

SLC Turnberry Limited

Report and Financial Statements

31 December 2006

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COMPANIES HOUSE

SLC Turnberry Limited

Registered No SC177810

Directors

T W Darnall (resigned 15 October 2006)

M P Wale

S Selbie

R L Scott

Secretary

S Haegeman (appointed 12 May 2006)

Auditors

Ernst & Young LLP

1 More London Place

London SE1 2AF

Registered Office

Turnberry Hotel

Ayrshire KA26 9LT

Directors' report

The directors present their report and financial statements for the year ended 31 December 2006

Results and dividends

The loss for the year, after taxation, amounted to £374,000 (2005 – loss of £2,656,000) The directors do not recommend the payment of any dividends (2005 – £nil)

Principal activities and review of the business

The company's principal activity during the year continued to be that of the operation of the Westin Turnberry Resort and associated leisure facilities The directors expect these activities to continue in the future

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

	2006 £000	2005 £000	Change%
Turnover	15,501	15,441	
EBITDA	329	411	(20)
Loss after tax	(374)	(2,656)	97

	2006 £000	2005 £000	Change %
Customer satisfaction (score out of 10)	8.11	8.06	1
Employee satisfaction	76%	75%	1

Company revenue increased marginally in 2006 primarily due to an increase in golf related revenue Room revenue and other revenues (such as food and beverage) were reduced versus prior year This was mainly as a result of the hosting of the British Seniors Golf Tournament, which displaced occupancy over this period due to golf course closure and restricted play There was also a reduction in the traditional US leisure business into the resort as a result of the weakness in the US dollar This has been seen across the tourist industry within Scotland which has historically had strong US trade

EBITDA reduced by £82,000 following the first annual charge of £228,000 for the top up funding of the Turnberry pension scheme which was closed to future accruals in March 2006 This cost is to be borne by the company and will remain at this level until the next actuarial valuation due in 3 years The increase in pension cost was partially mitigated by strong operating cost controls in 2006 in order to minimise the impact of the flat revenues These results include the impact of a six sigma project to rework food and beverage concepts within the resort positively impacting payroll costs This has been guaranteed by the ultimate parent company Starwood Hotels & Resorts Worldwide The exchange gain of £1.4 million on the US intercompany promissory note also benefited the loss after tax in 2006

Customer satisfaction is a key indication to the company, and all customer questionnaires are completed through an independent third party Customer satisfaction has increased over 2005 and continues to remain at a high level in these surveys

Directors' report

Principal risks and uncertainties

The company continues to look at risks and uncertainties during its budgeting process and monthly strategic meetings

- Competitive risks

The company operates at the upper end of the competitive Scottish resort market. Risks are possible from either new competitor openings, but in the main from existing competitors investing in product refurbishments and expansion

- Economic risks

The company is reliant on healthy economies in all its major markets, being UK, USA and Europe

- Exchange rate risks

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

Future developments

The directors aim to maintain the management policies which have resulted in the company's substantial growth in recent years. They consider that 2007 will show a further growth in sales, with increased occupancy and the average room rate

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

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 were as listed on page 1

Directors' report

Supplier payment policy

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

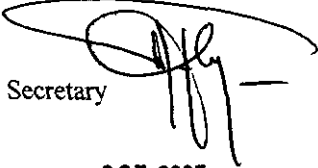
At 31 December 2006, the company had an average of 16 days purchases outstanding in trade creditors

Auditors

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

By order of the Board

Secretary



31 OCT 2007

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report

to the members of SLC Turnberry Limited

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the Directors' Report is not consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of SLC Turnberry Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP

Registered Auditor

London

31 OCTOBER 2007

Profit and loss account

for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Turnover	2	15,501	15,441
Cost of sales		(9,530)	(9,494)
Gross profit		5,971	5,947
Administrative expenses		(7,197)	(7,046)
Operating loss	3	(1,226)	(1,099)
Interest receivable	6	80	60
Interest payable and similar charges	7	314	(2,220)
Other finance income/(costs)	8	2	(14)
Loss on ordinary activities before taxation		(830)	(3,273)
Tax credit on loss on ordinary activities	9	456	617
Loss for the financial year		(374)	(2,656)

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

Statement of total recognised gains and losses

for the year ended 31 December 2006

	2006 £000	2005 £000
Loss for the financial year	(374)	(2,656)
Actuarial gain recognised on the pension scheme	265	43
Total gains and losses for the financial year	(109)	(2,613)

Balance sheet

at 31 December 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Tangible assets	10	35,550	36,189
Investments	11	3,331	3,331
		<u>38,881</u>	<u>39,520</u>
Current assets			
Stocks	12	457	512
Debtors	13	2,841	3,197
Cash at bank and in hand		1,465	1,550
		<u>4,763</u>	<u>5,259</u>
Creditors amounts falling due within one year	14	14,853	20,659
		<u>(10,089)</u>	<u>(15,400)</u>
Net current liabilities			
Total assets less current liabilities		<u>28,791</u>	<u>24,120</u>
Creditors amounts falling due after more than one year	15	16,021	10,721
		<u>12,771</u>	<u>13,399</u>
Net pension liability	16	(171)	(691)
		<u>12,599</u>	<u>12,708</u>
Capital and reserves			
Called up share capital	19,20	-	-
Capital reserve	20	18,374	18,374
Profit and loss account	20	(5,775)	(5,666)
		<u>12,599</u>	<u>12,708</u>
Equity shareholders' funds	20	<u>12,599</u>	<u>12,708</u>



Director

31 OCT 2007

Notes to the financial statements

at 31 December 2006

1. Accounting policies

Basis of preparation

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

The company has elected under section 229 of the Companies Act 1985 not to consolidate Nitto World Co , Limited as its inclusion is not material for the purpose of giving a true and fair view as the company does not trade

The company had net current liabilities at 31 December 2006. However, the directors have drawn up the financial statements on a going concern basis since Starwood Hotels and Resorts Worldwide, Inc , the ultimate parent undertaking, has confirmed it will provide all necessary financial support to the company for the foreseeable future to enable it to continue trading and to meet its financial obligations as they fall due

Share-based payments

Equity settled transactions

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

Cash settled transactions

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

Statement of cash flows

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

Related party transactions

As a subsidiary undertaking of Starwood Hotels & Resorts Worldwide Inc , the company has taken advantage of the exemption in FRS 8 'Related party disclosures' not to disclose transactions with other members of the group headed by Starwood Hotels & Resorts Worldwide Inc

Fixed assets

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

Notes to the financial statements

at 31 December 2006

1 Accounting policies (continued)

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

Freehold buildings	–	40 years
Fixtures, fittings and equipment	–	2 to 20 years

Investments

Fixed asset 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,
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable,
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

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

Foreign currencies

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

Notes to the financial statements

at 31 December 2006

1. Accounting policies (continued)

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over the shorter of lease term and their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account 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 company 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, which is accounted for in the books of SLC Turnberry Limited as a defined contribution scheme, as a fixed contribution is made to the scheme and any surpluses or deficits are borne by Sheraton Hotels (UK) plc.

2. Turnover

Turnover comprises amounts derived from the provision of goods and services falling within the company's ordinary activities after deduction of value added tax, other sales related taxes and trade discounts. Turnover arises solely from the company's principal activity within the United Kingdom.

3. Operating loss

This is stated after charging/(crediting)

	2006	2005
	£000	£000
Auditors' remuneration – audit services	43	40
Depreciation of owned fixed assets	1,555	1,510
Depreciation of assets held under finance leases and hire purchase contracts	48	47
Operating lease rentals – plant and machinery	119	138
Rental income	(6)	(4)
	<u> </u>	<u> </u>

Notes to the financial statements

at 31 December 2006

4. Staff costs

	2006	2005
	£000	£000
Wages and salaries	6,419	6,275
Social security costs	491	471
Other pension costs	314	75
Share Based Payments	50	14
	<u>7,274</u>	<u>6,835</u>

The monthly average number of employees during the year was 342 (2005 – 355)

5. Directors' emoluments

	2006	2005
	£000	£000
Emoluments	185	165

	2006	2005
	No	No
Members of defined benefit pension schemes	–	1

6. Interest receivable

	2006	2005
	£000	£000
Interest receivable	80	60
Foreign exchange gain on promissory note	1,476	
	<u>1,556</u>	<u>60</u>

7. Interest payable and similar charges

	2006	2005
	£000	£000
On intercompany loans (note 15)	424	402
On promissory note (note 14)	732	571
Foreign exchange loss on promissory note		1,240
Finance charges payable under finance leases and hire purchase contracts	6	7
	<u>(314)</u>	<u>2,220</u>

Notes to the financial statements

at 31 December 2006

8. Other finance income/(costs)

	2006 £000	2005 £000
Expected return on pension scheme assets	224	203
Interest on pension scheme liabilities	(222)	(217)
	<u>2</u>	<u>(14)</u>

9 Taxation on ordinary activities

(a) Tax credit on loss on ordinary activities

The tax credit is made up as follows

	2006 £000	2005 £000
<i>Current tax</i>		
Group relief receivable	(568)	(435)
Tax underprovided/(over) in previous years	112	(182)
Total current tax credit (note 9(b))	<u>(456)</u>	<u>(617)</u>

(b) Factors affecting current tax charge

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

	2006 £000	<i>Restated</i> 2005 £000
Loss on ordinary activities before taxation	(830)	(3,273)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 – 30%)	(249)	(982)
Expenses not deductible/(income not taxable) for tax purposes	(190)	43
Capital allowances in advance of depreciation	(53)	(39)
Pensions timing difference	(77)	–
Other timing differences	–	543
Tax under/(over) provided in previous years	112	(182)
Total current tax credit (note 9(a))	<u>(456)</u>	<u>(617)</u>

(c) Factors that may affect future tax charges

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

Notes to the financial statements

at 31 December 2006

9. Taxation on ordinary activities (continued)

(d) Deferred tax

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

	2006 £000	2005 £000
Accelerated capital allowances	4,988	4,937
Other timing differences	(1,877)	(1,713)
Brought forward trading losses	(3,111)	(3,224)
	<u> </u>	<u> </u>
	–	–
	<u> </u>	<u> </u>

The company has further trading losses carried forward resulting in a deferred tax asset of £1,139,000 (2005 – £1,026,000). This is not recognised as there is no certainty of suitable taxable profits in the future against which the losses can be offset.

10. Tangible fixed assets

	<i>Freehold land and buildings £000</i>	<i>Fixtures fittings and equipment £000</i>	<i>Total £000</i>
Cost			
At 1 January 2006	41,331	5,355	46,686
Additions	14	949	963
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2006	41,345	6,304	47,649
Depreciation			
At 1 January 2006	7,540	2,957	10,497
Provided during the year	1,114	489	1,603
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2006	8,654	3,446	12,100
	<u> </u>	<u> </u>	<u> </u>
Net book value			
At 31 December 2006	32,691	2,858	35,549
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2005	33,791	2,398	36,189
	<u> </u>	<u> </u>	<u> </u>

The net book value of assets above includes an amount of £48,000 (2005 – £93,000) in respect of assets held under finance leases and hire purchase contracts.

Notes to the financial statements

at 31 December 2006

11. Investments

	<i>Subsidiary undertaking £000</i>
Cost	
At 1 January 2006 and 31 December 2006	3,331

The above investment represents the company's investment in the following subsidiary undertaking

	<i>Country of registration</i>	<i>Principal activity</i>	<i>Description and proportion of share capital</i>
Nitto World Co , Limited	England	Non trading	100% ordinary share capital

12. Stocks

	<i>2006 £000</i>	<i>2005 £000</i>
Finished goods and consumables	457	512

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

13. Debtors

	<i>2006 £000</i>	<i>2005 £000</i>
Trade debtors	338	705
Other debtors	27	21
Prepayments and accrued income	157	220
Amounts owed by other group undertakings	2,319	2,251
	<u>2,841</u>	<u>3,197</u>

Notes to the financial statements

at 31 December 2006

14. Creditors: amounts falling due within one year

	2006 £000	2005 £000
Obligation under finance leases and hire purchase contracts (note 18)	27	38
Trade creditors	420	418
Other taxation and social security	163	374
Amounts owed to other group undertakings	12,949	12,527
Promissory note	—	6,052
Accruals and deferred income	1,294	1,250
	<u>14,853</u>	<u>20,659</u>

15. Creditors: amounts falling due after one year

	2006 £000	2005 £000
Obligations under finance leases and hire purchases contracts (note 18)	32	56
Amounts owed to other group undertakings	10,665	10,665
Promissory note	5,324	—
	<u>16,021</u>	<u>10,721</u>

Amounts owed to other group undertakings include a loan of £1,000,000 (2005 – £1,000,000) from Sheraton Hotels (England) Limited and a loan of £9,665,000 (2005 – £9,665,000) from Sheraton Hotels (UK) plc

The £1,000,000 loan from Sheraton Hotels (England) Limited bears interest at LIBOR plus 3 20% and is repayable on 17 October 2010

The loan from Sheraton Hotels (UK) plc is charged at LIBOR plus an additional variable margin and is repayable on 8 March 2011

The promissory note is payable to Starwood Hotels and Resorts Worldwide Inc, is denominated in USD and repayable on 23 December 2009

Notes to the financial statements

at 31 December 2006

15. Creditors: amounts falling due after one year (continued)

Borrowings are repayable as follows

	2006 £000	2005 £000
Promissory note		
In less than one year	32	6,052
In more than two years but not more than five years	5,324	-
	<u>5,356</u>	<u>6,052</u>
Intercompany loans		
In less than one year	-	-
In two to five years	10,665	-
In over five years	-	10,665
	<u>10,665</u>	<u>10,665</u>

16 Net pension liability

The company provides pension arrangements for certain permanent employees through the Turnberry Hotel Pension Scheme

On 31 March 2006, the scheme was closed to future accrual. The deficit in the scheme is being funded by contributions from the company of £228,000 per annum.

The most recent actuarial valuation was as at 31 December 2005 and has been updated by a qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2006. Scheme assets are stated at their market value at the respective balance sheet dates.

	2006 %	2005 %	2004 %
Main assumptions			
Rate of increase in salaries	-	-	3.8
Rate of increase in pensions in payment	3.0	2.8	2.8
Rate of increase in deferred pensions	3.0	2.8	2.8
Discount rate	5.0	4.8	5.3
Inflation assumption	3.0	2.8	2.8

Notes to the financial statements

at 31 December 2006

16. Net pension liability (continued)

The assets and liabilities of the scheme and the expected rate of return at 31 December are shown below. These are net of investment management expenses. As other expenses are paid separately by the Company, no account is taken of these.

	2006		2005		2004	
	<i>Long term rate of return expected</i>	<i>Value</i>	<i>Long term rate of return expected</i>	<i>Value</i>	<i>Long term rate of return expected</i>	<i>Value</i>
	%	£000	%	£000	%	£000
Equities/property	6.5	3,278	6.0	2,926	5.8	2,490
Bonds	4.5	1,257	4.0	1,114	3.8	936
Cash	4.75	37	4.3	4	4.0	(8)
Total market value of assets		4,572		4,044		3,418
Present value of scheme liabilities		(4,743)		(4,735)		(4,143)
Pension liability		(171)		(691)		(725)

A deferred tax asset has not been recognised in respect of the pension liability as there is no certainty of suitable taxable profits in the future against which the losses can be offset.

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

	2006	2005
	£000	£000
Current service cost	(12)	(46)
Total operating charge	(12)	(46)
Other finance costs: Expected return on pension scheme assets	224	203
Other finance costs: Interest on pension scheme liabilities	(222)	(217)
Total other finance income/(costs)	2	(14)

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

Actual return less expected return on pension scheme assets	154	455
Experience gains/(losses) arising on scheme liabilities	111	345
Loss arising from changes in assumptions underlying the present value of scheme liabilities	–	(757)
Actuarial gains recognised in the statement of total recognised gains and losses	265	43

Notes to the financial statements

at 31 December 2006

Analysis of movements in deficit during the year

	2006 £000	2005 £000
At 1 January	(691)	(725)
Total operating charge	(12)	(46)
Total other finance income/(costs)	2	(14)
Actuarial gains/(losses) recognised in the statement of total recognised gains and losses	265	43
Contributions	265	51
At 31 December	<u>(171)</u>	<u>(691)</u>

History of experience gains and losses

	2006	2005	2004	2003
Difference between expected return and actual return on pension scheme assets				
– amount (£000)	154	455	114	304
– % of scheme assets	3.0	11.0	3.0	9.8
Experience gains arising on scheme liabilities				
– amounts (£000)	111	345	56	–
– % of the present value of scheme liabilities	2.0	7.0	1.0	–
Total actuarial losses recognised in the statement Of total recognised gains and losses				
– amount (£000)	265	43	(53)	(21)
– % of the present value of scheme liabilities	6.0	1.0	(1.0)	(0.6)

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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 £50,000 (2005 – £14,000) during the year. The awards are settled by the parent company and the employee compensation expense is recharged SLC Turnberry Limited over the vesting period for the accruals. At period end the company has no direct liability to settle the awards through cash or equity.

2004 Long Term Incentive Compensation Plan

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

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

All stocks are traded in the USA and valued in US Dollars. An exchange rate of 1.958 as at 31 December 2006 has been used to convert all values in sterling.

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

	2006	2006	2005	2005
	No	WAEP £	No	WAEP £
Outstanding as at 1 January	27,395	17.96	33,960	16.61
Granted during the year	2,130	31.17	1,628	24.72
Forfeited during the year	–	–	(8,097)	22.08
Exercised during the year	–	–	(96)	25.31
Expired during the year	–	–	–	–
Outstanding as at 31 December	29,525	18.91	27,395	17.96
Exercisable as at 31 December	17,213	16.38	8,659	17.49

The weighted average share price at the date of exercise for the options exercised in 2006 is £nil (2005 – £25.31).

The weighted average fair value per option for options granted during 2006 was £8.23.

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

Notes to the financial statements

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17. Share based payments (continued)

	2006	2005
Dividend Yield	1.41%	1.80%
Volatility		
Near term	26%	25%
Long term	40%	40%
Expected Life	6 years	6 years
Yield Curve (risk free interest rate)		
6 month	4.68%	2.80%
1 year	4.66%	2.98%
3 year	4.58%	3.45%
5 year	4.53%	3.66%
10 year	4.58%	4.08%

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

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

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

For the share options outstanding as at 31 December 2006, the weighted average remaining contractual life is 12.7 months (2005 – 12.4 months).

18. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows

	2006 £000	2005 £000
Amounts payable		
Within one year	32	44
In two to five years	37	66
	<u>69</u>	<u>110</u>
Less finance charges allocated to future periods	(10)	(16)
	<u>59</u>	<u>94</u>
Finance leases and hire purchase contracts are analysed as follows		
Current obligations (note 14)	27	38
Non current obligations (note 15)	32	56
	<u>59</u>	<u>94</u>

Notes to the financial statements

at 31 December 2006

19. Commitments under operating leases

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

	<i>Assets other than land and buildings</i>	
	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Operating leases which expire		
Within one year	38	6
In two to five years	90	73
	<u>128</u>	<u>79</u>

20. Share capital

	<i>2006</i>	<i>2006</i>	<i>2005</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Authorised</i>				
Ordinary shares of £1 each	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<i>2006</i>	<i>2006</i>	<i>2005</i>	<i>2005</i>
	<i>No</i>	<i>£000</i>	<i>No</i>	<i>£000</i>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	2	—	2	—
	<u>2</u>	<u>—</u>	<u>2</u>	<u>—</u>

21. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Capital redemption reserve</i>	<i>Profit and loss account</i>	<i>Total share holders' funds</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2005	—	18,374	(3,053)	15,321
Loss for the year	—	—	(2,656)	(2,656)
Actuarial gain recognised on pensions	—	—	43	43
At 31 December 2005	<u>—</u>	<u>18,374</u>	<u>(5,666)</u>	<u>12,708</u>
Loss for the year	—	—	(374)	(374)
Actuarial gain recognised on pensions	—	—	265	265
At 31 December 2006	<u>—</u>	<u>18,374</u>	<u>(5,775)</u>	<u>12,599</u>

Notes to the financial statements

at 31 December 2006

22 Ultimate parent undertaking

The immediate parent undertaking is SLC Operating Limited Partnership

The smallest and largest group in which the results of SLC Turnberry Limited are consolidated, is that headed by Starwood Hotels and Resorts Worldwide, Inc , a company incorporated in the United States of America The consolidated financial statements of this group are available to the public at Starwood Hotels & Resorts Worldwide Inc , Investor Relations, 1111 Westchester Avenue, White Plains, NY 10604, USA