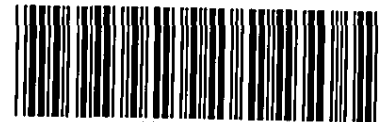


QUALITY HOTELS LIMITED
AUDITED
DIRECTORS' REPORT AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2007

THURSDAY



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COMPANIES HOUSE



Chartered Accountants and
Registered Auditors



UK200Group

QUALITY HOTELS LIMITED

COMPANY INFORMATION

DIRECTORS

Mr M J DeSantis (resigned 31/03/2007)
Mr B Haase (resigned 18/12/2007)
Mr M S Pearce (appointed 31/03/2007)
Mr B L Limage (appointed 18/12/2007)

SECRETARY

Mitre Secretaries Limited

COMPANY NUMBER

01796064

REGISTERED OFFICE

61-65 Great Queen Street
London
WC2B 5DA

AUDITORS

Wellden Turnbull
Chartered Accountants & Registered Auditors
78 Portsmouth Road
Cobham
Surrey
KT11 1PP

QUALITY HOTELS LIMITED

CONTENTS

	Page
Directors' report	1 - 2
Independent auditors' report	3 - 4
Profit and loss account	5
Balance sheet	6
Notes to the financial statements	7 - 12
The following pages do not form part of the financial statements	
Detailed profit and loss account and summaries	13 - 14

QUALITY HOTELS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

The directors present their report and the financial statements for the year ended 31 December 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations

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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent, 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 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.

PRINCIPAL ACTIVITIES AND REVIEW OF 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.

RESULTS

The profit for the year, after taxation, amounted to £33,473 (2006 - £32,328).

DIRECTORS

The directors who served during the year were

Mr M J DeSantis (resigned 31/03/2007)
Mr B Haase (resigned 18/12/2007)
Mr M S Pearce (appointed 31/03/2007)
Mr B L Limage (appointed 18/12/2007)

PROVISION OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

QUALITY HOTELS LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2007**

AUDITORS

The auditors, Wellden Turnbull, are deemed to be reappointed in accordance with section 386 of the Companies Act 1985 by virtue of an elective resolution passed by the members on 31 May 2001

This report was approved by the board on X 24 April 2008 and signed on its behalf

For and on behalf of
MITRE SECRETARIES LIMITED

Mitre Secretaries Limited
Secretary

QUALITY HOTELS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF QUALITY HOTELS LIMITED

We have audited the financial statements of Quality Hotels Limited for the year ended 31 December 2007, set out on pages 5 to 12. These financial statements have been prepared in accordance with 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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 information given in the Directors' report is 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 judgments 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

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 2007 and of its profit 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

Wellden Turnbull

Wellden Turnbull
Chartered Accountants
Registered Auditors
78 Portsmouth Road
Cobham
Surrey
KT11 1PP

Date 17 June 2008.

QUALITY HOTELS LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	2007 £	2006 £
TURNOVER	1,2	1,188,700	1,095,048
Administrative expenses		<u>(1,140,832)</u>	<u>(1,052,589)</u>
OPERATING PROFIT	3	47,868	42,459
Interest receivable		<u>3,802</u>	<u>524</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		51,670	42,983
Tax on profit on ordinary activities	5	<u>(18,197)</u>	<u>(10,655)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	10	<u><u>33,473</u></u>	<u><u>32,328</u></u>

All amounts relate to continuing operations

There were no recognised gains and losses for 2007 or 2006 other than those included in the Profit and loss account

The notes on pages 7 to 12 form part of these financial statements

QUALITY HOTELS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	2007 £	2006 £
FIXED ASSETS			
Tangible fixed assets	6	55,425	74,046
CURRENT ASSETS			
Debtors	7	356,572	2,554,608
Cash at bank and in hand		105,833	10,710
		<u>462,405</u>	<u>2,565,318</u>
CREDITORS: amounts falling due within one year	8	<u>(276,933)</u>	<u>(2,431,940)</u>
NET CURRENT ASSETS		185,472	133,378
NET ASSETS		<u>240,897</u>	<u>207,424</u>
CAPITAL AND RESERVES			
Called up share capital	9	100,000	100,000
Profit and loss account	10	140,897	107,424
SHAREHOLDERS' FUNDS	11	<u>240,897</u>	<u>207,424</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

Marcus 13/10/08

Mark S Pearce

Mr M S Pearce
Director

The notes on pages 7 to 12 form part of these financial statements

QUALITY HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

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

1.2 Cash flow

The company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a Cash Flow Statement in accordance with FRS 1

1.3 Turnover

Turnover comprises revenue recognised by the company in respect of services supplied, exclusive of Value Added Tax and trade discounts

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases

Leasehold property	-	over the term of the lease
Fixtures and fittings	-	10% straight line
Office equipment	-	20% straight line
Computer equipment	-	33% straight line

1.5 Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Profit and Loss Account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

1.6 Operating leases

Rentals under operating leases are charged on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

QUALITY HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1. ACCOUNTING POLICIES (continued)

1.7 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation

A net deferred tax asset is recognised only if it can be regarded as 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 assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse

Deferred tax assets and liabilities are discounted

1.8 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction

Exchange gains and losses are recognised in the Profit and Loss Account

1.9 Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year

2. TURNOVER

The whole of the turnover is attributable to management services

A geographical analysis of turnover is as follows

	2007 £	2006 £
European Union	126,570	65,477
Rest of the World	1,062,130	1,029,571
	<u>1,188,700</u>	<u>1,095,048</u>

QUALITY HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

3. OPERATING PROFIT

The operating profit is stated after charging/(crediting)

	2007 £	2006 £
Depreciation of tangible fixed assets		
- owned by the company	19,421	19,525
Auditors' remuneration	3,480	3,500
Operating lease rentals		
- other operating leases	39,865	38,580
Difference on foreign exchange	(87)	965
	<u> </u>	<u> </u>

During the year, no director received any emoluments (2006 - £NIL)

4. STAFF COSTS

Staff costs were as follows

	2007 £	2006 £
Wages and salaries	589,034	525,615
Social security costs	50,989	39,665
Other pension costs	13,914	12,290
	<u>653,937</u>	<u>577,570</u>

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

	2007 No	2006 No
	<u>33</u>	<u>35</u>

5. TAXATION

	2007 £	2006 £
Analysis of tax charge in the year		
UK corporation tax charge on profit for the year	18,197	12,989
Adjustments in respect of prior periods	-	(2,334)
	<u>18,197</u>	<u>10,655</u>
Tax on profit on ordinary activities		

QUALITY HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

5. TAXATION (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2007 £	2006 £
Profit on ordinary activities before tax	51,670	42,983
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 - 30%)	15,501	12,895
Effects of:		
Expenses not deductible for tax purposes	1,362	2,371
Capital allowances for year in excess of depreciation	1,441	302
Marginal relief	(107)	(2,579)
Adjustments to tax charge in respect of prior periods	-	(2,334)
Current tax charge for the year (see note above)	18,197	10,655

Factors that may affect future tax charges

There were no factors that may affect future tax charges

6. TANGIBLE FIXED ASSETS

	Leasehold property £	Fixtures and fittings £	Equipment £	Total £
Cost				
At 1 January 2007	84,364	64,714	172,497	321,575
Additions	-	-	800	800
Disposals	-	-	(1,809)	(1,809)
At 31 December 2007	84,364	64,714	171,488	320,566
Depreciation				
At 1 January 2007	27,759	56,006	163,764	247,529
Charge for the year	8,618	4,989	5,814	19,421
On disposals	-	-	(1,809)	(1,809)
At 31 December 2007	36,377	60,995	167,769	265,141
Net book value				
At 31 December 2007	47,987	3,719	3,719	55,425
At 31 December 2006	56,605	8,708	8,733	74,046

QUALITY HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

7. DEBTORS

	2007 £	2006 £
Trade debtors	351	351
Amounts owed by group undertakings	341,935	2,538,549
Other debtors	5,676	6,267
Prepayments and accrued income	8,610	9,441
	<u>356,572</u>	<u>2,554,608</u>

8. CREDITORS: Amounts falling due within one year

	2007 £	2006 £
Trade creditors	3,697	11,880
Amounts owed to group undertakings	189,722	2,379,671
Corporation tax	18,197	12,989
Social security and other taxes	15,948	14,530
Other creditors	8,781	3,792
Accruals and deferred income	40,588	9,078
	<u>276,933</u>	<u>2,431,940</u>

9. SHARE CAPITAL

	2007 £	2006 £
Authorised, allotted, called up and fully paid		
100,000 Ordinary shares shares of £1 each	<u>100,000</u>	<u>100,000</u>

10. RESERVES

	Profit and loss account £
At 1 January 2007	107,424
Profit for the year	33,473
	<u>140,897</u>
At 31 December 2007	

QUALITY HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

11. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2007 £	2006 £
Opening shareholders' funds	207,424	175,096
Profit for the year	33,473	32,328
	<hr/>	<hr/>
Closing shareholders' funds	240,897	207,424
	<hr/>	<hr/>

12. PENSION COMMITMENTS

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 £13,914 (2006 - £12,290).

13. OPERATING LEASE COMMITMENTS

At 31 December 2007 the company had annual commitments under non-cancellable operating leases as follows:

	2007 £	2006 £
Expiry date:		
Between 2 and 5 years	14,886	14,886
After more than 5 years	39,865	38,580
	<hr/>	<hr/>

14. TRANSACTIONS WITH DIRECTORS

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

15. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The company is a wholly owned subsidiary undertaking of Choice International Hospitality Services Licensing Co. BV, which 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.