

Sheraton Hotels (UK) plc
and subsidiary undertakings

Accounts for the period from incorporation to
31 December 1996 together with directors
and auditors' reports

Registered number: 3114981



Directors' report

For the period ended 31 December 1996

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report for the period from incorporation to 31 December 1996.

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.

Business review

The company was incorporated on 17 October 1995 as Sheraton Hotels (UK) Limited.

On 22 November 1995, the company acquired the entire share capital of Sheraton Hotels (England) Limited. The cash consideration for this acquisition was £1,000,000.

Sheraton Skyline (UK) Limited was incorporated on 25 October 1995 and commenced trading on 20 December 1995.

On 7 December 1995, the company acquired the entire share capital of Sheraton Skyline (UK) Limited for £2. On the same date 99,998 ordinary shares of £1 were allotted by Sheraton Skyline (UK) Limited at par to the company.

Sheraton Skyline (UK) Limited purchased the trade and assets of the Sheraton Skyline Hotel, Heathrow on 20 December 1995 for cash consideration including costs of £36,295,000.

The company reregistered as a public limited company and was renamed as Sheraton Hotels (UK) plc, on 25 March 1996.

Between 16 April 1996 and 4 July 1996, the company purchased the entire share capital of the Park Lane Hotel plc. The consideration for the acquisition comprised £24,775,000 cash, £19,802,000 floating rate unsecured 10 year loan notes and £577,000 in acquisition expenses.

Results and dividends

The accounts for the period from incorporation to 31 December 1996 are set out on pages 5 to 24. The group's loss on ordinary activities after taxation for the period was £850,000.

The directors do not propose any payment of a dividend.

Directors' report (continued)

Directors and their interests

The directors who served during the period were as follows:

R.F. Cotter	(appointed 17 October 1995)
M.P. Wale	(appointed 7 December 1995)

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.

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.

Charitable contribution

During the period the group made charitable contributions of £440. There were no political contributions.

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.

Directors' report (continued)

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.

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

25 November 1997

Auditors' report

London

To the Shareholders of Sheraton Hotels (UK) plc:

We have audited the accounts on pages 5 to 24 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 page 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 1996 and of the group's loss for the period from incorporation to 31 December 1996 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

25 November 1997

Consolidated profit and loss account

For the period 31 December 1996

	Notes	1996 £'000
Turnover	2	31,953
Cost of sales		<u>(20,600)</u>
Gross profit		11,353
Administrative expenses - exceptional	3	(1,611)
- other		<u>(7,703)</u>
Operating profit		2,039
Interest receivable and similar income		165
Interest expense	4	<u>(2,486)</u>
Loss on ordinary activities before taxation	5	(282)
Tax on loss on ordinary activities	7	<u>(568)</u>
Loss on ordinary activities after taxation		<u>(850)</u>
Retained loss for the year	17	<u><u>(850)</u></u>

There are no recognised gains or losses other than the loss for the period of £850,000.

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 1996

	Notes	1996 £'000
Fixed assets		
Intangible assets	8	36
Tangible assets	9	81,797
Investments	10	5
		<u>81,838</u>
Current assets		
Stocks	11	732
Debtors due within one year	12	4,977
Cash at bank and in hand		3,671
		<u>9,380</u>
Creditors: Amounts falling due within one year	14	<u>(92,331)</u>
Net current liabilities		<u>(82,951)</u>
Total assets less current liabilities		<u>(1,113)</u>
Provision for liabilities and charges	15	<u>(601)</u>
Net liabilities		<u>(1,714)</u>
Capital and reserves		
Called-up share capital	16	100
Profit and loss account	17	(850)
Goodwill reserve	17	(964)
Shareholders' funds (all equity)		<u>(1,714)</u>

Signed on behalf of the Board

M.P. Wale



Director

25 November 1997

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

Company balance sheet

31 December 1996

	Notes	1996 £'000
Fixed assets		
Investments	10	46,254
		<u>46,254</u>
Current assets		
Debtors due within one year	12	36,837
Cash at bank and in hand		103
		<u>36,940</u>
Creditors: Amounts falling due within one year	14	<u>(84,381)</u>
Net current liabilities		<u>(47,441)</u>
Total assets less current liabilities		<u>(1,187)</u>
Net liabilities		<u>(1,187)</u>
Capital and reserves		
Called-up share capital	16	100
Profit and loss account	17	<u>(1,287)</u>
Shareholders' funds (all equity)		<u>(1,187)</u>

Signed on behalf of the Board

M.P. Wale



Director

25 November 1997

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

Notes to accounts

31 December 1996

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the 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. The period these accounts relate to is the period from the incorporation of the company to 31 December 1996.

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 financial statements the company is consolidated (see note 22).

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 period, determined in accordance with the Act, was £1,287,000.

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

Residual value is calculated on prices prevailing at the date of acquisition.

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.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

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 externally funded, with the assets of the scheme held separately from those of the group in separate trustee administered funds. 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.

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) Segment information

	1996 £'000
Hotel operation	28,399
Management fees	3,554
	<hr/>
	31,953
	<hr/>

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

b) Operating profit by activity

	1996 £'000
Hotel operation	3,335
Management fees	315
	<hr/>
	3,650
Exceptional item (note 3)	(1,611)
	<hr/>
	2,039
	<hr/>

3 Exceptional item

The exceptional items of £1,611,000 charged to the group profit and loss account during the year relate to the restructuring of The Park Lane Hotel plc following its acquisition.

	1996 £'000
Redundancy	1,509
Other	102
	<hr/>
	1,611
	<hr/>

Notes to accounts (continued)

4 Interest payable and similar charges

	Note	1996 £'000
Loan notes repayable within five years, not by instalment	a)	
- interest payable		510
- amortisation of discount at which loans were issued		228
- financing costs		117
Loans from group undertakings repayable within five years, not by instalments		1,015
Other financing costs	b)	616
		<u>2,486</u>

a) During the period Sheraton Hotels (UK) plc issued floating rate unsecured 10 year loan notes at a 2% discount on par value. The par value was £20,206,000. The earliest possible redemption date of these loan notes was 30 June 1997. On 30 June 1997, £8,283,000 of the issued loan notes were redeemed by the company.

b) Loans from group undertakings include a Belgian francs denominated loan borrowed by Sheraton Hotels (UK) plc from ITT Europe in the form of an interest bearing bond. The other financing cost represents a proportion of the difference between the spot rate on the date the bond was taken out and the forward rate at which the liability will be repayable. See note 14.

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	1996 £'000
Depreciation:	
- tangible fixed assets	3,788
- intangible fixed assets	12
Operating lease rentals	
- plant and machinery	105
- other	13
Rent receivable	(84)
Auditors' remuneration	
- audit services	76
- non audit services	30
Staff costs (note 6)	<u>8,310</u>

Notes to accounts (continued)

6 Staff costs

The average monthly number of employees was 529.

Their aggregate remuneration comprised:

	1996 £'000
Wages and salaries	7,135
Social security costs	617
Other pension costs	558
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	8,310
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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 £52,879 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 Hotel. The directors do not believe that it is practicable to apportion this amount between each of these companies.

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

7 Tax on loss on ordinary activities

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

	1996 £'000
Corporation tax at 33%	72
Deferred taxation (note 13)	496
	<hr/>
	568
	<hr/>

Notes to accounts (continued)

8 Intangible fixed assets

	1996 £'000
Group	
Cost	
At 17 October 1995	-
Acquisition of subsidiary undertaking	48
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At 31 December 1996	48
	<hr/>
Amortisation	
At 17 October 1995	-
Charge	12
	<hr/>
At 31 December 1996	12
	<hr/>
Net book value	
At 17 October 1995	-
	<hr/>
At 31 December 1996	36
	<hr/> <hr/>

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

Notes to accounts (continued)

9 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
Cost					
At 17 October 1995	-	-	-	-	-
Additions	29,795	76	-	9,711	39,582
Acquisitions of subsidiary undertakings	103	-	38,247	7,653	46,003
At 31 December 1996	29,898	76	38,247	17,364	85,585
Depreciation					
At 17 October 1995	-	-	-	-	-
Charge	582	1	1,203	2,002	3,788
At 31 December 1996	582	1	1,203	2,002	3,788
Net book value					
At 31 December 1996	29,316	75	37,044	15,362	81,797
At 17 October 1995	-	-	-	-	-

10 Fixed asset investments

	Group Other investments £'000	Company Subsidiary undertakings £'000
At 17 October 1995	-	-
Acquisition of subsidiary undertakings	-	46,254
On acquisition of subsidiary undertakings	5	-
At 31 December 1996	5	46,254

Notes to accounts (continued)

10 Fixed asset investments (continued)

Principal group investments

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

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

Acquisition of subsidiary undertakings

On 22 November 1995, the company acquired 100% of the nominal share capital of Sheraton Hotels (England) Limited for £1,000,000 cash. The book value and the fair value of those assets at that date was £617,000. Goodwill of £383,000 has been written off to reserves.

Sheraton Skyline (UK) Limited was incorporated on 25 October 1995 and commenced trading on 20 December 1995.

On 7 December 1995, the company acquired the entire share capital of Sheraton Skyline (UK) Limited for £2. On the same date 99,998 ordinary shares of £1 were allotted by Sheraton Skyline (UK) Limited at par to the company. Sheraton Skyline (UK) Limited purchased the trade and assets of the Sheraton Skyline Hotel, Heathrow on 20 December 1995 for cash consideration including costs of £36,295,000.

Between 16 April 1996 and 4 July 1996, the company purchased the entire share capital of The Park Lane Hotel plc. As effective control passed on 16 April 1996 the results of this company have been consolidated in the group accounts from that date. The consideration for the acquisition comprised £24,775,000 cash, £19,802,000 floating rate unsecured 10 year loan notes and £803,622 in acquisition expenses. The fair value of the total consideration was £45,381,000.

Notes to accounts (continued)

10 Fixed asset investments (continued)

Acquisition of Sheraton Hotels (England) Limited

The following table sets out the book value of the identifiable assets and liabilities acquired in the acquisition of Sheraton Hotels (England) Limited and their gain value to the group.

	Book value and fair value to the group £'000
Fixed assets	
Intangible	48
Tangible	3
Current assets	
Debtors	1,346
Cash	243
Total assets	<u>1,640</u>
Creditors	
Trade creditors	(98)
Other creditors	(812)
Accruals	<u>(113)</u>
Total liabilities	<u>(1,023)</u>
Net assets acquired	617
Goodwill	<u>383</u>
	<u>1,000</u>
Satisfied by	
Cash	<u>1,000</u>

The goodwill of £383,000 has been written off against reserves.

Notes to accounts (continued)

10 Fixed asset investments (continued)

Acquisition of The Park Lane Hotel plc

The following table sets out the book values of the identifiable assets and liabilities acquired in the acquisition of The Park Lane Hotel plc and their fair value to the group:

	Book value £'000	Fair value adjustment £'000	Fair value to group £'000
Fixed assets			
Tangible assets	17,866	28,134	46,000
Investments	6	-	6
Current assets			
Stocks	521	-	521
Debtors	1,307	-	1,307
Cash	24	-	24
Total assets	<u>19,724</u>	<u>28,134</u>	<u>47,858</u>
Creditors			
Bank overdraft	(301)	-	(301)
Trade creditors	(563)	-	(563)
Other creditors	(996)	-	(996)
Accruals	(1,425)	-	(1,425)
Total liabilities	<u>(3,285)</u>	<u>-</u>	<u>(3,285)</u>
Net assets	<u>16,439</u>	<u>28,134</u>	
Goodwill			<u>581</u>
			<u>45,154</u>
Satisfied by:			
Cash			24,775
Floating rate ten year unsecured loan notes			19,802
Acquisition expenses			<u>577</u>
			<u>45,154</u>

The goodwill of £581,000 has been written off against reserves.

The fair value adjustment made to tangible fixed assets increased their value to £46,000,000. This valuation was made by JMW Hotels, Real Estate Services as at 25 July 1996. The valuation was conducted with the assumption that the assets would be maintained in their existing use.

Notes to accounts (continued)

10 Fixed asset investments (continued)

Group

Other investments and loans

	Listed £'000	Unlisted £'000	Total £'000
Date of acquisition and 31 December 1996	<u>1</u>	<u>4</u>	<u>5</u>

The listed investments are quoted on The London Stock Exchange. There was no material differences between the book value and the market value of these investments at 31 December 1996. At 31 December 1996 unlisted investments included a holding of 15% of the issued ordinary share capital of Daniele Ryman Limited, a company registered in England and Wales.

11 Stocks

	1996 £'000
Finished goods and consumables	<u>732</u>

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

12 Debtors

	Group	Company
	1996 £'000	1996 £'000
Trade debtors	4,046	-
Amounts owed by other group undertakings	107	36,837
Deferred taxation (note 13)	105	-
Other debtors	128	-
Prepayments and accrued income	591	-
	<u>4,977</u>	<u>36,837</u>

Notes to accounts (continued)

13 Deferred taxation

	Group	Company
	£'000	£'000
At 17 October 1995	-	-
Amount credited to profit and loss account (see note 12)	105	-
Amount debited to profit and loss account (see note 15)	(601)	-
	<u>(496)</u>	<u>-</u>

The amount credited to the profit and loss account represents the tax interest of a pension provision of £343,000 created in the year but disallowed for tax deduction purposes. Payment of this amount is anticipated within twelve months of the year end at which time the asset will crystallise.

The amount charged to the profit and loss account is in respect of accelerated capital allowances.

14 Creditors: Amounts falling due within one year

	Group	Company
	1996	1996
	£'000	£'000
Loan notes	19,920	19,920
Trade creditors	1,319	-
Amounts owed to other group undertakings	65,383	63,998
VAT	738	-
Corporation tax payable	93	-
Other tax and social security	569	-
Other creditors	23	-
Accruals	<u>4,286</u>	<u>463</u>
	<u>92,331</u>	<u>84,381</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 year end balance represents the original issue proceeds of £19,802,000, plus £228,000 which is a proportion of the amount of discount payable on redemption amortised to 31 December 1996, net of financing costs as yet not transferred to the profit and loss account of £110,000. The earliest redemption date was 30 June 1997 and on that date £8,283,000 of the issued loan notes were redeemed by the company at par.

Notes to accounts (continued)

14 Creditors: Amounts falling due within one year (continued)

The amounts owed to other group undertakings include:

- a) A liability representing a bond issued by ITT Europe. The original amount of the bond was BF 1,445,109,000. The bond is denominated in Belgian Francs and is repayable on 20 November 1997. At that date the amount repayable was BF 1,492,509,000 which included interest and hedging costs to that date. As at 31 December 1996 a proportion of these costs had been transferred to the profit and loss account (see note 4). In fact the loan was repaid on 23 September 1997. The funding for the repayment was provided by Sheraton International Inc.
- b) A £34,251,000 liability representing an interest free loan from Sheraton International Inc.

15 Provisions for liabilities and charges

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

	Group	Company
	1996	1996
	£'000	£'000
At 17 October 1995	-	-
Charged to profit and loss account	601	-
At 31 December 1996	601	-

The total amount of deferred taxation not provided for at 31 December was £2,735,000.

16 Called-up share capital

	1996
	£'000
<i>Authorised</i>	
100,000 ordinary shares of £1 each	100
<i>Allotted, called up and fully paid</i>	
100,000 ordinary shares of £1 each	100

The company was incorporated on 17 October 1995 and issued two £1 shares on that date.

On 7 December 1995, the company issued a further 99,998 £1 shares and allotted these, and the initial shares, to Sheraton International, Inc., the parent company, in exchange for cash.

Notes to accounts (continued)

17 Reserves

Group	Share capital £'000	Goodwill reserve £'000	Profit and loss account £'000	Total £'000
At incorporation	-	-	-	-
Issue of shares	100	-	-	100
Goodwill written off	-	(964)	-	(964)
Retained loss for the period	-	-	(850)	(850)
At 31 December 1996	<u>100</u>	<u>(964)</u>	<u>(850)</u>	<u>(1,714)</u>

Company

At incorporation	-	-	-	-
Issue of shares	100	-	-	100
Retained loss for the period	-	-	(1,287)	(1,287)
	<u>100</u>	<u>-</u>	<u>(1,287)</u>	<u>(1,187)</u>

18 Reconciliation of movement in group shareholders' funds

	1996 £'000
Loss for the financial year	(850)
New shares issued	100
Goodwill written off	<u>(964)</u>
Net reduction in shareholder's funds	(1,714)
Opening shareholder's funds	<u>-</u>
Closing shareholder's funds	<u>(1,714)</u>

Notes to accounts (continued)

19 Financial commitments

a) Capital commitments

Capital commitments at the end of the year for which no provision has been made are:

	1996 £'000
Capital commitments	151

b) Operating lease commitments

Annual commitments under operating leases are as follows:

Group	1996 £'000
Plant and machinery	
- on leases expiring within one year	68
- on leases expiring in two to five years	45
Land and buildings	-
- on leases expiring after five years	13
Other	12

The company held no operating leases at 31 December 1996.

c) Other financial commitments

An agreement was established on 23 May 1996 between The Park Lane Hotel plc and Mr Clive Carr, the subsidiary's former managing director, who was then still employed by the subsidiary. Under the agreement Mr Carr was to continue to be employed under this agreement until 30 June 1999. If either party chose to terminate this agreement, he would be paid £980,000 less an amount calculated by multiplying the number of months that had expired in the contract term by £26,486. At 31 December 1996, this difference amounted to £741,626.

On 11 September 1997, Mr Clive Carr resigned from The Park Lane Hotel plc. He was paid £556,224 in accordance with his contract of employment. This amount was accrued for within accruals at 31 December 1996.

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
Valuation date	31 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 £164,000.

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 £143,000. The group has been advised that the scheme is fully funded at 31 December 1996.

21 Net current liabilities and application of the going concern basis

The company and group had both net current liabilities and net liabilities at 31 December 1996. However the directors have drawn up the financial statements on a going concern basis because Sheraton International Inc. has confirmed it will provide all necessary financial support to the company and group for the foreseeable future to enable it to continue trading and to meet its financial obligations as they fall due.

22 Ultimate parent company

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 ITT Corporation (incorporated in the State of Nevada, USA) whose consolidated accounts are available from 1330 Avenue of the Americas, New York, NY 10019 USA.

Notes to accounts (continued)

23 Related party transactions

As a subsidiary of ITT Corporation, 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 ITT Corporation.

24 Subsequent events

a) On 22 May 1997 the authorised capital of the company was increased to £21,000,000 by the creation of a further 20,900,000 ordinary shares of £1.00 each ranking pari passu for all purposes with the existing ordinary shares of £1.00 in the company of the company. On the same date 20,053,419 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.

b) *Redemption of loan notes*

On 30 June 1997 £8,282,885 of the 10 year floating rate unsecured loan notes were redeemed by the company. The £8,282,885 used to repay the note holders was borrowed from Sheraton International Inc. The loan is denominated in US dollars and is interest bearing.

c) *Termination of employment*

On 11 September 1997 Mr Clive Carr, The Park Lane Hotel plc's former managing director, resigned from that company. He was paid £556,224 in accordance with his contract of employment. This amount was accrued within accruals at 31 December 1996.

d) *Early repayment of intercompany loan*

On 24 September 1997 the company repaid the Belgian franc denominated loan from ITT Europe. This was replaced by a US dollar denominated interest bearing loan from Sheraton International Inc.