



Sheraton Hotels (UK) plc  
and subsidiary undertakings

Accounts for the year ended 31 December 1998  
together with directors and auditors' reports

Registered number: 3114981



# Directors' report

For the year ended 31 December 1998

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report for the year ended 31 December 1998.

## Principal activities

The principal activities of the group include the ownership and operation of the Sheraton Skyline Hotel, Heathrow and The Park Lane Hotel, London. The group, through Sheraton Hotels (England) Limited, also manages other Sheraton branded hotels operating in the UK.

The company's principal activity is that of a holding company.

## Results and dividends

The financial statements for the year to 31 December 1998 are set out on pages 5 to 18. The group's profit on ordinary activities after taxation for the year was £1,348,000 (1997 – profit of £2,859,000).

The directors do not propose the payment of a dividend (period to 31 December 1997 - £nil).

## Directors and their interests

The directors who served during the year were as follows:

R.F. Cotter

M.P. Wale

The directors do not have any interests required to be disclosed under Schedule 7 paragraph 2 of the Companies Act 1985.

## Directors' responsibilities

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group 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 financial statements; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

## Directors' report (continued)

### Directors' responsibilities (continued)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Supplier payment policy

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

### Year 2000

The Board has established a policy to investigate whether all relevant equipment will be year 2000 compliant. A working party has been set up with the following objectives:-

- To review all of the group's systems;
- To replace or upgrade those systems where necessary;
- To assess the impact on customers and suppliers.

The findings of the working party are presented to the Board on a regular basis and acted upon accordingly. Based on those efforts, the Board is currently reasonably confident that all companies within the group will be millennium compliant, although it is not possible to give any guarantees that no unforeseen problems will arise.

### 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 group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

### Employee consultation

The group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through both formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

## Directors' report (continued)

### Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Sheraton Skyline Hotel  
Bath Road  
Hayes  
Middlesex  
UB3 5BP

By order of the Board,



J. Grime  
Secretary

29 June 1999

## Auditors' report

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London

To the Shareholders of Sheraton Hotels (UK) plc:

We have audited the accounts on pages 5 to 18 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

### **Respective responsibilities of directors and auditors**

As described on pages 1 and 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company and of the group, 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 state of affairs of the company and of the group at 31 December 1998 and of the group's profit for the year ended 31 December 1998 and have been properly prepared in accordance with the Companies Act 1985.



**Arthur Andersen**

**Chartered Accountants and Registered Auditors**

1 Surrey Street

London

WC2R 2PS

29 June 1999

# Consolidated profit and loss account

For the year 31 December 1998

	Notes	1998 £'000	1997 £'000
<b>Turnover</b>	2	40,360	38,987
Cost of sales		(23,616)	(24,704)
<b>Gross profit</b>		16,744	14,283
Administrative expenses		(10,307)	(8,958)
Exceptional items	3	-	(123)
<b>Operating profit</b>		6,437	5,202
Interest receivable and similar income	4	304	3,261
Interest payable and similar charges	5	(4,140)	(3,503)
<b>Profit on ordinary activities before taxation</b>	6	2,601	4,960
Tax on profit on ordinary activities	8	(1,253)	(2,101)
<b>Profit on ordinary activities after taxation</b>		1,348	2,859
<b>Retained profit for the year</b>	17	1,348	2,859

There are no recognised gains or losses other than the profit for the year of £1,348,000 (31 December 1997 – profit of £2,859,000).

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

An analysis of movement on reserves is given in note 17.

# Consolidated balance sheet

31 December 1998

	Notes	1998 £'000	1997 £'000
<b>Fixed assets</b>			
Intangible assets	9	16	26
Tangible assets	10	77,508	80,000
Investments	11	5	5
		<u>77,529</u>	<u>80,031</u>
<b>Current assets</b>			
Stocks	12	548	694
Debtors due within one year	13	8,329	5,410
Cash at bank and in hand		3,714	6,205
		<u>12,591</u>	<u>12,309</u>
<b>Creditors: Amounts falling due within one year</b>	14	<u>(53,372)</u>	<u>(70,176)</u>
<b>Net current liabilities</b>		<u>(40,781)</u>	<u>(57,867)</u>
		36,748	22,164
Provision for liabilities and charges	15	<u>(893)</u>	<u>(966)</u>
<b>Net assets</b>		<u>35,855</u>	<u>21,198</u>
<b>Capital and reserves</b>			
Called-up share capital	16	33,462	20,153
Profit and loss account	17	3,357	2,009
Goodwill reserve	17	<u>(964)</u>	<u>(964)</u>
<b>Equity shareholders' funds</b>		<u>35,855</u>	<u>21,198</u>

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

Signed on behalf of the Board



M.P. Wale

Director

29 June 1999

# Company balance sheet

31 December 1998

	Notes	1998 £'000	1997 £'000
<b>Fixed assets</b>			
Investments	11	46,254	46,254
		<u>46,254</u>	<u>46,254</u>
<b>Current assets</b>			
Debtors due within one year	13	37,736	38,134
Cash at bank and in hand		111	107
		<u>37,847</u>	<u>38,241</u>
<b>Creditors: Amounts falling due within one year</b>	14	(53,558)	(65,015)
<b>Net current liabilities</b>		<u>(15,711)</u>	<u>(26,774)</u>
<b>Total assets less current liabilities</b>		<u>30,543</u>	<u>19,480</u>
<b>Net assets</b>		<u>30,543</u>	<u>19,480</u>
<b>Capital and reserves</b>			
Called-up share capital	16	33,462	20,153
Profit and loss account	17	(2,919)	(673)
<b>Equity shareholders' funds</b>	17	<u>30,543</u>	<u>19,480</u>

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

Signed on behalf of the Board



M.P. Wale

Director

29 June 1999

## Notes to accounts (continued)

### 1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding period is set out below.

#### *a) Basis of accounting*

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

#### *b) Cash flow statement*

In accordance with FRS1 (revised) no cash flow statement has been presented on the basis that the company is a wholly owned subsidiary undertaking of Sheraton International Inc. in whose publicly available financial statements the company is consolidated (note 21).

#### *c) Basis of consolidation*

The group accounts consolidate the accounts of Sheraton Hotels (UK) plc and its subsidiary undertakings. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Acquisitions are accounted for under the acquisition method with goodwill, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, being written off against reserves.

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The loss for the financial year, determined in accordance with the Act, was £2,246,000 (1997 - £614,000).

#### *d) Intangible fixed assets*

Intangible fixed assets comprise the cost of acquiring and negotiating successful management agreements. These costs are amortised over the duration of the agreements.

#### *e) Tangible fixed assets*

Tangible fixed assets are stated at cost, net of 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, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold land	Not depreciated
Freehold buildings	40 years
Freehold building improvements	15 years
Leasehold land and buildings	Unexpired term of the lease
Fixtures, fittings and equipment	3 - 15 years

## Notes to accounts (continued)

### 1 Accounting policies (continued)

#### *f) Investments*

Fixed assets investments are shown at cost less provision for permanent diminution in value.

#### *g) Stocks*

Stocks are stated at the lower of cost and net realisable value.

#### *h) Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation 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, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

#### *i) Pension costs and other post-retirement benefits*

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 group in separate trustee administered funds, or unfunded. Differences between amounts charged to the profit and loss account and amounts funded or paid directly to members of unfunded schemes are shown as either provisions or prepayments in the balance sheet.

Further information on pension costs is provided in note 20.

#### *j) 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. Any gain or loss arising from a change in exchange rates subsequent to the date of the transactions is included as an exchange gain or loss in the profit and loss account.

#### *k) Turnover*

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

## Notes to accounts (continued)

### 1 Accounting policies (continued)

#### *l) Finance costs*

Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

#### *m) Debt*

Debt is initially stated at the amount of the net proceeds. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

### 2 Segment information

#### *a) Turnover*

	1998 £'000	1997 £'000
Hotel operation	36,370	35,056
Management fees	3,990	3,931
	<u>40,360</u>	<u>38,987</u>

The turnover of the group arises solely within the United Kingdom.

#### *b) Operating profit by activity*

	1998 £'000	1997 £'000
Hotel operation	5,994	4,644
Management fees	270	681
	<u>6,264</u>	<u>5,325</u>
Exceptional item (note 3)	-	(123)
	<u>6,264</u>	<u>5,202</u>

### 3 Exceptional item

The exceptional items charged to the group profit and loss account relate to:

	1998 £'000	1997 £'000
Other	-	123
	<u>-</u>	<u>123</u>

## Notes to accounts (continued)

### 4 Interest receivable and similar income

	1998 £'000	1997 £'000
Interest receivable on short term deposits	304	265
Foreign exchange gain on financing	-	2,996
	<u>304</u>	<u>3,261</u>

### 5 Interest payable and similar charges

	Note	1998 £'000	1997 £'000
Loan notes repayable within 5 years, not by instalment	a)		
- interest payable		661	1,044
- amortisation of discount at which loans were issued		-	176
- amortisation of financing costs		-	110
Interest payable on loans from group undertakings		2,987	1,879
Other financing costs	b)	-	294
Foreign exchange loss on financing		492	-
		<u>4,140</u>	<u>3,503</u>

a) Loan notes relate to floating rate unsecured 10 year loan notes issued at a 2% discount on par value as described in note 14.

b) Other financing costs relate to costs associated with a forward foreign exchange contract on a Belgian franc denominated loan.

### 6 Profit on ordinary activities before taxation

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

	1998 £'000	1997 £'000
Depreciation:		
- tangible fixed assets	4,605	4,601
- intangible fixed assets	10	10
Operating lease rentals		
- plant and machinery	125	69
Rent receivable	(164)	(104)
Auditors' remuneration		
- audit services	85	84
- non audit services	6	11
Staff costs (note 7)	9,591	9,382
Foreign exchange loss/(gain) on financing	<u>492</u>	<u>(2,996)</u>

## Notes to accounts (continued)

### 7 Staff costs

The average weekly number of employees was 551 (1997 - 548).

Their aggregate remuneration comprised:

	1998 £'000	1997 £'000
Wages and salaries	8,735	8,486
Social security costs	783	758
Other pension costs	73	138
	<u>9,591</u>	<u>9,382</u>

The directors received no emoluments from the company as remuneration for their services.

One of the directors is also a director of each of the subsidiary undertakings, this director received a total remuneration of £156,985 (1997 - £143,821) from one of the subsidiary undertakings. This remuneration related to 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 between the directors' services to each of these companies.

### 8 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	1998 £'000	1997 £'000
Corporation tax at 31% (1997 - 31.5%)	2,049	1,543
Deferred taxation (note 15)	(73)	470
Group relief	(600)	-
Adjustment in respect of prior years	(123)	88
	<u>1,253</u>	<u>2,101</u>

## Notes to accounts (continued)

### 9 Intangible fixed assets

Group	1998 £'000	1997 £'000
<b>Cost</b>		
At 31 December 1998 and 31 December 1997	<u>48</u>	<u>48</u>
<b>Amortisation</b>		
At 31 December 1997	22	12
Charge	<u>10</u>	<u>10</u>
At 31 December 1998	<u>32</u>	<u>22</u>
<b>Net book value</b>		
At 31 December 1998	<u>16</u>	<u>26</u>
At 31 December 1997	<u>26</u>	<u>36</u>

Intangible fixed assets represents the costs of acquiring a management agreement which is being amortised over the life of the agreement.

### 10 Tangible fixed assets

Group	Freehold land and buildings £'000	Freehold building improvements £'000	Short leasehold land and buildings £'000	Furniture, fittings and Equipment £'000	Total £'000
<b>Cost</b>					
At 31 December 1997	29,898	107	39,818	18,552	88,375
Additions	<u>-</u>	<u>-</u>	<u>44</u>	<u>2,069</u>	<u>2,113</u>
At 31 December 1998	<u>29,898</u>	<u>107</u>	<u>39,862</u>	<u>20,621</u>	<u>90,488</u>
<b>Depreciation</b>					
At 31 December 1997	1,164	1	2,816	4,394	8,375
Charge	<u>581</u>	<u>-</u>	<u>1,614</u>	<u>2,410</u>	<u>4,605</u>
At 31 December 1998	<u>1,745</u>	<u>1</u>	<u>4,430</u>	<u>6,804</u>	<u>12,980</u>
<b>Net book value</b>					
At 31 December 1998	<u>28,153</u>	<u>106</u>	<u>35,432</u>	<u>13,817</u>	<u>77,508</u>
At 31 December 1997	<u>28,734</u>	<u>106</u>	<u>37,002</u>	<u>14,158</u>	<u>80,000</u>

Of the total net book value of freehold land and buildings, £6,500,000 of freehold land has not been depreciated (1997 - £6,500,000).

## Notes to accounts (continued)

### 11 Fixed asset investments

	Group	Company
	Investments £'000	Subsidiary undertakings £'000
At beginning and end of year	5	46,254

#### *Subsidiary undertakings*

The parent company has investments in the following subsidiary undertakings, which principally affected the profits of the group.

	<i>Country of incorporation and operation</i>	<i>Principal activity</i>	<i>Proportion of issued equity share capital held</i>
Sheraton Hotels (England) Limited	United Kingdom	Management of hotels	100%
Sheraton Skyline (UK) Limited	United Kingdom	Hotel ownership and operation	100%
The Park Lane Hotel Limited	United Kingdom	Hotel ownership and operation	100%

### 12 Stocks

Group	1998 £'000	1997 £'000
Finished goods and consumables	548	694

### 13 Debtors

	Group	Group	Company	Company
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Trade debtors	6,524	4,375	-	-
Amounts owed by other group undertakings	952	125	37,736	38,134
Other debtors	159	93	-	-
Prepayments and accrued income	694	817	-	-
	8,329	5,410	37,736	38,134

## Notes to accounts (continued)

### 14 Creditors: Amounts falling due within one year

	Group	Group	Company	Company
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Loan notes	4,436	10,275	4,436	10,275
Trade creditors	948	1,870	-	-
Amounts owed to group undertakings	43,650	52,311	48,786	54,420
VAT payable	590	755	-	-
Corporation tax payable	1,151	1,502	-	-
Other taxation and social security	560	383	-	-
Accruals and deferred income	2,037	3,080	336	320
	<u>53,372</u>	<u>70,176</u>	<u>55,558</u>	<u>65,015</u>

The loan note liability above represents the outstanding 10 year floating rate unsecured loan notes issued to the former shareholders of The Park Lane Hotel plc upon the acquisition of The Park Lane Hotel plc by the company. The loan notes were issued at a 2% discount on their par value. The earliest redemption date was 30 June 1997 and on that date £8,282,885 of the issued loan notes were redeemed at par. Redemption is at the option of the loan note holders. The £8,282,885 used to repay the note holders was borrowed from Sheraton International Inc. This amount is denominated in US dollars and is interest bearing. In December 1997 a further £1,640,495 of loan notes were redeemed. During 1998 £5,415,793 of loan notes were redeemed.

In March 1999 the company entered into a loan agreement with a third party bank under which it can borrow up to £51.4 million in tranches. The first tranche was used to repay £38.5 million of intercompany loans. The loan is repayable within 7 years.

### 15 Provisions for liabilities and charges

The provision for liabilities and charges comprises deferred tax. The movement in the period was as follows:

	Group	Company
	1998	1998
	£'000	£'000
At 31 December 1997	966	-
Charged to profit and loss account	(73)	-
At 31 December 1998	<u>893</u>	<u>-</u>

The total amount of deferred taxation not provided for at 31 December 1998 was £2,259,016 (1997 : £2,522,000).

## Notes to accounts (continued)

### 16 Called-up share capital

	1998 £'000	1997 £'000
<i>Authorised</i>		
34,351,016 ordinary shares of £1 each	<u>34,351</u>	<u>21,043</u>
<i>Allotted, called up and fully paid</i>		
33,461,672 shares of £1 each	<u>33,462</u>	<u>20,153</u>

During the year the authorised capital of the company was increased to £34,351,016 by the creation of a further 13,308,016 ordinary shares of £1.00 each ranking pari passu for all purposes with the existing ordinary shares of £1.00 of the company. On the same date 13,308,253 of these shares were allotted to Sheraton International Inc., the parent company, at par. The consideration for these shares was satisfied by the application of part of the outstanding loan between the company and Sheraton International Inc.

### 17 Reserves

Group	Share capital £'000	Profit and loss account £'000	Goodwill reserve £'000	Total £'000
At 31 December 1997	20,153	2,009	(964)	21,198
Issue of shares	13,309	-	-	13,309
Retained profit/(loss) for the period	<u>-</u>	<u>1,348</u>	<u>-</u>	<u>1,348</u>
At 31 December 1998	<u>33,462</u>	<u>3,357</u>	<u>(964)</u>	<u>35,855</u>
<b>Company</b>				
At 31 December 1997	20,153	(673)	-	19,480
Issue of shares	13,309	-	-	13,309
Retained profit for the period	<u>-</u>	<u>(2,246)</u>	<u>-</u>	<u>(2,246)</u>
	<u>33,462</u>	<u>(2,919)</u>	<u>-</u>	<u>30,543</u>

## Notes to accounts (continued)

### 18 Reconciliation of movement in group shareholders' funds

	1998 £'000	1997 £'000
Profit/(loss) for the financial year	1,348	2,859
New shares issued	13,309	20,053
Net increase in shareholders' funds	14,657	22,912
Opening shareholders' funds	21,198	(1,714)
Closing shareholders' funds	35,855	21,198

### 19 Financial commitments

#### a) Capital commitments

Capital expenditure committed to by the Company but not provided for includes:

	1998 £'000	1997 £'000
Capital commitments	-	396

#### b) Operating lease commitments

Annual commitments under operating leases are as follows:

Group	1998 £'000	1997 £'000
Plant and machinery		
- on leases expiring within one year	56	36
- on leases expiring in two to five years	69	71
Land and buildings		
- on leases expiring after five years	13	13

The company held no operating leases at 31 December 1998 (1997 - £nil).

## Notes to accounts (continued)

### 20 Pension arrangements

The group provides pension arrangements through two defined benefit schemes and the related costs are assessed in accordance with the advice of professionally qualified actuaries.

Details of the most recent actuarial valuations of the principal schemes are as follows:

	The Park Lane Hotel Scheme	The Sheraton Skyline Scheme
	30 December 1995	1 January 1996
Main assumptions (% pa):		
- Rate of increase in salaries	7.5	7
- Rate of increase in pensions in payment	3	3
- Return on scheme investment	9	9
Results:		
- Level of funding (%)	104	122

The pension cost charge for these schemes was £73,727 (1997 - £138,000). Included in creditors is an amount of £nil (1997 - £15,000) in respect of these contributions.

The group also operates a non-contributory defined benefit scheme for one of the directors of The Park Lane Hotel plc. The assets of this scheme are held separately from those of the group. The pension charge for the year was £nil (1997 - £nil). The group has been advised that the scheme is fully funded at 31 December 1998.

### 21 Ultimate parent company and controlling party

The company is a subsidiary undertaking of Sheraton International Inc.

The smallest group in which the results of the company and group are consolidated is that headed by Sheraton International Inc. whose principal place of business is at Sixty State Street, Boston, Massachusetts, MA02109, USA.

The largest group in which the results of the company are consolidated is that headed by Starwood Hotels and Resorts Inc., the ultimate controlling party, whose consolidated accounts are available from 777 Westchester Avenue, White Plains, New York, NY 10604, USA.

### 22 Related party transactions

As a subsidiary of Starwood Hotels and Resorts Inc., the company has taken advantage of the exemption in FRS8 'Related Party Transactions' not to disclose transactions with other members of the group headed by Starwood Hotels and Resorts Inc.