

ESB Hotels Limited

Directors' report and financial statements
for the year ended 29 December 2002

Company number: 2999276



ESB Hotels Limited

Directors' report and financial statements for the year ended 29 December 2002

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ESB Hotels Limited

Directors' report

The directors present their report and the audited financial statements for ESB Hotels Limited ('the company') for the year ended 29 December 2002.

Principal activities and review of the business

The company manages three hotels on behalf of a third party. These hotels are operated by fellow subsidiary undertakings. Under the terms of the management agreement all revenues and income of any nature derived from the hotels are 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, and the directors expect that the present level of activity will be sustained 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 (2001: £nil).

Directors and directors' interests

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

A M Coppel	
A S Kraiss	
M S Metcalfe	Appointed 8 July 2002
T J Scoble	Appointed 8 July 2002

None of the directors who held office at 29 December 2002 had any interests in the share capital of the company.

The beneficial interests of Mr Coppel 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.

The beneficial interests of Mr Scoble, together with those of his family, in the share capital of Queens Moat Houses plc are dealt with in the financial statements of Queens Moat Houses UK Limited

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.

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Directors' report (continued)

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make estimates and judgements that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 confirm that the financial statements comply with the above requirements.

The directors are responsible for keeping proper 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. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

A handwritten signature in black ink, appearing to read 'M Purvis', is written over a horizontal line.

M Purvis
Company Secretary
30 April 2003

Independent auditors' report to the members of ESB Hotels Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement 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.

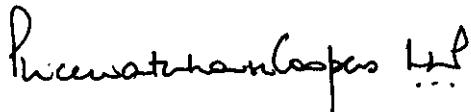
Going concern

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 a going concern basis and the validity of this depends on the ability of Queens Moat Houses plc to meet its covenants under its loan agreements through the achievement of its earnings and cash flow forecasts, or in certain cases, the disposal of individual assets. 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 1(b)). Our opinion is not qualified in this respect.

**Independent auditors' report to the members of
ESB Hotels Limited**

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 29 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers LLP', is written over the printed name of the firm.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
30 April 2003

ESB Hotels Limited

Profit and loss account for the year ended 29 December 2002

	Notes	Year ended 29 December 2002 £'000	Year ended 30 December 2001 £'000
Turnover	1(e)	13,251	13,403
Net operating costs		(13,154)	(13,103)
Operating profit		<u>97</u>	<u>300</u>
Net interest receivable	4	-	7
Profit on ordinary activities before taxation	3	<u>97</u>	<u>307</u>
Tax on ordinary activities	5	(29)	(32)
Retained profit for the year	9	<u>68</u>	<u>275</u>

All operations are continuing.

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.

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Reconciliation of movements in shareholders' funds

	Year ended 29 December 2002 £'000	Year ended 30 December 2001 £'000
Retained profit for the year	68	275
Net addition to shareholders' funds	<u>68</u>	<u>275</u>
Opening shareholders' funds	2,698	2,423
Closing shareholders' funds	<u>2,766</u>	<u>2,698</u>

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Balance sheet at 29 December 2002

	Notes	29 December 2002 £'000	30 December 2001 £'000
Current assets			
Debtors	6	2,964	3,275
Cash at bank and in hand		45	18
		<u>3,009</u>	<u>3,293</u>
Creditors: amounts falling due within one year	7	(243)	(595)
Net current assets		<u>2,766</u>	<u>2,698</u>
Net assets		<u>2,766</u>	<u>2,698</u>
Capital and reserves			
Called up share capital	8	-	-
Non-equity interests	8	-	-
Profit and loss account	9	2,766	2,698
Shareholders' funds (including non-equity interests)		<u>2,766</u>	<u>2,698</u>

The financial statements on pages 5 to 11 were approved by the board of directors on 30 April 2003 and were signed on its behalf by:



A S Kraiss
Director

ESB Hotels Limited

Notes to the financial statements for the year ended 29 December 2002

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 2001 to 29 December 2002. Comparative amounts are for the 52 week period from 1 January 2001 to 30 December 2001. The company's accounting reference date is 31 December. The 2002 and 2001 financial statements are made up as to the nearest Sunday to 31 December, being 29 December 2002 and 30 December 2001, respectively. The financial statements have been drawn up to comply with applicable Accounting Standards in the United Kingdom. The company has adopted Financial Reporting Standard 19 ("FRS 19") "Deferred Taxation" which became mandatory for accounting periods ending after 23 January 2002. This has not resulted in the recognition of deferred tax balances. The company continues to follow the transitional disclosure requirements of Financial Reporting Standard 17 ("FRS 17") "Retirement Benefits". The directors have reviewed the company's accounting policies and estimation techniques and have amended the disclosure for accounting policies relating to deferred taxation. 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 ("FRS18") "Accounting Policies".

(b) Going concern

The financial statements have been prepared on the going concern basis which assume that Queens Moat Houses plc and all of its subsidiary undertakings ("the group") will continue in operational existence for the foreseeable future having adequate funds to meet their obligations as they fall due. If the group 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 realisable values and to provide for further liabilities which might arise. Additionally, further adjustments would have to be made to reclassify fixed assets and long term liabilities as current assets and current liabilities, respectively.

Inter alia, the terms of the group's borrowing agreements require compliance with a range of financial covenants, which are measured either at six monthly or annual intervals. The group remains in compliance with these covenants. Certain of these covenants are measured by reference to earnings cover. The directors of Queens Moat Houses plc have recently prepared earnings and cash flow forecasts, which show compliance with these covenants. Continuing compliance will depend largely on the future trading performance of the group which is uncertain given the current economic environment and the potential impact of geopolitical events.

The validity of the going concern assumption depends on the group's ability to maintain compliance through the achievement of its forecasts or, in certain cases, the disposal of individual assets. Whilst there is uncertainty as to the outcome of the matters mentioned above, the directors believe it is appropriate for the financial statements to be prepared on a 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) 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.

(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 over the membership period.

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Notes to the financial statements (continued) for the year ended 29 December 2002

(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 (2001: £nil).

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

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

3 Profit on ordinary activities before taxation

	Year ended 29 December 2002 £'000	Year ended 30 December 2001 £'000
Profit on ordinary activities before taxation is stated after charging:		
Operating lease rentals – land and buildings	3,722	3,983
Auditors' remuneration	1	1

4 Net interest receivable

	Year ended 29 December 2002 £'000	Year ended 30 December 2001 £'000
Interest receivable	-	7

5 Tax on ordinary activities

	Year ended 29 December 2002 £'000	Year ended 30 December 2001 £'000
United Kingdom corporation tax at 30.0% (2001: 30.0%)		
Current	29	92
Adjustment in respect of prior years	-	(60)
	29	32

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Notes to the financial statements (continued) for the year ended 29 December 2002

6 Debtors: amounts falling due within one year

	29 December 2002 £'000	30 December 2001 £'000
Trade debtors	648	569
Amounts owed by group undertakings	2,304	1,723
Other debtors	1	43
Prepayments and accrued income	11	940
	<u>2,964</u>	<u>3,275</u>

7 Creditors: amounts falling due within one year

	29 December 2002 £'000	30 December 2001 £'000
Other creditors	243	257
Accruals and deferred income	-	338
	<u>243</u>	<u>595</u>

8 Called up share capital

	29 December 2002 £'000	30 December 2001 £'000
Authorised:		
99 ordinary shares of £1 each	-	-
1 deferred share of £1	-	-
	<u>-</u>	<u>-</u>
Allotted, called up and fully paid:		
1 ordinary share of £1	-	-
1 deferred share of £1	-	-
Non-equity interest	-	-
	<u>-</u>	<u>-</u>

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, the deferred share of £1 constitutes non-equity shareholders' funds.

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Notes to the financial statements (continued) for the year ended 29 December 2002

9 Reserves

	Profit and loss account £'000
At 31 December 2001	2,698
Retained profit for the year	68
At 29 December 2002	<u>2,766</u>

10 Other financial commitments

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

	Land and buildings 29 December 2002 £'000	Land and buildings 30 December 2001 £'000
Operating leases which expire:		
within one year	4,482	-
within two to five years	-	3,722
in over five years	-	-
	<u>4,482</u>	<u>3,722</u>

11 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.