

## **ESB Hotels Limited**

Unaudited Report and Financial Statements

Year Ended

31 December 2015

Company Number 02999276

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# ESB Hotels Limited

## Company Information

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|--------------------------|--|
| <b>Director</b>          | M Quinn  |
| <b>Company secretary</b> | S A Coughlan   |
| <b>Registered number</b> | 02999276   |
| <b>Registered office</b> | Suite 64<br>Waterhouse Business Park<br>2 Cromar Way<br>Chelmsford<br>Essex<br>CM1 2QE                                 |
| <b>Accountants</b>       | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>1 Embankment Place<br>London<br>WC2N 6RH |

# ESB Hotels Limited

## Contents

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|                                   | Page   |
|-----------------------------------|--------|
| Directors' report                 | 4 - 3  |
| Statement of comprehensive income | 4      |
| Balance sheet                     | 5      |
| Statement of changes in equity    | 6 - 7  |
| Notes to the financial statements | 8 - 14 |

# ESB Hotels Limited

## Directors' report For the Year Ended 31 December 2015

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The Directors present their report and the financial statements for the year ended 31 December 2015.

### Principal risks and uncertainties

The Company is a subsidiary within the QMH Limited Group and as such the principal risks and uncertainties are the same as those facing the Group.

The management of the Group's business and the execution of the Group's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Group are considered to be as follows:

#### Debt and covenant compliance

At the end of 2015 bank and shareholder debt of the Group was £173.6 million compared with £165.4 million at the end of December 2014. The bank debt at year end comprised senior bank debt of £17.6 million (2014: £14.7 million) and mezzanine bank debt of £114.3 million (2014: £107.1 million) secured by various fixed and floating charges over the assets of certain subsidiaries of the company and £41.9 million (2014: £43.8 million) of shareholder debt, which is partially offset by cash at bank and in hand of £16.7 million (2014: £18.0 million).

The Dutch Senior Facility with Deutsche Bank was extended in October 2014 to provide a further €7.5million of funding to facilitate a number of major refurbishment projects in the Dutch hotels in order to reposition them and add value to the group. €6.0 million of this extended facility had been drawn down at the year end. This is included in the senior bank debt of £17.6 million noted above.

On 13 February 2013 the Mezzanine Lenders extended the Mezzanine Loan to 28 October 2015 and all interest is now pay if you can (PIYC). The Mezzanine loan facility contains a financial covenant, which requires the calculation of a Debt-to-Ebitda (earnings before interest, tax, depreciation and amortisation) ratio on a quarterly basis. The Group has been in breach of this covenant since 30 September 2012. No enforcement action has been taken by the Mezzanine Lenders to date and an extension and current Standstill Agreement expires on 31 March 2017. £4.0 million was repaid in July 2015.

The Directors have considered the significant doubt over the issue of going concern but have prepared the Group and Company financial statements on a going concern basis, whilst acknowledging a material uncertainty as to any potential steps that may be taken by the Mezzanine Lenders. Reasons for this include:

- The Dutch division is cash generative;
- The discussions are ongoing with the Mezzanine lenders to renegotiate the Mezzanine loan;
- The Mezzanine lenders have signed a standstill agreement to 31 March 2017 allowing the company to meet its' liabilities as they fall due.

The continuing Event of Default does not cause any cross default to any of the other loans within the Group.

### Principal activities

The principal activity of the company is the ownership and management of hotels.

The three hotels operated by the company were subject to leases, the rent for which was consistently greater than the profit generated by the operations of the hotels. On 4 August 2014 the company reached an agreement with the landlords to surrender the leases for a payment of £2 million. The landlord has taken over the operation of the hotels, including the staff employed at the hotels. As a result the company ceased trading on that date.

# **ESB Hotels Limited**

## **Directors' report (continued) For the Year Ended 31 December 2015**

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### **Directors' responsibilities statement**

The Directors are responsible for preparing the Directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the Directors must not approve the financial statements unless they are satisfied that they 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 for the Company financial statements and then apply them consistently;
- make judgments and accounting 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

### **Results and dividends**

The profit for the year, after taxation, amounted to £nil (2014 - £7,891,000).

The Director does not recommend the payment of a dividend (2014 - £nil).

### **Directors**

The Directors who served during the year were:

M A Rosenberg (resigned 6 July 2015)

M Quinn (appointed 6 July 2015)

# ESB Hotels Limited

## Directors' report (continued) For the Year Ended 31 December 2015

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### Going concern

The Director believes that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the ultimate parent company QMH Limited. The Director has received confirmation that QMH Limited intend to support the company for at least one year after these financial statements are signed.

The balance sheet on page 9 shows the company has net liabilities of £22.3 million at 31 December 2015. Included in these net liabilities is £22.3 million owed to QMH Limited which has been treated as payable within one year. However, QMH Limited has indicated that it has no current intention of calling for repayment until the company had the necessary funds available.

The Group has been in breach of its Debt:EBITDA covenant in respect of the Mezzanine loan since September 2012 and will require the ongoing support of the Mezzanine lenders in order to continue as a going concern, specifically in taking no enforcement action and agreeing that available funds can be used to pay its other liabilities. A standstill agreement has been reached under which the lenders agree not to take any enforcement action prior to 31 March 2017 and an amendment agreement has been signed to extend the maturity date of the Mezzanine loan to 31 March 2017. The Directors are exploring options to repay or renegotiate the terms of the debt and discussions with the lenders are ongoing.

As well as the breach of covenants described above, under the terms of the mezzanine and shareholder loans, if a sale of the hotel portfolio were to occur, this would trigger the repayment of these loan debt facilities.

The existing valuation of the properties held on the Group's Balance Sheet would not provide sufficient funds to repay the Mezzanine and Shareholder loans in full. If this situation were to arise, the Directors could explore with the shareholders the possibility of converting some of the existing debt to equity so that the sales proceeds would be sufficient to repay any remaining debt. If a sale were to occur as described above, with no conversion of the debt to equity, the Group would no longer be able to continue to trade as a going concern.

These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The Group financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

### Auditors

In accordance with section 480 of the Companies Act 2006, the Company is exempt from that requirement to have its financial statements audited.

This report was approved by the board on 30th September 2016 and signed on its behalf.



**M Quinn**  
Director

# ESB Hotels Limited

## Statement of comprehensive income For the Year Ended 31 December 2015

|                                      | Note | 2015<br>£000 | 2014<br>£000 |
|--------------------------------------|------|--------------|--------------|
| Turnover                             | 3    | -            | 6,719        |
| Cost of sales                        |      | -            | (4,057)      |
| <b>Gross profit</b>                  |      | -            | 2,662        |
| Administrative expenses              |      | -            | (3,912)      |
| Exceptional administrative expenses  | 8    | -            | 9,141        |
| <b>Operating profit</b>              | 4    | -            | 7,891        |
| <b>Profit for the financial year</b> |      | -            | 7,891        |

The Company has not traded during the year. During the year, the Company received no income and incurred no expenditure and therefore made neither profit or loss.

The notes on pages 8 to 14 form part of these financial statements.

**ESB Hotels Limited**  
Registered number: 02999276

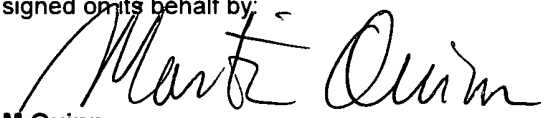
**Balance sheet**  
**As at 31 December 2015**

|  | Note | 2015<br>£000    | 2014<br>£000    |
|--|------|-----------------|-----------------|
| Creditors: Amounts falling due within one year | 9    | (22,299)        | (22,299)        |
| <b>Net current liabilities</b>                 |      | <b>(22,299)</b> | <b>(22,299)</b> |
| <b>Total assets less current liabilities</b>   |      | <b>(22,299)</b> | <b>(22,299)</b> |
| <b>Net liabilities</b>                         |      | <b>(22,299)</b> | <b>(22,299)</b> |
| <b>Capital and reserves</b>                    |      |                 |                 |
| Profit and loss account                        |      | (22,299)        | (22,299)        |
| <b>Total equity</b>                            |      | <b>(22,299)</b> | <b>(22,299)</b> |

For the year ending 31 December 2015 the Company was entitled to audit exemption under section 480 of the Companies Act 2006. No members have required the Company to obtain an audit of its financial statements for the year in question in accordance with section 476.

The Director acknowledges his responsibilities for ensuring that the Company keeps accounting records that comply with section 386, and for preparing financial statements that give a true and fair view of the state of affairs of the Company as at the end of the financial year, and of its profit or loss for the financial year in accordance with the requirements of section 393, and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements, so far as applicable to the Company.

The financial statements on pages 3 to 14 were approved and authorised for issue by the board and were signed on its behalf by:

  
M. Quinn  
Director

Date: 30th September 2016



# ESB Hotels Limited

## Statement of changes in equity For the year ended 31 December 2015

|  | Profit and<br>loss account<br>£000 | Total equity<br>£000 |
|--|------------------------------------|----------------------|
| At 1 January 2015                          | (22,299)                           | (22,299)             |
| Other comprehensive<br>income for the year | -                                  | -                    |
| Total comprehensive<br>income for the year | -                                  | -                    |
| Total transactions with<br>owners          | -                                  | -                    |
| At 31 December 2015                        | (22,299)                           | (22,299)             |

The notes on pages 8 to 14 form part of these financial statements.

# ESB Hotels Limited

## Statement of changes in equity For the year ended 31 December 2014

|  | Profit and<br>loss account<br>£000 | Total equity<br>£000 |
|--|------------------------------------|----------------------|
| At 1 January 2014                                  | (30,190)                           | (30,190)             |
| <b>Comprehensive income<br/>for the year</b>       |                                    |                      |
| Profit for the financial year                      | 7,891                              | 7,891                |
|  | <hr/>                              | <hr/>                |
| <b>Other comprehensive<br/>income for the year</b> | -                                  | -                    |
|  | <hr/>                              | <hr/>                |
| <b>Total comprehensive<br/>income for the year</b> | 7,891                              | 7,891                |
|  | <hr/>                              | <hr/>                |
| <b>Total transactions with<br/>owners</b>          | -                                  | -                    |
|  | <hr/>                              | <hr/>                |
| <b>At 31 December 2014</b>                         | <b>(22,299)</b>                    | <b>(22,299)</b>      |

The notes on pages 8 to 14 form part of these financial statements.

# ESB Hotels Limited

## Notes to the financial statements For the Year Ended 31 December 2015

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### 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 Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 102 is given in note 13.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2).

The principal accounting policies, which have been consistently throughout the year, are set out below.

#### 1.2 Going concern

The director believes that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the ultimate parent company QMH Limited. The director has received confirmation that QMH Limited intend to support the company for at least one year after these financial statements are signed.

The balance sheet on page 5 shows the company has net liabilities of £22.3 million at 31 December 2015. Included in these net liabilities is £22.3 million owed to QMH Limited which has been treated as payable within one year. However, QMH Limited has indicated that it has no current intention of calling for repayment until the company had the necessary funds available.

The Group has been in breach of its Debt:EBITDA covenant in respect of the Mezzanine loan since September 2012 and will require the ongoing support of the Mezzanine lenders in order to continue as a going concern, specifically in taking no enforcement action and agreeing that available funds can be used to pay its other liabilities. A standstill agreement has been reached under which the lenders agree not to take any enforcement action prior to 31 March 2017 and an amendment agreement has been signed to extend the maturity date of the Mezzanine loan to 31 March 2017. The Directors are exploring options to repay or renegotiate the terms of the debt and discussions with the lenders are ongoing.

As well as the breach of covenants described above, under the terms of the mezzanine and shareholder loans, if a sale of the hotel portfolio were to occur, this would trigger the repayment of these loan debt facilities.

The existing valuation of the properties held on the Group's Balance Sheet would not provide sufficient funds to repay the Mezzanine and Shareholder loans in full. If this situation were to arise, the Directors could explore with the shareholders the possibility of converting some of the existing debt to equity so that the sales proceeds would be sufficient to repay any remaining debt. If a sale were to occur as described above, with no conversion of the debt to equity, the Group would no longer be able to continue to trade as a going concern.

These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The Group financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

# ESB Hotels Limited

## Notes to the financial statements For the Year Ended 31 December 2015

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### 1. Accounting policies (continued)

#### 1.3 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 11 Financial Instruments paragraphs 11.39 to 11.48A;
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.29;
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of QMH Limited as at 31 December 2015 and these financial statements may be obtained from Companies House.

#### 1.4 Turnover

Turnover is the total income receivable for goods supplied and services rendered, excluding VAT and similar sales taxes. The principal revenue streams are for room accommodation and food and beverage sales which is recognised at the point at which the goods and services are delivered to the customer. Turnover is also generated through leisure club membership fees which are recognised on a straight line basis over the membership period.

# ESB Hotels Limited

## Notes to the financial statements For the Year Ended 31 December 2015

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### 1. Accounting policies (continued)

#### 1.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

The estimated useful lives range as follows:

|                       |   |              |
|-----------------------|---|--------------|
| Fixtures and fittings | - | 4 to 7 years |
|-----------------------|---|--------------|

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

#### 1.6 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

#### 1.7 Taxation

Tax is recognised in the statement of comprehensive income, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

#### 1.8 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

#### 1.9 Pensions

Both the Company and certain individuals previously made contributions into either a Group Stakeholder Pension or a Group Personal Pension Fund. Company contributions are expensed through the profit and loss as incurred.

# ESB Hotels Limited

## Notes to the financial statements For the Year Ended 31 December 2015

### 2. Judgments in applying accounting policies and key sources of estimation uncertainty

There are no estimates and judgements that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the financial year.

### 3. Analysis of turnover

All turnover arose within the United Kingdom.

### 4. Operating result/profit

The operating result/profit is stated after charging:

|                                       | 2015<br>£000 | 2014<br>£000 |
|---------------------------------------|--------------|--------------|
| Depreciation of tangible fixed assets | -            | 357          |
| Operating lease rentals               | -            | 2,212        |
|                                       | <u>-</u>     | <u>2,212</u> |

Fees payable to the Company's auditors for the audit of the Company's annual accounts amounted to £1,000 (2014: £1,000) have been borne by QMH Limited on behalf of the Company.

### 5. Employees

Staff costs were as follows:

|                       | 2015<br>£000 | 2014<br>£000 |
|-----------------------|--------------|--------------|
| Wages and salaries    | -            | 1,929        |
| Social security costs | -            | 117          |
| Other pension costs   | -            | 40           |
|                       | <u>-</u>     | <u>2,086</u> |

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

|                  | 2015<br>No. | 2014<br>No. |
|------------------|-------------|-------------|
| Hotel operations | -           | 195         |
| Directors        | 1           | 1           |
|                  | <u>1</u>    | <u>196</u>  |

# ESB Hotels Limited

## Notes to the financial statements For the Year Ended 31 December 2015

### 6. Directors' remuneration

Fees were paid for the services of Mr Quinn and Mr Rosenberg (2014: Mr Quinn and Mr Rosenberg) by QMH Limited. No recharge was made as these fees did not relate to their roles as directors of the Company.

### 7. Taxation

|                         | 2015<br>£000 | 2014<br>£000 |
|-------------------------|--------------|--------------|
| <b>Total tax charge</b> | -            | -            |

#### Factors affecting tax charge for the year

The tax assessed for the year is the same as (2014 - lower than) the standard rate of corporation tax in the UK of 20.25% (2014 - 21.49%). The differences are explained below:

|  | 2015<br>£000 | 2014<br>£000 |
|--|--------------|--------------|
| Profit on ordinary activities before tax   | -            | 7,891        |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014 - 21.49%) | -            | 1,696        |
| <b>Effects of:</b>   |              |              |
| Capital allowances for year in excess of depreciation  | -            | (1,056)      |
| Unprovided losses  | -            | 1,087        |
| Movement on STTD   | -            | (3,251)      |
| Loss on sale of FA   | -            | 48           |
| Permanent differences  | -            | 34           |
| Group relief   | -            | 1,442        |
| <b>Total tax charge for the year</b>   | -            | -            |

# ESB Hotels Limited

## Notes to the financial statements For the Year Ended 31 December 2015

### 7. Taxation (continued)

#### Factors that may affect future tax charges

Losses available but not recognised, subject to agreement with the relevant tax authorities to set against future profits of the Company amount to £nil (2014 - £2,114,000).

The Company has not recognised any net deferred tax assets in respect of losses available of £nil (2014 - £518,000), short term timing differences of £nil (2014 - £3,703,000) and accelerated capital allowances of £nil (2014 - £653,000). Subject to changes in tax legislation, the directors do not expect sufficient taxable profits to arise to utilise these unclaimed allowances, in the foreseeable future. Given current economic circumstances, there is currently insufficient evidence to support the recognition of a deferred tax asset.

Legislation was enacted in July 2012 to reduce the UK corporation tax rate from 24% to 23% with effect from 1 April 2013. Further reductions to 21% from 1 April 2014 and to 20% from 1 April 2015, were substantively enacted in July 2013 and the relevant deferred tax balances have been re-measured accordingly.

### 8. Exceptional items

|                         | 2015<br>£000 | 2014<br>£000 |
|-------------------------|--------------|--------------|
| Exit from leased hotels | -            | 9,141        |
|                         | <u>-</u>     | <u>9,141</u> |
|                         | <u>-</u>     | <u>9,141</u> |

The profit in the prior year includes an exceptional gain of £9.1million. This is a consequence of the exit from leased hotels which resulted in the release of the remaining onerous contracts provision. This was offset by amounts paid to the landlord of £2.0million, the write-off of rent prepayments of £3.9million, legal fees of £0.2million and the write off of the excess working capital transferred to the landlord over cash transferred of £0.2million.

### 9. Creditors: Amounts falling due within one year

|                                    | 2015<br>£000  | 2014<br>£000  |
|------------------------------------|---------------|---------------|
| Amounts owed to group undertakings | 22,299        | 22,299        |
|                                    | <u>22,299</u> | <u>22,299</u> |
|                                    | <u>22,299</u> | <u>22,299</u> |

Included within amounts owed to group undertakings are loans from QMH Limited of £22,299,000 (2014 - £22,299,000). These loans are repayable on demand, on giving thirty days notice, however, QMH Limited have confirmed that they have no current intention of calling for repayment.



# ESB Hotels Limited

## Notes to the financial statements For the Year Ended 31 December 2015

### 10. Share capital

|   | 2015<br>£000 | 2014<br>£000 |
|---|--------------|--------------|
| <b>Allotted, called up and fully paid</b> |              |              |
| 1 (2014: 1) Ordinary share of £1          | -            | -            |

The Company is incorporated in England and Wales and the liabilities of its shareholders are limited to amounts unpaid on the share issued.

### 11. Related party transactions

The company has taken advantage of the exemption conferred by Financial Reporting Standard 102 Section 33 'Related Party Disclosures' paragraph 33.1A not to disclose transactions with certain Group companies on the grounds that 100% of the voting rights in the company are controlled by the Group.

### 12. Ultimate parent undertaking and controlling party

The Company is controlled by QMH Limited, which owns the entire share capital of the company and is incorporated in England and Wales. QMH Limited is the only Company to consolidate the Company's financial statements. Copies of QMH Limited's consolidated financial statements are available from its registered office at Suite 64, Waterhouse Business Park, 2 Cromar Way, Chelmsford, Essex, CM1 2QE.

QMH Limited has no majority or controlling shareholder.

The results of QMH Limited are not consolidated by any other entity.

### 13. First time adoption of FRS 102

The policies applied under the entity's previous accounting framework are not materially different to FRS 102 and have not impacted on equity or profit or loss.