement Fund. There are currently 20 active members, although the scheme was closed to new members in December 1996. The scheme is a unitised with profit policy whereby the employee contributes 5% of pensionable salary and the employer has an obligation to make up any remaining contribution to keep the scheme fully funded. The latest actuarial valuation, dated 1 December 2000, recognised a £891,000 deficit to be made up by employer contributions of 60%.

The actuarial valuation was updated to 31 December 2001, by an independent qualified actuary in accordance with the transitional arrangements of FRS 17. Investments have been valued, for this purpose, at fair value.

The major assumptions used for the actuarial valuation were:

	2001 % pa
Rate of increase in salaries	4.75
Rate of increase in pensions in payment	2.5
Discount rate	5.7
Inflation assumptions	3.25

Notes to the accounts (continued)

17 Pension schemes (continued)

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

	2001 % pa	2001 £'000
Unitised with profits policy	6.8	1,310
Present value of scheme liabilities		(2,313)
Deficit in the scheme		(1,003)
Related deferred tax asset		331
Net pension liability		(672)

Over the year to 31 December 2001, contributions by the company of £166,852 were made to the Scheme. It has been agreed with the Scheme Trustees that company contributions will continue at 7.5% of pensionable pay at least until the results of the next formal funding valuation due as at 1 December 2004.

The company 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 former director has been bought out of the scheme and is receiving an annuity.

18 Ultimate controlling party

The directors regard Starwood Hotels & 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 & 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 1111 Westchester avenue, White Plains, New York, NY 10604, USA.