Marston Hotels Holdings Limited

Directors' report and financial statements

Registered number 3948742

3 January 2010

Contents

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 directors' report and financial statements for the 53 week year ended 3 January 2010

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 3 January 2010 was satisfactory and they expect this to be maintained for the foreseeable future

Going concern

The company participates in QHotels Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries

The directors, having assessed the responses of the directors of the company's parent QHotels Group Limited to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of QHotels Group to continue as a going concern or its ability to continue with the current banking arrangements which were agreed on 3 November 2010

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of QHotels Group Limited, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future Accordingly they continue to adopt the going concern basis of accounting in preparing the annual financial statements

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 *(2008 £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 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 *(2008 £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

18 November 2010

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)

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 year 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 UK 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 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 have 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
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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 53 weeks ended 3 January 2010 set out on pages 7 to 13 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 3 January 2010 and of its loss for the 53 weeks then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Richard Evans (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

18 November 2010

Profit and loss account

for the 53 week year ended 3 January 2010

	Note	**Year ended 3 January 2010 £'000**	Year ended 28 December 2008 £'000
Interest receivable and similar income	2	**1,544**	1,595
Interest payable and similar charges	3	**(13,935)**	(18,077)
Impairment of fixed asset investments	4	**(9,840)**	-
Loss on ordinary activities before taxation	4	**(22,231)**	(16,482)
Tax on loss on ordinary activities	5	**3,484**	4,671
Loss for the financial year	11	**(18,747)**	(11,811)

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 3 January 2010

	Note	As at 3 January 2010 £'000	As at 28 December 2008 £'000
Fixed assets			
Investments	6	**137,166**	147,006
Current assets			
Debtors	7	**27,811**	22,784
		27,811	22,784
Creditors: amounts falling due within one year	8	**(212,775)**	(198,841)
Net current liabilities		**(184,964)**	(176,057)
Total assets less current liabilities		**(47,798)**	(29,051)
Net liabilities		**(47,798)**	(29,051)
Capital and reserves			
Called up share capital	10	**169**	169
Revaluation reserve	11	**7,608**	7,608
Profit and loss account	11	**(55,575)**	(36,828)
Total equity shareholders' deficit	12	**(47,798)**	(29,051)

The financial statements on pages 7 to 13 were approved by the board of directors on 18 November 2010 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 modified to include the revaluation of certain investments

The financial statements have been prepared for the 53 weeks ended 3 January 2010 (2008 52 weeks ended 28 December 2008) The group adopts a variable reference date and the financial statements are prepared for a fiscal year to the Sunday closest to 31 December each year The term "year" within the financial statements refers to the fiscal year as noted herein

Going concern

The company's ultimate parent company QHotels Group Limited has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available by it or any other fellow subsidiary undertaking

The company participates in QHotels Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries The directors, having assessed the responses of the directors of the company's parent QHotels Group Limited to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of QHotels Group to continue as a going concern or its ability to continue with the current banking arrangements which were agreed on 3 November 2010

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of QHotels Group Limited, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future Accordingly they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Basis of accounting

The company has not prepared consolidated financial statements for the period as permitted by Section 400 of the Companies Act 2006 These financial statements present information about the company as an individual undertaking and not about its group

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 3 January 2010 £'000	Year ended 28 December 2008 £'000
Interest receivable on deposits	-	1
Accrued finance income	-	(52)
Interest receivable from group undertakings	**1,544**	1,646
	1,544	1,595

In 2008, 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 3 January 2010 £'000	Year ended 28 December 2008 £'000
Interest payable to group undertakings	**13,935**	18,077

4 Loss on ordinary activities before taxation

The directors received no remuneration in respect of the year ended 3 January 2010 *(2008 £nil)*

The audit fee for the company for the current and prior year was borne by QHotels Services Limited, a fellow subsidiary The company paid no other fees to the auditors for other services *(2008 £nil)*

The exceptional item in the year of £9,840,000 *(2008 £nil)* related to the impairment of fixed asset investments

5 Taxation

	Year ended 3 January 2010 £'000	Year ended 28 December 2008 £'000
Current year		
Group relief credit	**(3,470)**	(4,682)
Prior year		
Corporation tax charge	-	11
Group relief credit	**(14)**	-
Tax credit in year	**(3,484)**	(4,671)

Notes *(continued)*

5 Taxation *(continued)*

The current tax credit for the year is lower *(2008 lower)* than the standard rate of corporation tax in the UK 28 0% *(2008 28 5%)* The differences are explained below

	Year ended 3 January 2010 £'000	Year ended 28 December 2008 £'000
Current tax reconciliation		
Loss on ordinary activities before tax	**(22,231)**	(16,482)
Current tax at 28 0% *(2008 28 5%)*	**(6,225)**	(4,697)
Effects of		
Losses not provided for	-	15
Non-qualifying impairment of fixed asset investments	**2,755**	-
Total current tax credit (see above)	**(3,470)**	(4,682)

6 Fixed asset investments

The company's investments in subsidiary undertakings are as follows

	Shares in subsidiary undertakings £'000
Cost or valuation	
At beginning and end of year	147,006
Amortisation	
At beginning of year	-
Impairment	(9,840)
At end of year	(9,840)
Net book value	
At 3 January 2010	**137,166**
At 28 December 2008	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

£111,108,953 *(2008 £120,948,469)* at valuation, representing the whole of the issued ordinary share capital of MH Freeholds Limited, incorporated in England, which is a property investment holding company

Notes *(continued)*

7 Debtors

	3 January 2010 £'000	28 December 2008 £'000
Amounts owed from group undertakings	**27,811**	22,784

8 Creditors: amounts falling due within one year

	3 January 2010 £'000	28 December 2008 £'000
Amounts due to group undertakings	**212,775**	198,841

9 Deferred tax

The amounts unprovided for deferred tax assets are set out below

	3 January 2010 £'000	28 December 2008 £'000
Tax losses carried forward	**(1,419)**	(1,419)

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

	3 January 2010 £'000	28 December 2008 £'000
Authorised		
500,000 ordinary shares of £1 each	**500**	500
Allotted, called up and fully paid		
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	(36,828)	(29,220)
Loss for the year	-	(18,747)	(18,747)
At end of year	**7,608**	**(55,575)**	**(47,967)**

Notes *(continued)*

12 Reconciliation of movements in shareholders deficit

	3 January 2010 £'000	28 December 2008 £'000
Opening shareholders' deficit	**(29,051)**	(17,240)
Loss for the year	**(18,747)**	(11,811)
Closing shareholders' deficit	**(47,798)**	(29,051)

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