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**QUALITY HOTELS LIMITED**  
**DIRECTORS' REPORT AND ACCOUNTS**  
**FOR THE YEAR ENDED 31ST MAY 1997**



**STAPELY BENFOLD**  
Chartered Accountants  
& Registered Auditors  
Admirals Quarters  
Portsmouth Road  
Thames Ditton  
Surrey KT7 0XA

HMIT Ref : 150 76220 28747  
Our Ref : SB/2214

**Company No. 1796064**

# **QUALITY HOTELS LIMITED**

## **COMPANY INFORMATION**

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**Directors**

R Murray  
M DeSantis

**Secretary**

E F Casey

**Company Number**

1796064

**Registered Office**

Premier House  
10 Greycoat Place  
London  
SW1P 1SB

**Auditors**

Stapely Benfold  
Admirals Quarters  
Portsmouth Road  
Thames Ditton  
Surrey  
KT7 0XA

**Bankers**

Barclays Bank Plc  
Richmond upon Thames  
Surrey

# QUALITY HOTELS LIMITED

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# **QUALITY HOTELS LIMITED**

## **DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31ST MAY 1997**

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The directors present their report together with the audited accounts for the year ended 31st May 1997.

### **Principal Activities and Review of Business**

The company's principal activity changed from the granting of franchises to hotels to the collection of reservation fees and royalties from hotels, with effect from 1st June 1996.

On 1st June 1996 Friendly Hotels Plc became the master franchisee for Choice Hotels International in the UK and Ireland. This meant that all hotels in the UK and Ireland previously having a franchise agreement with Quality Hotels Limited were, as of 1st June 1996, franchised to Friendly. As a consequence, turnover is 57% lower than in 1996. Administrative expenses reduced in 1997 compared to 1996, as all franchise related expenses were transferred, in particular, all the sales and marketing costs are now incurred by Friendly Hotels in line with the terms of the above change. Payroll is 54% lower than last year due to a number of sales and franchise service employees being taken on by Friendly Hotels during the year.

### **Results and Dividends**

The results for the year are set out in the profit and loss account on page 4.

The directors consider the state of the company's affairs to be satisfactory.

The directors do not recommend a dividend .

### **Directors**

The directors who served the company throughout the year together were as follows :

G Pettit  
J H Rempe

N El Achkar resigned as a director of the company on 6th September 1996.

G Pettit resigned as a director on 2 February 1998 and R Murray was appointed in his place.

J Rempe resigned as a director on 17 February 1998 and M DeSantis was appointed in his place.

Neither of the directors hold any interests in the shares of the company that are required to be disclosed under Schedule 7 of the Companies Act 1985.

### **Events Since the End of the Year**

The activities of Quality Hotels Limited in the UK are the London Reservations Centre, and since February 1998, Marketing, Development and Franchise Services for Europe, Middle East and Africa. These activities are all based at the registered office in Victoria. The office in Kingston-Upon-Thames closed on 31 October 1997 after the International Sales function ceased in July. The remaining employee from this office, in Finance and Administration, works from her place of residence.

# QUALITY HOTELS LIMITED

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST MAY 1997

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### Directors' Responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of the company's affairs and of the profit or loss for that year. In preparing these accounts the directors are required to:

Select suitable accounting policies and then apply them consistently;

Make judgements and estimates that are reasonable and prudent;

State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;


Prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

### Auditors

A resolution to reappoint Stapely Benfold Chartered Accountants as auditors will be put to the members at the Annual General Meeting.

This report was approved by the board on 23rd March 1998, and signed on its behalf.

  
E F Casey,  
Secretary

# AUDITORS' REPORT TO THE SHAREHOLDERS OF QUALITY HOTELS LIMITED

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We have audited the accounts on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

## Respective Responsibilities of Directors and Auditors

As described on page 1 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 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all 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 the information in the accounts.

## Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31st May 1997 and of its profit and cashflow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Stapely Benfold**  
**Chartered Accountants**  
**& Registered Auditors**  
Admirals Quarters  
Portsmouth Road  
Thames Ditton  
Surrey  
KT7 0XA  
Date: 23rd March 1998

# QUALITY HOTELS LIMITED

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST MAY 1997

	Notes	1997 £	1997 £	1996 £	1996 £
<b>Turnover</b>	2				
Continuing operations		583,934		535,432	
		<u>583,934</u>		<u>535,432</u>	
Discontinued operations		53,693		971,924	
		<u>53,693</u>		<u>971,924</u>	
			637,627		1,507,356
Cost of Sales	3		-		15,757
			<u>-</u>		<u>15,757</u>
<b>Gross Profit</b>			637,627		1,491,599
Administrative Expenses	3		(472,726)		(1,631,501)
Other Income	3		8,264		-
			<u>8,264</u>		<u>-</u>
<b>Operating Profit/Loss</b>	3				
Continuing operations		124,672		(253,079)	
Discontinued		48,493		113,177	
		<u>48,493</u>		<u>113,177</u>	
<b>Loss/Profit on Ordinary Activities before Interest</b>			173,165		(139,902)
Other Exceptional Items	4		2,549,295		-
			<u>2,549,295</u>		<u>-</u>
<b>Profit/Loss on Ordinary Activities before Interest</b>			2,722,460		(139,902)
Interest Receivable			3,329		3,476
			<u>3,329</u>		<u>3,476</u>
<b>Profit/Loss for the Financial Year</b>			2,725,789		(136,426)
<b>Retained Loss Brought Forward</b>			(3,579,589)		(3,443,162)
<b>Retained Loss Carried Forward</b>			<u>(853,800)</u>		<u>(3,579,588)</u>

There were no other recognised gains and losses for 1997 or 1996 other than those included in the profit and loss account.

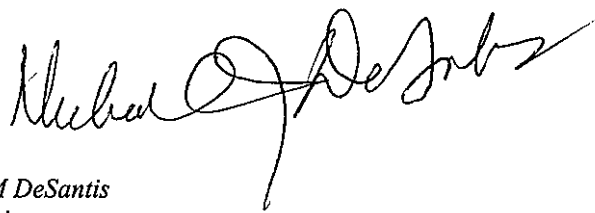
# QUALITY HOTELS LIMITED

## BALANCE SHEET

AS AT 31ST MAY 1997

	Notes	1997 £	1996 £
<b>Fixed Assets</b>			
Tangible assets	7	82,424	140,097
<b>Current Assets</b>			
Debtors	8	910,475	510,271
Cash at bank and in hand		283,379	128,655
		<u>1,193,854</u>	<u>638,926</u>
<b>Creditors: Amounts Falling Due Within One Year</b>	9	<u>2,030,078</u>	<u>4,258,612</u>
<b>Net Current Liabilities</b>		<u>(836,224)</u>	<u>(3,619,686)</u>
<b>Total Assets Less Current Liabilities</b>		<u>(753,800)</u>	<u>(3,479,589)</u>
<b>Capital and Reserves</b>			
Share Capital - Equity	10	100,000	100,000
Profit and loss account		<u>(853,800)</u>	<u>(3,579,589)</u>
<b>Shareholders' Funds</b>	12	<u>(753,800)</u>	<u>(3,479,589)</u>

These accounts were approved by the board on 23rd March 1998 and signed on its behalf.



M DeSantis  
Director



# QUALITY HOTELS LIMITED

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST MAY 1997

	Notes	1997 £	1996 £
<b>Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities</b>			
Operating profit		173,165	(139,903)
Depreciation		38,817	61,174
Profit on sale of fixed assets		(1,150)	13,278
Increase in debtors		(400,204)	(105,392)
Decrease in creditors		(2,228,534)	226,860
<b>Net Cash Outflow from Operating Activities</b>		<b>(2,417,906)</b>	<b>70,409</b>

## CASH FLOW STATEMENT

Net Cash Outflow from Operating Activities	(2,417,906)	70,409
Returns on Investments and Servicing of Finance	3,329	3,476
Capital Expenditure	12,908	2,825
Intercompany Debt Written Off	2,549,295	-
<b>Increase in Cash</b>	<b>147,626</b>	<b>76,710</b>

## Reconciliation of Net Cash Flow to Movement in Net Cash

Increase in Cash in the Year	147,626	76,710
Increase in Net Cash	147,626	76,710
Net Cash at 1st June 1996	128,655	44,131
<b>Net Funds at 31st May 1997</b>	<b>276,281</b>	<b>120,841</b>

# QUALITY HOTELS LIMITED

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST MAY 1997

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### 1 Accounting Policies

#### *Fundamental Accounting Policy*

The Accounts have been prepared on the going concern basis as the holding company, Choice Hotels International Inc. (incorporated in the United States of America) have agreed to provide adequate funds for the company to meet its liabilities as they fall due.

#### *Basis of Accounting*

The Accounts have been prepared under the historical cost convention.

#### *Turnover*

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

#### *Depreciation*

Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The rates and periods generally applicable are:

Leasehold properties	- over the remaining lease term.
Motor vehicles	- 25% straight line.
Computer equipment	- 20% straight line.
Fixtures and fittings	- 10% straight line.

#### *Foreign Currencies*

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets they are taken to reserves and offset against the differences arising from the translation of those assets. All other exchange differences are dealt with through the profit and loss account.

#### *Contribution to Pension Funds*

The company maintains a non-contributory money-purchase scheme to provide retirement benefits for selected employees. The Company's contributions range between 5% and 10% of the individual employee's gross salary.

Any differences between the amounts paid to the pension fund and the charge in the Profit and Loss account is carried forward in the Balance Sheet.

### 2 Turnover

The turnover was derived from the company's principal activity.

# QUALITY HOTELS LIMITED

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST MAY 1997

### 3 Operating Profit

	1997 £	1996 £
<i>Cost of sales</i>		
Discontinued operations	-	15,757
<i>Other operating income and charges</i>		
<i>Continuing operations</i>		
Administrative expenses	467,526	788,511
Other operating income	(8,264)	-
	459,262	788,511
<i>Discontinued operations</i>		
Administrative expenses	5,200	842,990
	5,200	842,990
<i>The operating profit is stated after charging :</i>	1997 £	1996 £
Depreciation of owned assets	38,817	61,174
Profit on disposal of fixed assets	(1,150)	13,278
Hire of equipment	6,479	17,754
Auditors' remuneration	7,300	7,637

### 4 Exceptional Items

	1997	1996
Loans cancelled	2,549,295	-

An inter-company debt owed by Quality Hotels Limited to Choice Hotels International was waived by Choice Hotels and is thus written off in the accounts.

# QUALITY HOTELS LIMITED

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST MAY 1997

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### 5 Staff Costs

Staff costs, including directors' remuneration, were as follows:

	1997	1996
	£	£
Wages and salaries	246,463	527,704
Social security costs	25,733	55,497
Other pension costs	4,768	16,014
Other costs	5,967	18,402
	<u>282,931</u>	<u>617,617</u>

The average monthly number of employees, including directors, during the year was as follows:

	1997	1996
	Number	Number
Various	<u>19</u>	<u>23</u>

### 6 Taxation

No provision in respect of corporation tax has been made because no liability to Corporation Tax arises on the results for the year.

At the Balance Sheet date, the company has tax losses estimated at £2,450,000 to carry forward to set-off against future trading profits.

# QUALITY HOTELS LIMITED

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST MAY 1997

### 7 Tangible Fixed Assets

	Short Leasehold Property	Motor Vehicles	Computer Equipment	Fixtures and Fittings	Total
<b>Cost</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
At 1st June 1996	24,141	28,395	257,921	73,523	383,980
Additions	-	-	366	3,857	4,223
Disposals	(5,073)	-	(26,888)	(12,433)	(44,394)
<b>At 31st May 1997</b>	<b>19,068</b>	<b>28,395</b>	<b>231,399</b>	<b>64,947</b>	<b>343,809</b>
<b>Depreciation</b>					
At 1st June 1996	7,588	14,436	181,103	40,755	243,882
Charge for the year	1,944	7,099	30,062	6,811	45,916
Disposals	(5,073)	-	(18,367)	(4,973)	(28,413)
<b>At 31st May 1997</b>	<b>4,459</b>	<b>21,535</b>	<b>192,798</b>	<b>42,593</b>	<b>261,385</b>
<b>Net Book Value</b>					
<b>At 31st May 1997</b>	<b>14,609</b>	<b>6,860</b>	<b>38,601</b>	<b>22,354</b>	<b>82,424</b>
<i>At 31st May 1996</i>	<i>16,553</i>	<i>13,959</i>	<i>76,818</i>	<i>32,768</i>	<i>140,098</i>

### 8 Debtors

	1997	1996
	£	£
Trade debtors	75,307	163,155
Amounts owed by group undertakings	820,081	335,729
Other debtors	5,439	1,718
Prepayments and accrued income	9,648	9,669
	<b>910,475</b>	<b>510,271</b>

### 9 Creditors: Amounts Falling Due Within One Year

	1997	1996
	£	£
Trade creditors	6,063	25,073
Amounts owed to group undertakings	1,947,861	4,064,624
Other taxes and social security	8,081	17,746
Other creditors	1,174	14,150
Accruals and deferred income	66,899	137,019
	<b>2,030,078</b>	<b>4,258,612</b>

# QUALITY HOTELS LIMITED

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST MAY 1997

10	Share Capital	1997 £	1996 £
	<b>Authorised Equity Shares</b>		
	Ordinary 'A' shares of £1- each	-	80,000
	Ordinary 'B' shares of £1.00 each	-	20,000
	Ordinary shares of £1 each	100,000	-
		<u>100,000</u>	<u>100,000</u>
	<b>Allotted Equity Shares</b>		
	Allotted, called up and fully paid ordinary 'A' and 'B' shares of £1 each	100,000	100,000
		<u>100,000</u>	<u>100,000</u>

On 27th October 1996, the 'A' and 'B' shares of the company were redesignated as ordinary shares of £1 each.

### 11 Pension Scheme

The company operates a defined contribution pension scheme for the benefit of the senior employees. The assets of the scheme are administered by trustees in a fund independent from those of the company.

The total contributions paid in the year amounted to £4,768 (1996 £16,014).

12	Reconciliation of Shareholders' Funds	1997 £	1996 £
	Profit/Loss for the financial year	2,725,789	(136,427)
	Opening shareholders' funds	(3,479,589)	(3,343,162)
	Closing shareholders' funds	<u>(753,800)</u>	<u>(3,479,589)</u>

# QUALITY HOTELS LIMITED

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST MAY 1997

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### 13 Related Parties

The company is a subsidiary undertaking of Choice Hotels International Inc, a company incorporated in the United States of America.

The largest group in which the results of Quality Hotels Limited are consolidated is that headed by Choice Hotels International Inc. The smallest group in which they are consolidated is that headed by Quality Hotels Europe Partnership, registered in the United States of America. The consolidated accounts of Choice Hotels International Inc are available to the public and may be obtained from 10750 Columbia Pike, Silver Spring, MD20901, USA.

Included in debtors is £317,493 due from Choice Hotels International Inc, the immediate parent company, which has also provided support to the company through the provision of extended credit terms and which has indicated that it will provide financial support to the company for at least twelve months from the date of the board approval of the accounts.