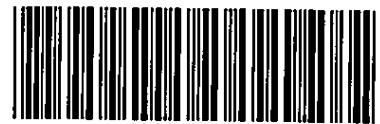


Marston Hotels Holdings Limited
Directors' report and financial
statements

Registered number 3948742
28 December 2008

FRIDAY



A20RTD6F

A13

11/09/2009

253

COMPANIES HOUSE

Contents

Directors and advisors	1
Directors' report	2
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	4
Independent auditors' report to the members of Marston Hotels Holdings Limited	5
Profit and loss account	7
Balance sheet	8
Notes	9

Directors and advisors

Executive directors

Michael Purtill FCA	Managing Director
Ian Goulding BSc ACA	Finance Director
David Taylor	Sales Director

Secretary and registered office

Ian Goulding
Wellington House
Cliffe Park
Bruntcliffe Road
Morley
Leeds
LS27 0RY

Registered auditors

KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW

Solicitors

DLA Piper UK LLP
Princes Exchange
Princes Square
Leeds
LS1 4BY

Bankers

Anglo Irish Bank Corporation Plc
10 Old Jewry
London
EC2R 8DN

Directors' report

The directors present their annual report and audited financial statements for the 52 week year ended 28 December 2008.

Principal activity and business review

The principal activity of the company is that of an investment holding company.

The profit and loss account is set out on page 7.

The directors consider that the financial position at 28 December 2008 was satisfactory and they expect this to be maintained for the foreseeable future.

Going concern

The company is a participant of the QHotels group's borrowing arrangement and consequently its assumption to prepare its financial statements on a going concern basis is dependant on the group's ability to continue as a going concern.

On 29 June 2009 the group concluded renegotiating certain terms and conditions, including covenants, of its facility agreement with Anglo Irish Bank; the amended agreement was signed on 14 July 2009.

The financial covenants have been reset based on the group's financial forecasts which have been reviewed and approved by the directors. The directors consider that these forecasts, based on current and anticipated future market conditions, demonstrate an adequate level of headroom for at least the 12 months following the signing of the financial statements and also make appropriate allowances for a number of potential adverse sensitivities.

The directors are of the view that, whilst the economic and market conditions continue to be challenging and not without risk, the renegotiated terms and conditions are sufficiently robust as to the adequacy of both overdraft and covenant headrooms to enable the group to operate within its terms for at least the next 12 months. Accordingly the company's financial statements are prepared on a going concern basis.

Further details of the renegotiated terms and conditions are set out in the basis of preparation.

Principal risks and uncertainties

Financing and interest rates

The company finances its activities through loans provided by fellow group undertakings on commercial terms.

Dividends

The directors do not recommend the payment of a dividend(2007: £nil).

Directors

The directors of the company who served during theyear were:

Michael Purtill
Ian Goulding
David Taylor

All directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Directors' report *(continued)*

Charitable and political donations

No contributions were made by the company for either charitable or political purposes (2007: £nil).

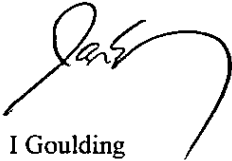
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



I Goulding
Company Secretary

17 July 2009

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Independent auditors' report to the members of Marston Hotels Holdings Limited

We have audited the financial statements of Marston Hotels Holdings Limited for the year ended 28 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under 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 auditor's 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 UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

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.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 28 December 2008 and of its loss 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.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

17 July 2009

Profit and loss account

for the 52 week year ended 28 December 2008

	<i>Note</i>	Year ended 28 December 2008 £'000	Year ended 30 December 2007 £'000
Interest receivable and similar income	2	1,595	735
Interest payable and similar charges	3	(18,077)	(19,408)
Loss on ordinary activities before taxation	4	(16,482)	(18,673)
Tax on loss on ordinary activities	5	4,671	5,909
Loss for the financial year	11	(11,811)	(12,764)

All of the company's operations during the year shown above represent continuing operations.

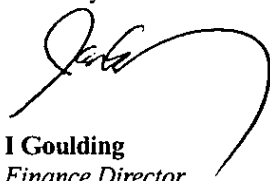
The company has no recognised gains or losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented.

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

Balance sheet
as at 28 December 2008

	<i>Note</i>	28 December 2008 £'000	30 December 2007 £'000
Fixed assets			
Investments	6	147,006	147,058
		<hr/>	<hr/>
Current assets			
Debtors	7	22,784	16,481
		<hr/>	<hr/>
		22,784	16,481
Creditors: amounts falling due within one year	8	(198,841)	(180,779)
		<hr/>	<hr/>
Net current liabilities		(176,057)	(164,298)
		<hr/>	<hr/>
Total assets less current liabilities		(29,051)	(17,240)
Provisions for liabilities and charges	9	-	-
		<hr/>	<hr/>
Net liabilities		(29,051)	(17,240)
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	10	169	169
Revaluation reserve	11	7,608	7,608
Profit and loss account	11	(36,828)	(25,017)
		<hr/>	<hr/>
Total equity shareholders' deficit	12	(29,051)	(17,240)
		<hr/>	<hr/>

The financial statements on pages 7 to 14 were approved by the board of directors on 17 July 2009 were signed on its behalf by:


I Goulding
 Finance Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

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

These financial statements have been prepared on a going concern basis which assumes that the company will continue to trade for the foreseeable future. The validity of this assumption is dependent upon the continued support from the ultimate holding company. QHotels Group Limited has indicated that it intends to provide such funds as are necessary for the company to trade for the foreseeable future. In addition, the company is a participant of the QHotels group's borrowing arrangements and consequently the validity of its going concern assumption is also dependant on the group's ability to continue as a going concern.

The ability of the group to continue as a going concern is reliant upon the continued availability of external debt financing. The deterioration of the hotel sector in 2008, largely due to macro economic factors, put pressure on the group's ability to continue to trade within the covenants set out in its facility agreement with Anglo Irish Bank.

This led to the group renegotiating certain terms and conditions, including covenants, of its facility agreement with Anglo Irish Bank; the amended agreement was signed on 14 July 2009. The continued availability of this external financing is dependent upon the group's ability to generate sufficient cash to service its debt and to continue to operate within and adhere to the covenants and other terms and conditions set out in the facility agreement. The group has continued to meet all interest and other payment obligations on time from debt resources available to it, and after reviewing cash flow forecasts (see 'Going concern' below) for a period of at least the 12 months from the date of signing these financial statements and as noted in the Going Concern section of the Directors' report, the directors are satisfied that, whilst the economic and market conditions continue to be challenging and not without risk, the renegotiated terms and conditions are sufficiently robust as to the adequacy of both overdraft and covenant headrooms to enable the group to operate within its terms for at least the 12 months following the signing of the financial statements.

Going concern

In determining whether the company's annual financial statements can be prepared on a going concern basis, the directors considered all factors likely to materially affect the group's future development, performance and financial position, including cash flows, liquidity position and borrowing facilities and the risks and uncertainties relating to the group's business activities. Further details are contained in the group financial statements of QHotels Group Limited. The key factors considered by the directors were as follows:

- the impact of the challenging economic environment on the group's revenues and profits. The key assumption is that the trading conditions experienced in the first six months of 2009 continue for the next 12 months. The group undertakes forecasts and projections of trading and cash flows on a regular basis. Whilst this is essential for targeting performance and identifying areas of focus for management to improve performance they also provide projections of working capital requirements including the working capital requirements in a downside sensitivity scenario.
- the impact of the competitive environment within which the group operates. In particular, UK hospitality operates in a competitive marketplace which is currently experiencing falling occupancies and competitive pricing.
- the potential actions that could be taken in the event that revenues are worse than expected, to ensure that group operating profit and cash flows are protected.

Notes *(continued)*

Basis of preparation *(continued)*

Going concern (continued)

- the committed finances available to the group. The group meets its day-to-day working capital requirements through an overdraft facility with Barclay Bank that is due for renewal on 17 January 2010 and is secured by a guarantee from Anglo Irish Bank. This guarantee is provided under a composite facility agreement with Anglo Irish Bank, which will continue in place until that agreement ends on 15 February 2011.

The group's forecast and projections, taking account of reasonable downside sensitivities for possible changes in trading performance, show that the group should be able to operate within the level of its current facilities. The group will open renewal negotiations with its banks in due course and has at this stage not sought any written commitment that the facilities will be renewed. However, the group has held discussions with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

The directors have a reasonable expectation that the company and group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of preparing the Directors' report and financial statements.

Basis of accounting

The company has not prepared consolidated financial statements for the year as permitted by Section 228 of the Companies Act 1985.

As a wholly owned subsidiary, the company has availed itself of the exemption under Financial Reporting Standard Number 8, not to disclose intra-group transactions.

Under Financial Reporting Standard Number 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds of it being a wholly owned subsidiary of QHotels Group Limited.

Investments

Investments acquired before 1 April 1999 are stated at net asset value as at 31 March 1999, unless the current net asset value is less than this value in which case the current net asset value is used. Investments acquired since 31 March 1999 are stated at cost.

The carrying value of fixed asset investments is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes (continued)

2 Interest receivable and similar income

	Year ended 28 December 2008 £'000	Year ended 30 December 2008 £'000
Interest receivable on deposits	1	-
Accrued finance income	(52)	563
Interest receivable from group undertakings	1,646	172
	<u>1,595</u>	<u>735</u>

The £52,000 negative accrued finance income relates to an overstatement of accrued finance income in prior years. The discounted convertible loan notes to which this finance income relates were converted in 2007 into share capital and therefore the corresponding adjustment is in the carrying value of the company's investment in MH Freehold Limited's, the original issuer of the discounted convertible loan notes.

3 Interest payable and similar charges

	Year ended 28 December 2008 £'000	Year ended 30 December 2008 £'000
Interest payable to group undertakings	<u>18,077</u>	<u>19,408</u>

4 Loss on ordinary activities before taxation

The directors received no remuneration in respect of the year ended 28 December 2008 (2007: £nil).

The audit fee for the company for 2008 was borne by QHotels Services Limited, a fellow subsidiary. The company paid no other fees to the auditors for other services (2007: £nil).

5 Taxation

	Year ended 28 December 2008 £'000	Year ended 30 December 2008 £'000
Current year		
Group relief credit	(4,682)	(5,602)
Prior year		
Corporation tax charge/(credit)	11	(26)
Group relief credit	-	(281)
	<u>(4,671)</u>	<u>(5,909)</u>

Notes (continued)

5 Taxation (continued)

The current tax credit for the period is lower (2007: equal) than the standard rate of corporation tax in the UK 28.5% (2006: 30%). The differences are explained below:

	Year ended 28 December 2008 £'000	Year ended 30 December 2008 £'000
<i>Current tax reconciliation:</i>		
Loss on ordinary activities before tax	(16,482)	(18,673)
Current tax at 28.5% (2007: 30%)	(4,697)	(5,602)
<i>Effects of:</i>		
Losses not provided for	15	-
Total current tax credit (see above)	(4,682)	(5,602)

6 Fixed asset investments

The company's investments in subsidiary undertakings are as follows:

	Shares in subsidiary undertakings £'000
<i>Cost</i>	
At beginning of year	147,058
Adjustment in respect of prior year (see note 2)	(52)
At end of year	147,006

The company has investments of:

£26,057,640 at valuation, representing the whole of the issued ordinary share capital of Marston Hotels Limited, incorporated in England, which operates and manages a group of hotels.

£119,948,469 (2007: £120,000,080) at cost, representing the whole of the issued ordinary share capital of MH Freeholds Limited, incorporated in England, which is a property investment holding company.

7 Debtors

	2008 £'000	2007 £'000
Amounts owed from group undertakings	22,784	16,455
Corporation tax debtor	-	26
	22,784	16,481

Notes (continued)

8 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Amounts due to group undertakings	198,841	180,779

9 Provisions for liabilities and charges

The amounts unprovided for deferred tax assets are set out below:

	2008 £'000	2007 £'000
Tax losses carried forward	(1,419)	(340)

The deferred tax assets have not been provided for on the grounds of the uncertainty of when they may be able to be utilised.

10 Called up share capital

	2008 £'000	2007 £'000
<i>Authorised</i> 500,000 ordinary shares of £1 each	500	500
<i>Allotted, called up and fully paid</i> 168,710 ordinary shares of £1 each	169	169

11 Reserves

	Revaluation Reserve £'000	Profit and loss account £'000	Total £'000
At beginning of year	7,608	(25,017)	(17,409)
Loss for the year	-	(11,811)	(11,811)
At end of year	7,608	(36,828)	(29,220)

12 Reconciliation of movements in shareholders deficit

	2008 £'000	2007 £'000
Opening shareholders' deficit	(17,240)	(4,476)
Loss for the year	(11,811)	(12,764)
Closing shareholders' deficit	(29,051)	(17,240)

Notes *(continued)*

13 Ultimate controlling party

The entire issued capital of the company is owned by QHotels Investments Limited. The ultimate parent company is QHotels Group Limited; a company incorporated in Great Britain and registered in England and Wales. The Group accounts of QHotels Group Limited can be obtained from Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ. The ultimate controlling party of QHotels Group Limited is Alchemy Partners Nominees Limited on behalf of investors in the Alchemy Investment Plan. The Alchemy Investment Plan is managed by Alchemy Partners (Guernsey) Limited.

14 Contingent liabilities

The company is a participant in QHotels Limited's term loan borrowings whereby these borrowings are secured by fixed and floating charges over the company's assets.