

Marston Hotels Holdings Limited
Directors' report and financial
statements

Registered number 3948742
30 December 2007

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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 30 December 2006

Principal activity and business review

The profit and loss account is set out on page 7

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

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 (2006 £nil)

Directors

The directors of the company who served during the year were

Michael Purtill
Ian Goulding
David Taylor

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

Charitable and political donations

No contributions were made by the company for either charitable or political purposes (2006 £nil)

Directors' report *(continued)*

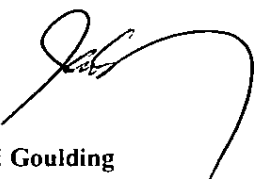
Disclosure of information to auditors

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

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board



I Goulding
Company Secretary

23 May 2008

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 30 December 2007 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 30 December 2007 and of its loss for the period 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

23 May 2008

Profit and loss account

for the 52 week year ended 30 December 2007

	Notes	Year ended 30 December 2007 £'000	13 month period ended 31 December 2006 £'000
Administrative expenses		-	(1,141)
Operating loss		-	(1,141)
Other interest receivable and similar income	2	735	550
Interest payable and similar charges	3	(19,408)	(14,190)
Loss on ordinary activities before taxation	4	(18,673)	(14,781)
Tax on loss on ordinary activities	5	5,909	2,528
Loss for the financial period	11	(12,764)	(12,253)

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 30 December 2007

	<i>Notes</i>	2007 £'000	2006 £'000
Fixed assets			
Investments	6	<u>147,058</u>	<u>66,058</u>
Current assets			
Debtors	7	16,481	91,211
Cash at bank and in hand		-	-
		<u>16,481</u>	<u>91,211</u>
Creditors amounts falling due within one year	8	<u>(180,779)</u>	<u>(161,745)</u>
Net current liabilities		<u>(164,298)</u>	<u>(70,534)</u>
Total assets less current liabilities		<u>(17,240)</u>	<u>(4,476)</u>
Provisions for liabilities and charges	9	-	-
Net liabilities		<u>(17,240)</u>	<u>(4,476)</u>
Capital and reserves			
Called up share capital	10	169	169
Revaluation reserve	11	7,608	7,608
Profit and loss account	11	(25,017)	(12,253)
Total equity shareholders' (deficit)/funds	12	<u>(17,240)</u>	<u>(4,476)</u>

The financial statements on pages 7 to 13 were approved by the board of directors on 23 May 2008 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 accounting

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

The financial statements have been prepared on the going concern basis which assumes that the company will continue to trade. The validity of this assumption is dependent on the continued support of QHotels Group Limited. QHotels Group Limited has agreed to provide financial support to the company to meet its financial obligations for at least the next 12 months from the approval of these financial statements and the foreseeable future.

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 period 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

	2007 £'000	2006 £'000
Accrued finance income	550	550
Interest receivable from group undertakings	173	-
	<u>735</u>	<u>550</u>

3 Interest payable and similar charges

	2007 £'000	2006 £'000
On bank loans and overdrafts	-	5,873
Interest payable to group undertakings	19,408	8,317
	<u>19,408</u>	<u>14,190</u>

4 Loss on ordinary activities before taxation

The directors received no remuneration in respect of the year ended 30 December 2007 (2006 £nil)

The audit fee for the company for 2007 of £5,000 (2006 £5,000) The company paid no other fees to the auditors for other services (2006 £nil)

5 Taxation

	2007 £'000	2006 £'000
Current year		
Group relief credit	(5,602)	(2,546)
Prior year year		
Corporation tax (credit)/charge	(26)	18
Group relief credit	(281)	-
	<u>(5,909)</u>	<u>(2,528)</u>
Tax credit in period		

Notes (continued)

5 Taxation (continued)

The current tax credit is the same as (2006 lower) than the standard rate of corporation tax in the UK 30% (30%, 2006 30%) The differences are explained below

	2007 £'000	2006 £'000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(18,673)	(14,781)
Current tax at 30%	(5,602)	(4,434)
<i>Effects of</i>		
Losses not provided for	-	1,888
	(5,602)	(2,546)

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	66,058
Additions	81,000
At end of year	147,058

The company has investments of

£26,058,000 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

£121,000,080 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

	2007 £'000	2006 £'000
Discounted convertible loan notes from group undertakings	-	90,550
Amounts owed from group undertakings	16,455	661
Corporation tax debtor	26	-
	16,481	91,211

Notes (continued)

8 Creditors amounts falling due within one year

	2007 £'000	2006 £'000
Corporation tax	-	18
Amounts due to group undertakings	180,779	161,727
	<u>180,779</u>	<u>161,745</u>

9 Provisions for liabilities and charges

The amounts unprovided for deferred tax assets are set out below

	2007 £'000	2006 £'000
Tax losses carried forward	(340)	(1,888)
	<u>(340)</u>	<u>(1,888)</u>

10 Called up share capital

	2007 £'000	2006 £'000
<i>Authorised</i>		
500,000 ordinary shares of £1 each	500	500
	<u>500</u>	<u>500</u>
<i>Allotted, called up and fully paid</i>		
168,710 ordinary shares of £1 each	169	169
	<u>169</u>	<u>169</u>

11 Reserves

	Revaluation Reserve £'000	Profit and loss account £'000	Total £'000
At beginning of year	7,608	(12,253)	(4,645)
Loss for the year	-	(12,764)	(12,764)
	<u>7,608</u>	<u>(25,017)</u>	<u>(17,409)</u>
At end of period	7,608	(25,017)	(17,409)

12 Reconciliation of movements in shareholders deficit

	2007 £'000	2006 £'000
Opening shareholders' (deficit)/funds	(4,476)	7,777
Loss for the year	(12,764)	(12,253)
	<u>(17,240)</u>	<u>(4,476)</u>
Closing shareholders' deficit	(17,240)	(4,476)

Notes *(continued)*

13 Ultimate controlling party

The entire issued capital of the company is owned by QHotels Investments Limited. The ultimate controlling party 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. 86.7% of the issued share capital of QHotels Group Limited is held by 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.