

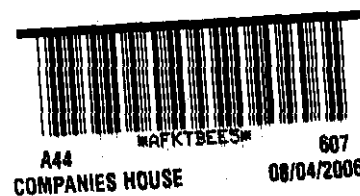
COMPANY REGISTRATION NUMBER 1796064

**QUALITY HOTELS LIMITED**  
**FINANCIAL STATEMENTS**  
**31 DECEMBER 2005**

**STAPELY BENFOLD**

Chartered Accountants & Registered Auditors

Hurst House  
157-169 Walton Road  
East Molesey  
Surrey  
KT8 0DX



**QUALITY HOTELS LIMITED**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2005**

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**QUALITY HOTELS LIMITED**  
**OFFICERS AND PROFESSIONAL ADVISERS**

<b>The board of directors</b>	M J De Santis B Haase
<b>Company secretary</b>	Mitre Secretaries Limited
<b>Registered office</b>	61-65 Great Queen Street London WC2B 5DA
<b>Auditor</b>	Stapely Benfold Chartered Accountants & Registered Auditors Hurst House 157-169 Walton Road East Molesey Surrey KT8 0DX
<b>Bankers</b>	Barclays Bank plc. Richmond upon Thames Middlesex

# **QUALITY HOTELS LIMITED**

## **THE DIRECTORS' REPORT**

**YEAR ENDED 31 DECEMBER 2005**

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 December 2005.

### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The company continued to provide management services to Choice International Hospitality Services Licensing Co. B.V. (CIHS).

CIHS continued to remunerate the company for this service by reimbursing all expenses plus a mark up.

### **DIVIDENDS**

The directors do not recommend a dividend.

### **DIRECTORS**

The directors who served the company during the year were as follows:

M J De Santis  
B Haase

The company is a wholly owned subsidiary and the interests of the group directors are disclosed in the financial statements of the parent company.

### **POLITICAL AND CHARITABLE CONTRIBUTIONS**

The company made no political or charitable contributions during the year.

### **POST BALANCE SHEET EVENTS**

There were no post balance sheet events.

### **DIRECTORS' RESPONSIBILITIES**

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

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year.

In preparing those financial statements, the directors are required to select suitable accounting policies, as described on pages 9 to 12, and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable. The directors must also prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

# QUALITY HOTELS LIMITED

## THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2005

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors 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.

### AUDITOR

An elective resolution has been passed to re-appoint Stapely Benfold as auditors for the ensuing year.

### SMALL COMPANY PROVISIONS

This report has been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985.


Registered office:  
61-65 Great Queen Street  
London  
WC2B 5DA

Signed by order of the directors

For and on behalf of  
MITRE SECRETARIES LIMITED

MITRE SECRETARIES LIMITED  
Company Secretary

Approved by the directors on 21 February 2006

  
Michael J. DeSantis  
Director

**QUALITY HOTELS LIMITED**  
**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF**  
**QUALITY HOTELS LIMITED**  
**YEAR ENDED 31 DECEMBER 2005**

We have audited the financial statements of Quality Hotels Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, Balance Sheet, Cash Flow Statement and the related notes. These financial statements have been prepared on the basis of the accounting policies set out therein.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and 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.

**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

**QUALITY HOTELS LIMITED**  
**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF**  
**QUALITY HOTELS LIMITED** *(continued)*

**YEAR ENDED 31 DECEMBER 2005**

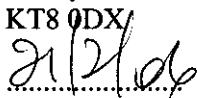
31 December 2005 and of its loss for the year then ended; and

the financial statements have been properly prepared in accordance with the Companies Act 1985.



**STAPELY BENFOLD**  
Chartered Accountants  
& Registered Auditors

Hurst House  
157-169 Walton Road  
East Molesey  
Surrey  
KT8 0DX



**QUALITY HOTELS LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**YEAR ENDED 31 DECEMBER 2005**

	Note	2005 £	2004 £
<b>TURNOVER</b>	2	1,061,032	1,196,652
Administrative expenses		1,029,923	1,167,529
<b>OPERATING PROFIT</b>	3	31,109	29,123
Interest receivable	5	1,839	1,177
Interest payable and similar charges	6	(2,677)	(2,080)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		30,271	28,220
Tax on profit on ordinary activities	7	50,273	137
<b>(LOSS)/RETAINED PROFIT FOR THE FINANCIAL YEAR</b>		(20,002)	28,083
Balance brought forward		95,098	67,015
Balance carried forward		75,096	95,098

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.



# QUALITY HOTELS LIMITED

## BALANCE SHEET


31 DECEMBER 2005

	Note	2005 £	2004 £
<b>FIXED ASSETS</b>			
Tangible assets	9	91,822	<u>122,148</u>
<b>CURRENT ASSETS</b>			
Debtors	10	2,387,978	2,072,834
Cash at bank and in hand		<u>50,125</u>	<u>151,663</u>
		2,438,103	2,224,497
<b>CREDITORS: Amounts falling due within one year</b>	11	<u>2,354,829</u>	<u>2,151,547</u>
<b>NET CURRENT ASSETS</b>		83,274	72,950
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>175,096</u>	<u>195,098</u>
<b>CAPITAL AND RESERVES</b>			
Called-up equity share capital	17	100,000	100,000
Profit and loss account		<u>75,096</u>	<u>95,098</u>
<b>SHAREHOLDERS' FUNDS</b>	18	<u>175,096</u>	<u>195,098</u>

These financial statements have been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985.

These financial statements were approved by the directors on the 21 February 2006 and are signed on their behalf by:

M J DE SANTIS  
Director



Michael J. DeSantis  
Director

# QUALITY HOTELS LIMITED

## CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER 2005

	Note	2005 £	2004 £
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	19	(58,185)	43,784
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	19	(838)	(903)
TAXATION	19	(38,602)	(133)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	19	(2,046)	(17,133)
CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(99,671)	25,615
FINANCING	19	(1,867)	(5,600)
(DECREASE)/INCREASE IN CASH	19	<u>(101,538)</u>	<u>20,015</u>

The notes on pages 9 to 19 form part of these financial statements.

**QUALITY HOTELS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2005**

**1. ACCOUNTING POLICIES**

**Basis of accounting**

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of financial instruments.

**Changes in accounting policies**

In preparing the financial statements for the current year, the company has adopted the following Financial Reporting Standards:

-FRS 20 'Share-based payment (IFRS 2)' (early adoption);

-FRS 21 'Events after the Balance Sheet date (IAS 10)';

-FRS 25 'Financial Instruments: Disclosure and Presentation (IAS 32)' (Disclosure: early adoption); and

-FRS 26 'Financial Instruments: Measurement (IAS 39)' (early adoption).

**FRS 20 'Share-based payment (IFRS 2)'**

FRS 20 'Share-Based Payment (IFRS 2)' requires the recognition of equity-settled share-based payments at fair value at the date of the grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date. Prior to the adoption of FRS 20, the company did not recognise the financial effect of share-based payments until such payments were settled.

**FRS 21 'Events after the Balance Sheet date (IAS 10)'**

The adoption of FRS 21 has not resulted in a change in accounting policy in respect of proposed equity dividends.

FRS 25 'Financial Instruments: Disclosure and Presentation (IAS 32)' and FRS 26 'Financial Instruments: Measurement (IAS 39)'

a) however there has been no changes in accounting policy;

b) there have been no effects of a prior period adjustment on the results for the preceding period in accordance with FRS 3; and

c) there has been no effect on the results for the current period.

**Turnover**

Turnover is the total amount receivable by the company for services provided excluding VAT and any discounts.

**QUALITY HOTELS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2005**

**1. ACCOUNTING POLICIES** *(continued)*

**Fixed assets**

All fixed assets are initially recorded at cost.

**Depreciation**

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold Property	-	over the term of the lease
Fixtures & Fittings	-	10% straight line
Equipment	-	20% straight line
Computer	-	33% straight line

**Finance lease agreements**

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments.

**Pension costs**

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

# QUALITY HOTELS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2005

### 1. ACCOUNTING POLICIES *(continued)*

#### **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.

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 translated at the exchange 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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are taken to the profit and loss account. Exchange differences arising on non-monetary items, carried at fair value, are included in the profit and loss account, except for the differences arising on the retranslation of non-monetary items in respect of which gains and losses are recorded in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

# QUALITY HOTELS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2005

### 1. ACCOUNTING POLICIES *(continued)*

#### **Financial instruments**

All investments are initially recorded at cost, being the fair value of the consideration given and including acquisition costs associated with the investment. All purchases and sales of investments are recognised using trade date accounting.

#### **Trade and other debtors**

Trade and other debtors are recognised and carried forward at invoiced amounts less provisions for any doubtful debts. Bad debts are written off when identified.

#### **Cash and cash equivalents**

Cash and cash equivalents are included in the balance sheet at cost. Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

#### **Interest-bearing loans and borrowings**

All loans and borrowings are recognised initially at cost, which is the fair value of the consideration received, net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Gains or losses are recognised in the profit and loss account when liabilities are derecognised or impaired, as well as through the amortisation process.

#### **Derivative financial instruments**

The company does not use any derivative financial instruments.

#### **Hedging**

The company does not use fair value hedges, cash flow hedges or the hedge of a net investment in a foreign entity.

### 2. TURNOVER

The turnover was derived from the company's principal activity which was carried out wholly in the United Kingdom.

**QUALITY HOTELS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2005**

**3. OPERATING PROFIT**

Operating profit is stated after charging:

	2005 £	2004 £
Directors' emoluments	—	—
Amortisation	8,533	7,767
Depreciation of owned fixed assets	19,993	22,277
Depreciation of assets held under finance lease agreements	2,800	5,600
Loss on disposal of fixed assets	1,046	4,520
Auditor's fees	<u>1,650</u>	<u>3,250</u>

**4. PARTICULARS OF EMPLOYEES**

The average number of staff employed by the company during the financial year amounted to:

	2005 No	2004 No
Number of administrative staff	<u>29</u>	<u>32</u>

The aggregate payroll costs of the above were:

	2005 £	2004 £
Wages and salaries	680,858	755,592
Social security costs	101,940	74,230
Other pension costs	<u>37,711</u>	<u>31,311</u>
	<u>820,509</u>	<u>861,133</u>

**5. INTEREST RECEIVABLE**

	2005 £	2004 £
Bank interest receivable	<u>1,839</u>	<u>1,177</u>

**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	2005 £	2004 £
Hire purchase and finance lease charges	—	2,080
Interest on corporation tax paid late	<u>2,677</u>	<u>—</u>
	<u>2,677</u>	<u>2,080</u>

**QUALITY HOTELS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2005**

**7. TAXATION ON ORDINARY ACTIVITIES**

	2005 £	2004 £
Current tax:		
UK Corporation tax based on the results for the year at 30% (2004 - 30%)	11,808	137
Over/under provision in prior year	38,465	-
Total current tax	<u>50,273</u>	<u>137</u>

**8. TAXATION**

	2005 £	2004 £
UK Corporation tax at 30.0% (2004: 30.0%)	<u>11,808</u>	<u>137</u>

**9. TANGIBLE FIXED ASSETS**

	Leasehold Property £	Fixtures & Fittings £	Equipment £	Total £
<b>COST</b>				
At 1 January 2005	83,797	63,715	181,492	329,004
Additions	-	1,000	-	1,000
<b>At 31 December 2005</b>	<u>83,797</u>	<u>64,715</u>	<u>181,492</u>	<u>330,004</u>
<b>DEPRECIATION</b>				
At 1 January 2005	10,683	43,640	152,533	206,856
Charge for the year	8,533	7,377	15,416	31,326
<b>At 31 December 2005</b>	<u>19,216</u>	<u>51,017</u>	<u>167,949</u>	<u>238,182</u>
<b>NET BOOK VALUE</b>				
<b>At 31 December 2005</b>	<u>64,581</u>	<u>13,698</u>	<u>13,543</u>	<u>91,822</u>
At 31 December 2004	<u>73,114</u>	<u>20,075</u>	<u>28,959</u>	<u>122,148</u>

**Finance lease agreements**

Included within the net book value of £91,822 is £Nil (2004 - £2,800) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £2,800 (2004 - £5,600).



**QUALITY HOTELS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2005**

**10. DEBTORS**

	2005	2004
	£	£
Trade debtors	873	14,337
Amounts owed by group undertakings	2,373,627	2,034,855
VAT recoverable	4,221	7,597
Prepayments and accrued income	9,257	16,045
	<u>2,387,978</u>	<u>2,072,834</u>

**11. CREDITORS: Amounts falling due within one year**

	2005	2004
	£	£
Trade creditors	13,274	10,813
Amounts owed to group undertakings	2,311,333	2,097,314
Other creditors including taxation and social security:		
Corporation tax	11,808	137
PAYE and social security	14,983	17,908
Finance lease agreements	-	1,867
Other creditors	1,563	6,458
Accruals and deferred income	1,868	17,050
	<u>2,354,829</u>	<u>2,151,547</u>

**12. COMMITMENTS UNDER FINANCE LEASE AGREEMENTS**

Future commitments under finance lease agreements are as follows:

	2005	2004
	£	£
Amounts payable within 1 year	-	1,867
	<u>-</u>	<u>1,867</u>

**13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The company does not hold or issue financial instruments in order to finance its operations; manage its exposure to interest and currency risks or for trading purposes.

*Interest rate risk*

The company monitors interest rate risk closely and considers that its current policies meet its objectives of managing exposure to interest rate risk.

*Credit risk*

The company monitors credit risk closely and considers that its current policies of credit checks meets its objectives of managing exposure to credit risk.

The company has no significant concentrations of credit risk. Amounts shown in the balance sheet best represent the maximum credit risk exposure in the event other parties fail to perform their obligations under financial instruments.

# QUALITY HOTELS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2005

### 13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### *Liquidity risk*

The company monitors liquidity risk closely and considers that its current policies meet its objectives of managing exposure to liquidity risk.

#### *Currency risk*

The company monitors currency risk closely and considers that its current policies meet its objectives of managing exposure to currency risk.

The company monitors any financial instruments closely and considers that its current policies meet its objectives of estimating the fair values of any financial instruments included in the accounts.

#### *Hedging activities*

The company does not use hedges, cash flow hedges or hedges of a net investment in a foreign entity.

### 14. 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 to the company.

The total contributions paid in the year amounted to £37,711 (2004 £31,311).

### 15. TRANSACTIONS WITH THE DIRECTORS

There were no transactions between the directors and the company during the year.

### 16. RELATED PARTIES

Included in debtors is an amount of £(2,311,333) (2004 £2,034,855) due from Choice International Hospitality Services Licensing Co. B.V., the immediate parent company, and from other group companies. The creditors include an amount of £(2,373,627) (2004 £2,097,314) owed to Choice Hotels International Inc., the ultimate parent company.

# QUALITY HOTELS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2005

### 17. SHARE CAPITAL

#### Authorised share capital:

	2005 £	2004 £
100,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

#### Allotted, called up and fully paid:

	2005		2004	
	No	£	No	£
Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
<b>Equity shares</b>				
Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

### 18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £	2004 £
(Loss)/Profit for the financial year	(20,002)	28,083
Opening shareholders' funds	<u>195,098</u>	<u>167,015</u>
Closing shareholders' funds	<u>175,096</u>	<u>195,098</u>

### 19. NOTES TO THE STATEMENT OF CASH FLOWS

#### RECONCILIATION OF OPERATING PROFIT TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	2005 £	2004 £
Operating profit	31,109	29,123
Depreciation	31,326	35,644
Loss on disposal of fixed assets	1,046	4,520
Increase in debtors	(315,144)	(298,725)
Increase in creditors	<u>193,478</u>	<u>273,222</u>
Net cash (outflow)/inflow from operating activities	<u>(58,185)</u>	<u>43,784</u>

**QUALITY HOTELS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2005**

**19. NOTES TO THE STATEMENT OF CASH FLOWS** *(continued)*

**RETURNS ON INVESTMENTS AND SERVICING OF FINANCE**

	2005	2004
	£	£
Interest received	1,839	1,177
Interest paid	(2,677)	—
Interest element of finance leases	—	(2,080)
Net cash outflow from returns on investments and servicing of finance	<u>(838)</u>	<u>(903)</u>

**TAXATION**

	2005	2004
	£	£
TAXATION	<u>(38,602)</u>	<u>(133)</u>

**CAPITAL EXPENDITURE**

	2005	2004
	£	£
Payments to acquire tangible fixed assets	(1,000)	(18,737)
Receipts from sale of fixed assets	(1,046)	1,604
Net cash outflow from capital expenditure	<u>(2,046)</u>	<u>(17,133)</u>

**FINANCING**

	2005	2004
	£	£
Capital element of finance leases	(1,867)	(5,600)
Net cash outflow from financing	<u>(1,867)</u>	<u>(5,600)</u>

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS**

	2005	2004
	£	£
(Decrease)/increase in cash in the period	(101,538)	20,015
Cash outflow in respect of finance leases	<u>1,867</u>	<u>5,600</u>
	(99,671)	25,615
Change in net funds	(99,671)	25,615
Net funds at 1 January 2005	149,796	124,181
Net funds at 31 December 2005	<u>50,125</u>	<u>149,796</u>

# QUALITY HOTELS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2005

### 19. NOTES TO THE STATEMENT OF CASH FLOWS *(continued)*

#### ANALYSIS OF CHANGES IN NET FUNDS

	At 1 Jan 2005 £	Cash flows £	At 31 Dec 2005 £
Net cash:			
Cash in hand and at bank	<u>151,663</u>	<u>(101,538)</u>	<u>50,125</u>
Debt:			
Finance lease agreements	<u>(1,867)</u>	<u>1,867</u>	<u>-</u>
Net funds	<u>149,796</u>	<u>(99,671)</u>	<u>50,125</u>

### 20. ULTIMATE PARENT COMPANY

The company is a subsidiary undertaking of Choice International Hospitality Services Licensing Co. B.V.. Choice International Hospitality Services Licensing Co. B.V. is a wholly owned subsidiary of the ultimate parent company, Choice Hotels International Inc..

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.