

COMPANY REGISTRATION NUMBER 1796064

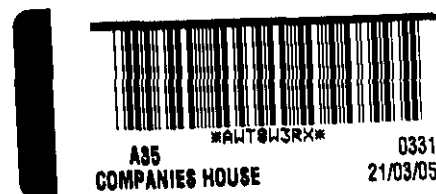
QUALITY HOTELS LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2004

SB / 2214

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 2004

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QUALITY HOTELS LIMITED
OFFICERS AND PROFESSIONAL ADVISERS

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

QUALITY HOTELS LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2004

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

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

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 at the end of the year and of the profit or loss for the year then ended.

In preparing those financial statements, the directors are required to select suitable accounting policies, as described on pages 11 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.

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.

AUDITORS

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

QUALITY HOTELS LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2004

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.

Signed by order of the directors



MITRE SECRETARIES LIMITED
Company Secretary

Approved by the directors on 10/3/05

QUALITY HOTELS LIMITED
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
QUALITY HOTELS LIMITED
YEAR ENDED 31 DECEMBER 2004

We have audited the financial statements which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes. These financial statements have been prepared under the historical cost convention and on the basis of the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 transactions with the company 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 United Kingdom 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 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.

QUALITY HOTELS LIMITED
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
QUALITY HOTELS LIMITED *(continued)*
YEAR ENDED 31 DECEMBER 2004

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Stapely Benfold

STAPELY BENFOLD
Chartered Accountants
& Registered Auditors
Hurst House
157-169 Walton Road
East Molesey
Surrey
KT8 0DX

10/3/05

QUALITY HOTELS LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2004

| | Note | 2004 £ | 2003 £ |
|--|------|-----------|-----------|
| TURNOVER | 2 | 1,196,652 | 1,377,663 |
| Administrative expenses | | 1,167,529 | 1,355,980 |
| OPERATING PROFIT | 3 | 29,123 | 21,683 |
| Interest receivable | 5 | 1,177 | 1,035 |
| Interest payable | 6 | (2,080) | (2,080) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 28,220 | 20,638 |
| Tax on profit on ordinary activities | | 137 | 133 |
| RETAINED PROFIT FOR THE FINANCIAL YEAR | | 28,083 | 20,505 |
| Balance brought forward | | 67,015 | 46,510 |
| Balance carried forward | | 95,098 | 67,015 |

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
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
YEAR ENDED 31 DECEMBER 2004

| | 2004 £ | 2003 £ |
|------------------------------------|----------------|----------------|
| Profit for the financial year | 28,083 | 20,505 |
| Opening shareholders' equity funds | <u>167,015</u> | <u>146,510</u> |
| Closing shareholders' equity funds | <u>195,098</u> | <u>167,015</u> |

QUALITY HOTELS LIMITED

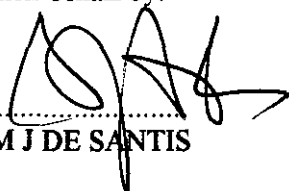
BALANCE SHEET

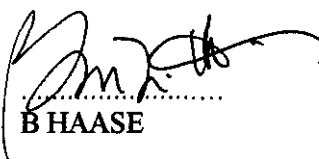
31 DECEMBER 2004

| | Note | 2004 £ | 2003 £ |
|--|------|------------------|------------------|
| FIXED ASSETS | | | |
| Tangible assets | 8 | 122,148 | 145,179 |
| CURRENT ASSETS | | | |
| Debtors | 9 | 2,072,834 | 1,774,109 |
| Cash at bank and in hand | | 151,663 | 131,648 |
| | | <u>2,224,497</u> | <u>1,905,757</u> |
| CREDITORS: Amounts falling due within one year | 10 | <u>2,151,547</u> | <u>1,882,084</u> |
| NET CURRENT ASSETS | | <u>72,950</u> | <u>23,673</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>195,098</u> | <u>168,852</u> |
| CREDITORS: Amounts falling due after more than one year | 11 | <u>—</u> | <u>1,837</u> |
| | | <u>195,098</u> | <u>167,015</u> |
| CAPITAL AND RESERVES | | | |
| Called-up equity share capital | 16 | 100,000 | 100,000 |
| Profit and loss account | | 95,098 | 67,015 |
| SHAREHOLDERS' FUNDS | | <u>195,098</u> | <u>167,015</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 10/3/05 and are signed on their behalf by:


M J DE SANTIS


B HAASE

QUALITY HOTELS LIMITED

CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER 2004

| | 2004 | 2003 |
|--|-----------------|-----------------|
| | £ | £ |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 43,784 | 125,998 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | |
| Interest received | 1,177 | 1,035 |
| Interest element of finance leases | <u>(2,080)</u> | <u>(2,080)</u> |
| NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | (903) | (1,045) |
| TAXATION | (133) | (570) |
| CAPITAL EXPENDITURE | | |
| Payments to acquire tangible fixed assets | (18,737) | (101,458) |
| Receipts from sale of fixed assets | <u>1,604</u> | <u>2,916</u> |
| NET CASH OUTFLOW FROM CAPITAL EXPENDITURE | (17,133) | (98,542) |
| CASH INFLOW BEFORE FINANCING | 25,615 | 25,841 |
| FINANCING | | |
| Capital element of finance leases | <u>(5,600)</u> | <u>(5,600)</u> |
| NET CASH OUTFLOW FROM FINANCING | (5,600) | (5,600) |
| INCREASE IN CASH | 20,015 | 20,241 |

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2004 | 2003 |
|--|---------------|----------------|
| | £ | £ |
| Operating profit | 29,123 | 21,683 |
| Depreciation | 35,644 | 58,332 |
| Loss/(Profit) on disposal of fixed assets | 4,520 | (2,876) |
| Increase in debtors | (298,725) | (361,526) |
| Increase in creditors | 273,222 | 410,385 |
| Net cash inflow from operating activities | 43,784 | 125,998 |

QUALITY HOTELS LIMITED**CASH FLOW STATEMENT** *(continued)***YEAR ENDED 31 DECEMBER 2004****RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS**

| | 2004 | | 2003 | |
|---|--------------|----------------|--------------|----------------|
| | £ | £ | £ | £ |
| Increase in cash in the period | 20,015 | | 20,241 | |
| Cash outflow in respect of finance leases | <u>5,600</u> | | <u>5,600</u> | |
| | | 25,615 | | 25,841 |
| Change in net funds | | 25,615 | | 25,841 |
| Net funds at 1 January 2004 | | 124,181 | | 98,340 |
| Net funds at 31 December 2004 | | <u>149,796</u> | | <u>124,181</u> |

ANALYSIS OF CHANGES IN NET FUNDS

| | At 1 Jan 2004 £ | Cash flows £ | At 31 Dec 2004 £ |
|--------------------------|-----------------------|-----------------|------------------------|
| Net cash: | | | |
| Cash in hand and at bank | 131,648 | 20,015 | 151,663 |
| Debt: | | | |
| Finance lease agreements | (7,467) | 5,600 | (1,867) |
| Net funds | <u>124,181</u> | <u>25,615</u> | <u>149,796</u> |

QUALITY HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention.

Turnover

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

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 |

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

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 benefit pension scheme for employees. The assets of the scheme are held separately from those of the company. The contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees. Variations from the regular costs are spread over the average expected remaining working lives of current members in the scheme.

QUALITY HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004

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

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

2. TURNOVER

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

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

| | 2004 £ | 2003 £ |
|--|-----------|-----------|
| Directors' emoluments | — | — |
| Amortisation | 7,767 | — |
| Depreciation of owned fixed assets | 35,643 | 55,649 |
| Depreciation of assets held under finance lease agreements | (7,766) | 5,600 |
| Loss/(Profit) on disposal of fixed assets | 4,520 | (2,876) |
| Auditors' fees | 3,250 | 2,595 |
| Net loss on foreign currency translation | — | 179 |

QUALITY HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004

4. PARTICULARS OF EMPLOYEES

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

| | 2004 | 2003 |
|--------------------------------|-------------|-------------|
| | No | No |
| Number of administrative staff | <u>32</u> | <u>32</u> |

The aggregate payroll costs of the above were:

| | 2004 | 2003 |
|-----------------------|-----------------------|-----------------------|
| | £ | £ |
| Wages and salaries | 755,592 | 722,343 |
| Social security costs | 74,230 | 76,984 |
| Other pension costs | <u>31,311</u> | <u>33,001</u> |
| | <u>861,133</u> | <u>832,328</u> |

5. INTEREST RECEIVABLE

| | 2004 | 2003 |
|--------------------------|--------------|--------------|
| | £ | £ |
| Bank interest receivable | <u>1,177</u> | <u>1,035</u> |

6. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2004 | 2003 |
|---|--------------|--------------|
| | £ | £ |
| Hire purchase and finance lease charges | <u>2,080</u> | <u>2,080</u> |

7. TAXATION

| | 2004 | 2003 |
|--|-------------|-------------|
| | £ | £ |
| UK Corporation tax at 12.9% (2002: 19.25%) | <u>137</u> | <u>133</u> |

QUALITY HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004

8. TANGIBLE FIXED ASSETS

| | Leasehold Property £ | Fixtures & Fittings £ | Equipment £ | Total £ |
|----------------------------|-------------------------------------|--|------------------------|--------------------|
| COST | | | | |
| At 1 January 2004 | 70,000 | 63,714 | 182,677 | 316,391 |
| Additions | 13,798 | – | 4,939 | 18,737 |
| Disposals | – | – | (6,124) | (6,124) |
| At 31 December 2004 | 83,798 | 63,714 | 181,492 | 329,004 |
| DEPRECIATION | | | | |
| At 1 January 2004 | 2,917 | 33,756 | 134,539 | 171,212 |
| Charge for the year | 7,767 | 9,883 | 17,994 | 35,644 |
| At 31 December 2004 | 10,684 | 43,639 | 152,533 | 206,856 |
| NET BOOK VALUE | | | | |
| At 31 December 2004 | 73,114 | 20,075 | 28,959 | 122,148 |
| At 31 December 2003 | 67,083 | 29,958 | 48,138 | 145,179 |

Finance lease agreements

Included within the net book value of £122,148 is £2,800 (2003 - £8,400) 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 £5,600 (2003 - £5,600).

9. DEBTORS

| | 2004 £ | 2003 £ |
|------------------------------------|-------------------|-------------------|
| Trade debtors | 14,337 | 1,459 |
| Amounts owed by group undertakings | 2,034,855 | 1,746,151 |
| Other debtors | 7,597 | 14,454 |
| Prepayments and accrued income | 16,045 | 12,045 |
| | 2,072,834 | 1,774,109 |

QUALITY HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004

10. CREDITORS: Amounts falling due within one year

| | 2004 | 2003 |
|---|------------------|------------------|
| | £ | £ |
| Trade creditors | 10,813 | 14,690 |
| Amounts owed to group undertakings | 2,097,314 | 1,819,071 |
| Other creditors including taxation and social security: | | |
| Corporation tax | 137 | 133 |
| PAYE and social security | 17,908 | 20,482 |
| Finance lease agreements | 1,867 | 5,630 |
| Other creditors | 6,458 | 1,047 |
| Accruals and deferred income | 17,050 | 21,031 |
| | <u>2,151,547</u> | <u>1,882,084</u> |

11. CREDITORS: Amounts falling due after more than one year

| | 2004 | 2003 |
|--------------------------|------|--------------|
| | £ | £ |
| Finance lease agreements | — | <u>1,837</u> |

12. COMMITMENTS UNDER FINANCE LEASE AGREEMENTS

Future commitments under finance lease agreements are as follows:

| | 2004 | 2003 |
|--------------------------------------|--------------|--------------|
| | £ | £ |
| Amounts payable within 1 year | 1,867 | 5,630 |
| Amounts payable between 2 to 5 years | — | 1,837 |
| | <u>1,867</u> | <u>7,467</u> |

13. 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 £31,311 (2003 £33,001).

14. TRANSACTIONS WITH THE DIRECTORS

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

15. RELATED PARTIES

Included in debtors is an amount of £2,034,855 (2003 £1,746,151) due from Choice International Hospitality Services Licensing Co. B.V., the immediate parent company. The creditors include an amount of £2,097,314 (2003 £1,819,071) owed to Choice Hotels International Inc., the ultimate parent company.

QUALITY HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004

16. SHARE CAPITAL**Authorised share capital:**

| | 2004 £ | 2003 £ |
|------------------------------------|----------------|----------------|
| 100,000 Ordinary shares of £1 each | <u>100,000</u> | <u>100,000</u> |

Allotted, called up and fully paid:

| | 2004 No | £ | 2003 No | £ |
|----------------------------|----------------|----------------|----------------|----------------|
| Ordinary shares of £1 each | <u>100,000</u> | <u>100,000</u> | <u>100,000</u> | <u>100,000</u> |

17. 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.