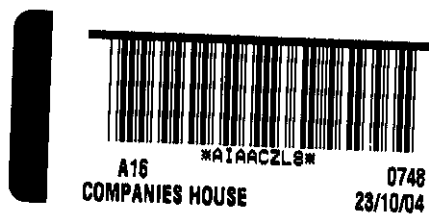


# **ABRSW Hotels Limited**

Directors' report and financial statements  
for the year ended 28 December 2003



Company number: 2905995

## **ABRSW Hotels Limited**

### **Directors' report and financial statements for the year ended 28 December 2003**

<b>Contents</b>	<b>Page</b>
Directors' report	1
Independent auditors' report	3
Profit and loss account	5
Additional statement	6
Balance sheet	7
Notes to the financial statements	8

## **ABRSW Hotels Limited**

### **Directors' report**

The directors present their report and the audited financial statements for ABRSW Hotels Limited ('the company') for the year ended 28 December 2003.

#### **Proposed acquisition of Queens Moat Houses plc**

On 2 August 2004, Queens Moat Houses plc (the ultimate parent company) and Whitehall 2001 announced the terms of a recommended acquisition of the equity share capital of Queens Moat Houses plc. On 22 September 2004, a document was issued to the shareholders of Queens Moat Houses plc detailing the proposed terms and timetable of the recommended acquisition.

The 2003 financial statements have been produced on a "going concern" basis, the adoption of which is subject to certain fundamental uncertainties including the successful completion of the financial restructuring which is dependent on the Whitehall 2001 offer. Further details are set out in note 1(b).

#### **Principal activities and review of the business**

During the year the company managed five hotels on behalf of a third party. This management agreement expired on the 2 January 2004 and hence the company will no longer manage these hotels. The hotels were operated by fellow subsidiary undertakings. Under the terms of the management agreement all revenues and income of any nature derived from the hotels is disclosed as turnover. All costs are settled by other group companies and recharged to the company.

Both the level of business and the year end financial position were satisfactory, but following the expiry of the management agreement the directors do not expect the company to trade for the foreseeable future.

The year end financial position is set out in the balance sheet on page 7.

#### **Results and dividends**

The results for the year are set out in the profit and loss account on page 5.

The directors do not recommend the payment of a dividend on the ordinary shares of the company (2002: £nil).

#### **Directors and directors' interests**

The directors of the company during the year were as follows:

A M Coppel	Resigned 30 September 2003
A S Kraiss	
M S Metcalfe	
T J Scoble	Resigned 30 May 2003

None of the directors who held office at 28 December 2003 had any interests in the share capital of the company.

The beneficial interests of Mr Kraiss and Mr Metcalfe together with those of their families, in the share capital of Queens Moat Houses plc are dealt with in that company's financial statements.

#### **Auditors**

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership ('LLP') from 1 January 2003, PricewaterhouseCoopers resigned on 24 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. As the company has adopted an elective resolution dispensing with annual general meetings and the appointment of auditors annually, PricewaterhouseCoopers LLP will continue as auditors to the company.

## **ABRSW Hotels Limited**

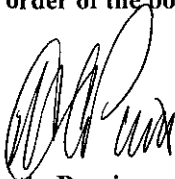
### **Directors' report (continued)**

#### **Statement of directors' responsibilities**

Company law requires the directors to prepare each year financial statements 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 period. They are also responsible for keeping adequate accounting records, which 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, for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that suitable accounting policies have been selected and consistently applied, reasonable and prudent estimates and judgements have been used in preparing the financial statements and applicable accounting standards have been followed and the financial statements have been prepared on the going concern basis.

**By order of the board**

A handwritten signature in black ink, appearing to read 'MPurvis', is written over the printed name.

**Martin Purvis**  
**Company Secretary**  
**14 October 2004**

## **ABRSW Hotels Limited**

### **Independent auditors' report to the members of ABRSW Hotels Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' funds and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

#### **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 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

#### **Basis of audit 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 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.

#### **Fundamental uncertainty**

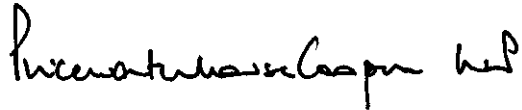
In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation. The financial statements have been prepared on the going concern basis and the validity of this depends on the continued provision of facilities by the group's bankers and other lenders to Queens Moat Houses plc pending the completion of the financial restructuring; the completion of the financial restructuring; and, following the completion of the financial restructuring of Queens Moat Houses plc, the adoption of the going concern basis by Queens Moat Houses plc's new shareholders. The financial statements do not include any adjustments that would result should the group be unable to continue in operational existence. Details of the circumstances relating to this fundamental uncertainty are described in the accounting policies (note (b)). Our opinion is not qualified in this respect.

**ABRSW Hotels Limited**

**Independent auditors' report to the members of  
ABRSW Hotels Limited (continued)**

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 28 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Registered Auditors**  
**London**  
**14 October 2004**

# ABRSW Hotels Limited

## Profit and loss account for the year ended 28 December 2003

	Notes	Year ended 28 December 2003 £'000	Year ended 29 December 2002 £'000
Turnover	1(e)	14,361	16,584
Net operating costs		(14,131)	(16,058)
<b>Operating profit</b>		<b>230</b>	<b>526</b>
<b>Profit on ordinary activities before taxation</b>	3	<b>230</b>	<b>526</b>
Tax on ordinary activities	4	(74)	(157)
<b>Retained profit for the year</b>	8	<b>156</b>	<b>369</b>

All operations relate to discontinued activities.

The company has no gains and losses other than those included in the profit and loss account above and, therefore, no separate statement of total recognised gains and losses has been prepared.

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents.

## **ABRSW Hotels Limited**

### **Reconciliation of movements in shareholders' funds**

	<b>Year ended 28 December 2003 £'000</b>	<b>Year ended 29 December 2002 £'000</b>
Retained profit for the year	<b>156</b>	369
Net addition to shareholders' funds	<hr/> <b>156</b>	<hr/> 369
Opening shareholders' funds	<b>4,512</b>	4,143
Closing shareholders' funds	<hr/> <b>4,668</b>	<hr/> 4,512



# ABRSW Hotels Limited

## Balance sheet at 28 December 2003

	Notes	28 December 2003 £'000	29 December 2002 £'000
<b>Current assets</b>			
Debtors	5	4,803	4,627
Cash at bank and in hand		48	18
		<u>4,851</u>	<u>4,645</u>
<b>Creditors: amounts falling due within one year</b>	6	(183)	(133)
<b>Net current assets</b>		<u>4,668</u>	<u>4,512</u>
<b>Net assets</b>		<u>4,668</u>	<u>4,512</u>
<b>Capital and reserves</b>			
Called up share capital	7	-	-
Non-equity interests	7	-	-
Profit and loss account	8	4,668	4,512
<b>Shareholders' funds (including non-equity interests)</b>		<u>4,668</u>	<u>4,512</u>

The financial statements on pages 5 to 12 were approved by the board of directors on 14 October 2004 and were signed on its behalf by:



**A S Kraiss**  
**Director**

## ABRSW Hotels Limited

### Notes to the financial statements for the year ended 28 December 2003

#### 1 Accounting policies

##### (a) Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed asset investments in accordance with the Companies Act 1985, for the 52 week period from 30 December 2002 to 28 December 2003. Comparative amounts are for the 52 week period from 31 December 2001 to 29 December 2002. The company's accounting reference date is 31 December. The 2003 and 2002 financial statements are made up as to the nearest Sunday to 31 December, being 28 December 2003 and 29 December 2002, respectively. The financial statements have been drawn up to comply with applicable Accounting Standards in the United Kingdom. The directors have reviewed the company's accounting policies and estimation techniques and the directors consider that the accounting policies selected for use in the preparation of the financial statements are the most appropriate for the company's circumstances and are consistent with the principles of Financial Reporting Standard 18 "Accounting Policies".

##### (b) Going concern

The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future, having adequate funds to meet its obligations as they fall due.

On 5 August 2003, Queens Moat Houses plc announced that it was undertaking a full strategic review of its business and that it had initiated discussions with key lenders seeking significant modification to certain terms of its existing debt. On 29 September 2003, Queens Moat Houses plc announced that it had agreed with the UK Listing Authority to a suspension of trading in its shares.

On 2 August 2004, Queens Moat Houses plc and Whitehall 2001 announced that they had entered into a Restructuring Agreement pursuant to which it was agreed that, subject to certain pre-conditions being satisfied, a special purpose vehicle wholly owned by Whitehall 2001 ("Whitehall Funds SPV") would make a recommended offer for the acquisition of Queens Moat Houses plc ("the Acquisition"). The preconditions included the conversion of the junior convertible debt into ordinary shares. On 10 August 2004, Queens Moat Houses plc issued 224,151,018 new ordinary shares of 5 pence each fully paid, the consideration for such issue of shares being the release of its liability to repay the principal amount of £97,926,597 of junior convertible debt. The pre-conditions also included the acquisition by Goldman Sachs Credit Partners LP of an agreed minimum amount of the junior term debt. The pre-conditions have now been satisfied. W2001 Britannia LLC ("Britannia"), an entity wholly owned and controlled by Whitehall 2001, is the Whitehall Funds SPV making the Acquisition.

The Acquisition is to be effected by way of a scheme of arrangement under Section 425 of the Companies Act 1985, which requires the approval of shareholders and the sanction of the High Court. Under the terms of the Scheme, Scheme shareholders will receive one penny per share, if it becomes effective. On 22 September 2004, a document was issued to the shareholders of Queens Moat Houses plc detailing the proposed terms and timetable of the Acquisition.

If the Scheme is not approved by the requisite majority of shareholders (or if it otherwise lapses), Queens Moat Houses plc has agreed to dispose of all of its subsidiaries and other assets to one or more Whitehall Funds SPV(s) in consideration for such Whitehall Funds SPV(s) agreeing to assume Queens Moat Houses plc's liabilities (other than certain specified potential liabilities that the directors of Queens Moat Houses plc do not expect to arise).

Whilst the shares of Queens Moat Houses plc are admitted to the Official List of the UK Listing Authority, the disposal will require shareholder approval in accordance with the Listing Rules. Consequently:

- if shareholders do not approve the Scheme (or if it otherwise lapses) but shareholder approval in respect of the disposal is obtained at an extraordinary general meeting convened for this purpose, Queens Moat Houses plc will enter into a business transfer deed and effect the disposal. In these circumstances, a Whitehall Funds SPV will pay shareholders an amount equal to one-tenth of one penny per share in cash by way of a gift; or

# **ABRSW Hotels Limited**

## **Notes to the financial statements for the year ended 28 December 2003 (continued)**

### **1 Accounting policies (continued)**

#### **(b) Going concern (continued)**

- if shareholders do not approve the Scheme (or if it otherwise lapses) and shareholder approval in respect of the disposal is not obtained, Queens Moat Houses plc will nevertheless enter into the business transfer deed and, if the shares have not already been delisted from the Official List at that time, Queens Moat Houses plc will take steps to delist the shares from the Official List. Once the delisting becomes effective, Queens Moat Houses plc will effect the disposal without shareholder approval and in these circumstances shareholders will not receive any payment.

Since 5 August 2003, the QMH Group has, with the agreement of its lenders, deferred payment of certain interest on its financial obligations. The QMH Group accounts for the year ended 31 December 2003 demonstrate the QMH Group to have been in breach of certain banking and loan covenants, and as a result of breaches of certain covenants a significant proportion of the QMH Group's borrowings have become repayable upon demand. The QMH Group's lenders have continued to provide facilities. Save as described above, the QMH Group has continued to make payments of interest on the mortgage debenture stocks as well as certain other secured debt and finance lease obligations. On 23 September 2004, Queens Moat Houses plc announced that an interest payment of £10.3 million would be due on the mortgage debenture stock on 1 October 2004 and that it did not currently have the necessary funds or facilities available, and had been unable to secure additional funds or facilities, to make this interest payment. Queens Moat Houses plc has been advised by Britannia that it intends to put in place arrangements for this interest payment to be made when the scheme becomes effective (or following completion of the disposal, as the case may be.)

The validity of the going concern assumption for the company depends on:

- the continued provision of facilities by the group's bankers and other lenders to Queens Moat Houses plc pending the completion of the financial restructuring set out above;
- the completion of the financial restructuring; and
- following the completion of the financial restructuring of Queens Moat Houses plc, the continued adoption of the going concern basis of accounting by Britannia.

If the company were unable to continue in operational existence, substantial but unquantifiable adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts and to provide for further liabilities which might arise.

The directors of Queens Moat Houses plc have received certain limited confirmations from Britannia regarding its current intention to operate Queens Moat Houses plc as a going concern following completion of the financial restructuring, but they are not party to Whitehall 2001's detailed plans and projections for the group.

Whilst the outcome of the matters set out above is uncertain for the reasons explained in this note, the directors have considered the proposed financial restructuring, in particular shareholders voting in favour of the Scheme, and the working capital available prior to and following its completion, and have concluded that it is appropriate for the financial statements of the company to be prepared on the going concern basis.

#### **(c) Cashflow**

The company is a wholly owned subsidiary of Queens Moat Houses plc and the cashflows of the company are included in the consolidated cashflow statement of that company. Consequently, the company is exempt under the provisions of Financial Reporting Standard 1 (revised 1996) "Cash Flow Statements" from publishing a cashflow statement.

#### **(d) Leases**

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

## ABRSW Hotels Limited

### Notes to the financial statements for the year ended 28 December 2003 (continued)

#### 1 Accounting policies (continued)

##### (e) Turnover

Turnover is the total income receivable for goods supplied and services rendered, excluding VAT and similar taxes. Leisure club membership fees are recognised on a straight line basis over the membership period.

##### (f) Related party transactions

The company is a wholly owned subsidiary of Queens Moat Houses plc. Consequently, the company is exempt, under the provisions of Financial Reporting Standard 8, from disclosing the details of any transactions with group related parties.

#### 2 Directors' emoluments

None of the directors received emoluments in respect of their services as directors of the company during the year (2002: £nil).

Details of the emoluments of Mr Kraiss, Mr Metcalfe and Mr Coppel are disclosed in the financial statements of Queens Moat Houses plc.

Details of the emoluments of Mr Scoble are disclosed in the financial statements of Queens Moat Houses UK Limited.

#### 3 Profit on ordinary activities before taxation

	Year ended 28 December 2003 £'000	Year ended 29 December 2002 £'000
Profit on ordinary activities before taxation is stated after charging:		
Operating lease rentals – land and buildings	4,303	4,224
Auditors' remuneration	<u>1</u>	<u>1</u>

#### 4 Tax on ordinary activities

##### (a) Analysis of tax charge in period

	Year ended 28 December 2003 £'000	Year ended 29 December 2002 £'000
Current tax		
UK corporation tax	(72)	(158)
Origination and reversal of timing differences in respect of:	(2)	1
Total current tax	<u>(74)</u>	<u>(157)</u>
Tax on profit on ordinary activities	<u>(74)</u>	<u>(157)</u>

## ABRSW Hotels Limited

### Notes to the financial statements for the year ended 28 December 2003 (continued)

#### 4 Tax on ordinary activities (continued)

##### (b) Factors affecting tax charge for period

The current tax charge for the period is higher (2002: lower) than the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are explained below:

	Year ended 28 December 2003 £'000	Year ended 29 December 2002 £'000
Profit on ordinary activities before tax	<u>230</u>	<u>526</u>
Tax charge thereon at 30%	(69)	(158)
Effects of:		
Permanent differences	(3)	
Prior year adjustments	(2)	1
Total current tax charge	<u>(74)</u>	<u>(157)</u>

##### (c) Factors that may affect future tax charges

The company does not expect to pay tax in 2004 due to the availability of tax losses in the group.

No deferred tax is provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain could be rolled over. If the company's property were realised at the amounts included in the balance sheet, there is not expected to be a tax liability due to the availability of tax losses within the group.

#### 5 Debtors: amounts falling due within one year

	28 December 2003 £'000	29 December 2002 £'000
Trade debtors	677	567
Amounts owed by group undertakings	4,084	2,992
Other debtors	23	-
Prepayments and accrued income	19	1,068
	<u>4,803</u>	<u>4,627</u>

#### 6 Creditors: amounts falling due within one year

	28 December 2003 £'000	29 December 2002 £'000
Other creditors	<u>183</u>	<u>133</u>

# ABRSW Hotels Limited

## Notes to the financial statements for the year ended 28 December 2003 (continued)

### 7 Called up share capital

	28 December 2003 £'000	29 December 2002 £'000
<b>Authorised:</b>		
99 ordinary shares of £1 each	-	-
1 deferred share of £1	-	-
<b>Allotted, called up and fully paid:</b>		
1 ordinary share of £1	-	-
1 deferred share £1	-	-
Non-equity interests	-	-

The deferred share carries no right to participate in the distribution of profits by way of dividend. On a return of assets on a winding up (but not otherwise) the surplus assets of the company remaining after payment of its liabilities and the capital paid up on the ordinary shares, shall be applied in paying the capital paid up on the deferred share, any balance being distributed among the ordinary shareholders. The deferred share carries no right to attend or vote at any general meeting unless a resolution is to be proposed at such a meeting for the amendment, variation or modification of the company's objects or memorandum of association or any abrogation, variation or modification of any of the rights and privileges attached to the deferred share. In such event, the holder shall be entitled to attend, speak and vote only in respect of these resolutions. For the purpose of Financial Reporting Standard 4 "Capital Instruments", the deferred share of £1 constitutes non-equity shareholders' funds.

### 8 Reserves

	Profit and loss account £'000
At 30 December 2002	4,512
Retained profit for the year	156
<b>At 28 December 2003</b>	<b>4,668</b>

### 9 Other financial commitments

At the year end the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 28 December 2003 £'000	Land and buildings 29 December 2002 £'000
<b>Operating leases which expire:</b>		
within one year	-	4,291
within two to five years	-	-
in over five years	-	-
	-	4,291

### 10 Ultimate parent company

The ultimate parent company is Queens Moat Houses plc which owns the entire share capital of the company. Copies of the parent company's consolidated financial statements are available from: The Company Secretary, Queens Moat Houses plc, Queens Court, 9-17 Eastern Road, Romford, Essex RM1 3NG.