Marston Hotels Holdings Limited

Directors' report and financial statements

Registered number 03948742

1 January 2017

Contents

Directors and advisors

Executive directors

Michael Purtill FCA	Managing Director
Ian Goulding BSc ACA	Finance Director

Secretary and registered office

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

Registered auditor

KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

Solicitors

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

Strategic report

Principal activities

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

Business model

The company is part of the Devonshire Point group of companies, a UK provincial hotel group trading under the brand QHotels, and its investments are in subsidiary undertakings that, through holding companies, ultimately trade in the UK provincial hotel market. The company monitors the performance of its subsidiary undertakings and provides support and management direction where necessary to ensure the achievement of the subsidiary's long term objectives of maximising stable operating profits and maximising enterprise value. This will in turn lead to the achievement of the company's long term objective of maximising the value of its investments.

The management of all aspects of the business is retained and driven by the directors.

With the significant value held within investments there is a requirement for the company to have access to significant sources of long-term funds. These are provided by the Devonshire Point group through a combination of equity shareholder funds, parent and subsidiary undertaking borrowings, and bank loans.

Business review and results

The trading performance of the company is set out in the profit and loss account within these financial statements.

On 12 July 2016 the company issued 242,686,290 new ordinary shares of £1 each to its immediate parent company. The consideration for the share subscription was satisfied by a transfer through its inter-company loan account. The whole of the issued share capital was then consolidated into one share of £242,855,000. On the same date the company underwent a capital reduction reducing the value of its one share by £239,344,000 and that amount was transferred to the profit and loss account.

The balance sheet of the company sets out the financial position of the company at the year end and note 1 sets out the financial support provided by the group. The directors are satisfied that this position is satisfactory for the foreseeable future.

Going concern

Note 1 provides a detailed narrative as to the directors' considerations of the going concern of the company.

On the basis of their assessment of the company's financial position, and enquiries made of the directors of Devonshire Point Group Limited, its ultimate UK parent, and the contingent liability arising as a consequence of the company being a party to a co-borrower bank facility with the Stratton Point group, a related party group, 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.

Key performance indicators

The sustainability of the company will be determined to a large degree by the ability of the company to achieve its objectives as noted in the Business Model section above. The value of its investment is therefore a key KPI and this is shown in the balance sheet within these financial statements. The principal costs of the company are those associated with the financing of the company, which are a direct function of how group undertakings have provided funding to the company.

Principal risks and uncertainties

Financing and interest rates

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

Interest rates on loans to and from group undertakings are set by the directors of the parent company and ultimately are a function of the financing arrangements of the group. The company does not trade in financial instruments and has no other form of derivatives.

Strategic report *(continued)*

Future developments and subsequent events

The directors note that there has been a continued improvement in the UK provincial hotel market in 2016, notwithstanding the hiatus to the UK economy generally because of the Brexit referendum result. The directors anticipate that there will be a continued general improvement in the UK economy in 2017, and in particular expect a positive impact as a result of more staycation visits to UK hotels due to the relative increase in cost of travelling abroad as a result of the devaluation of Sterling.

By order of the board

I Goulding
Company Secretary

5 April 2017

Wellington House
Cliffe Park
Bruntcliffe Road
Morley
Leeds
LS27 0RY

Directors' report

The directors present their directors' report and the financial statements for the 52 week year ended 1 January 2017 *(2015: 53 weeks ended 3 January 2016)*. 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.

Directors and directors' interests

The directors of the company who served during the year were:

Michael Purtill
Ian Goulding

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

Dividends

The directors do not recommend the payment of a final dividend *(2015: £nil)*.

Charitable and political donations

Donations made by the company during the year for charitable purposes amount to £nil *(2015: £nil)*. No contributions were made by the company for political purposes *(2015: £nil)*.

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Auditor

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

By order of the board

I Goulding
Company Secretary

5 April 2017

Wellington House
Cliffe Park
Bruntcliffe Road
Morley
Leeds
LS27 0RY

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

The directors are responsible for preparing the Strategic Report, 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), including FRS 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 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 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
United Kingdom

Independent auditor's report to the members of Marston Hotels Holdings Limited

We have audited the financial statements of Marston Hotels Holdings Limited for the year ended 1 January 2017 set out on pages 8 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102, *The Financial Reporting Standard in the UK and Republic of Ireland.*

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 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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, and express an opinion on, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

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 1 January 2017 and of its profit for the year 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 Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and Directors' report:

- We have not identified material misstatements in those reports; and
- In our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Marston Hotel 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.

C. Needham

Claire Needham (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

7 April 2017

Profit and loss account

for the 52 week year ended 1 January 2017

	Note	**Year ended 1 January 2017 £'000**	Year ended 3 January 2016 £'000
Income from shares in group undertakings		**13,994**	-
Operating profit		**13,994**	-
Interest receivable and similar income	*2*	-	1,841
Interest payable and similar charges	*3*	-	(18,529)
Impairment reversal of fixed assets		-	3,176
Profit/(loss) on ordinary activities before taxation	*4*	**13,994**	(13,512)
Tax on profit/(loss) on ordinary activities	*5*	**(18)**	3,379
Profit/(loss) for the financial year		**13,976**	(10,133)

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

The company has no other comprehensive income other than the profit above and therefore no separate statement of other comprehensive income has been presented.

Notes on pages 11 to 16 form an integral part of the financial statements.

Balance sheet
as at 1 January 2017

	Note	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Fixed assets			
Investments	6	**156,571**	147,522
		156,571	147,522
Current assets			
Debtors	7	**16**	33,080
		16	33,080
Creditors: amounts falling due within one year	8	**(35)**	(280,712)
Net current (liabilities)		**(19)**	(247,632)
Total assets less current liabilities		**156,552**	(100,110)
Net assets/(liabilities)		**156,552**	(100,110)
Capital and reserves			
Called up share capital	9	**3,511**	169
Revaluation reserve		**2,836**	2,836
Profit and loss account		**150,205**	(103,115)
Total equity shareholders' funds/(deficit)		**156,552**	(100,110)

Notes on pages 11 to 16 form an integral part of the financial statements.

The financial statements were approved by the board of directors on 5 April 2017 and were signed on its behalf by:

I Goulding
Finance Director

Statement of changes in equity

for the 52 week year ended 1 January 2017

	Called up share capital	Revaluation reserve	Profit & loss account	Total equity
	£'000	£'000	£'000	£'000
Balance as at 29 December 2014	169	2,836	(92,982)	(89,977)
Total comprehensive income for the period				
Loss	-	-	(10,133)	(10,133)
Total comprehensive income for the period	-	-	(10,133)	(10,133)
Balance as at 3 January 2016	**169**	**2,836**	**(103,115)**	**(100,110)**

	Called up share capital	Revaluation reserve	Profit & loss account	Total equity
	£'000	£'000	£'000	£'000
Balance at 4 January 2016	169	2,836	(103,115)	(100,110)
Total comprehensive income for the period				
Profit	-	-	13,976	13,976
Total comprehensive income for the period	-	-	13,976	13,976
Transactions with owners, recorded directly in equity				
Share capital issued	242,686	-	-	242,686
Share capital reduction	(239,344)	-	239,344	-
Total contributions by and distributions to owners	3,342	-	239,344	242,686
Balance at 1 January 2017	**3,511**	**2,836**	**150,205**	**156,552**

Notes on pages 11 to 16 form an integral part of the financial statements.

Notes *(continued)*

1 Accounting policies

Marston Hotels Holdings Limited the "Company" is a company limited by shares and incorporated and domiciled in the UK.

Basis of preparation

The financial statements have been prepared for the 52 weeks ended 1 January 2017 *(2015: 53 weeks ended 3 January 2016)*. 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.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The company is exempt by virtue of section 405 of the Companies Act 2006, from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

The Company's ultimate parent undertaking, Devonshire Point Group, includes the Company in its consolidated financial statements. The consolidated financial statements of Devonshire Point Group Limited are prepared in accordance with FRS 102 and are available to the public and may be obtained from Companies House. In these financial statements, the Company is considered to be a qualifying entity (for the purpose of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures;

- The reconciliation of the number of shares outstanding from the beginning to the end of the period;
- Separate Cash Flow Statement with related notes; and
- Key Management personnel compensation; and
- Transactions with wholly owned, fellow group undertakings.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Measurement convention
The financial statements are prepared on the historical cost basis.

Significant judgements and estimates

Other than the revaluation of investments referred to in note 6, there are no significant judgements or estimates made in these financial statements.

Going concern

The Devonshire Point group and Stratton Point group, a related party group, operate centralised treasury arrangements. The combined group's cleared cash facilities reside in the company's bank account with the amounts owed to and from the respective companies held on inter-company loans. The two groups are parties to a bank facility which is secured by a cross-guaranteed charge over the assets of both groups.

The directors have assessed the responses of directors of Devonshire Point Group Limited, the ultimate UK parent of the group and Stratton Point Group Limited, the ultimate UK parent of the co-borrower, to their enquiries with regard to the combined group's cash forecasts on both a base case as well as realistic downside scenarios.

Devonshire Point 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.

On the basis of the above, 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.

Notes *(continued)*

1 Accounting policies *(continued)*

Investments

Investments 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.

An impairment loss is recognised whenever the carrying amount of an investment exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless it arises on a previously revalued fixed asset investment. An impairment loss on a revalued fixed asset investment is recognised in other comprehensive income until the carrying amount reaches the asset's depreciated historic cost.

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, [associates, branch, joint ventures] to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Provisions

Where the Company enters into a financial guarantee contract to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

2 Interest receivable and similar income

	Year ended 1 January 2017 £'000	Year ended 3 January 2016 £'000
Interest receivable from group undertakings	-	1,841

3 Interest payable and other charges

	Year ended 1 January 2017 £'000	Year ended 3 January 2016 £'000
Interest payable to group undertakings	-	18,529

On 13 July 2016 the Devonshire Point group undertook a capital reorganisation which involved a number of its subsidiary undertakings. The transactions relating to the company have been reflected in these financial statements. On 31 July 2016 there was a simplification of group undertaking balances due to and from group undertakings which resulted in significantly fewer and smaller balances owed between group undertakings. As a consequence the calculation of interest receivable and payable from group undertakings has, where appropriate, been based on the post 31 July 2016 balances outstanding.

Notes *(continued)*

4 Expenses and auditors remuneration

The audit fee for the company for the current and prior year was borne by QHotels Services Limited, a fellow subsidiary, an estimate of the audit fee relating to this company is £1,000 *(2015: £1,000)*. The company paid no other fees to the auditors for other services *(2015: £nil)*.

The director emoluments of Michael Purtill and Ian Goulding are paid by and charged to QHotels Services Limited, a subsidiary undertaking. Their services to the company are of a negligible value and their employments are deemed to be wholly attributable to their services to QHotels Services Limited so no amounts have been recharged to the company.

5 Tax on profit on ordinary activities

Total tax expense recognised in the profit and loss account, other comprehensive income and equity:

	Year ended 1 January 2017 £'000	Year ended 3 January 2016 £'000
Current tax		
Group relief	-	(3,379)
Adjustments in respect of prior periods	**18**	-
Total current tax	**18**	(3,379)
Total tax	**18**	(3,379)

	Year ended 1 January 2017			Year ended 3 January 2016		
	£'000 Current tax	**£'000 Deferred tax**	**£'000 Current tax**	£'000 Deferred tax	£'000 Current tax	£'000 Deferred tax
Recognised in profit and loss account	**18**	**-**	**18**	(3,379)	-	(3,379)
Total tax	**18**	**-**	**18**	(3,379)	-	(3,379)

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016.

The current tax charge for the year is lower than *(2015: lower than)* the standard rate of corporation tax in the UK 20.00% *(2015: 21.50%)*. The differences are explained below:

	Year ended 1 January 2017 £'000	Year ended 3 January 2016 £'000
Tax reconciliation		
Profit/(loss) on ordinary activities before tax	**13,994**	(13,512)
Current tax charge/(credit) at 20.00% *(2015: 21.50%)*	**2,799**	(2,736)
Effects of:		
Non qualifying write back of impairment of fixed assets	**(2,799)**	(643)
Adjustment in respect of prior periods	**18**	-
Total tax expense included in profit or loss (see above)	**18**	(3,379)

Notes *(continued)*

6 Fixed asset investments

	£'000
Cost	
At beginning and end of year	147,006
Additions	11,055
Dividend received treated as a return on capital	(2,006)
	156,055
Amortisation	
Brought forward	516
	516
Net book value	
At 1 January 2017	**156,571**
At 3 January 2016	147,522

On 13 July 2016 the company received a dividend of £2,006,000 from Marston Hotels Limited, a subsidiary undertaking. The dividend reduced the net assets of the subsidiary undertaking, to a value below the company's investment carrying cost of the subsidiary undertaking. The difference between the investment carrying value and the net assets of the subsidiary undertaking immediately after the dividend payment, has been treated as a return of capital, and has been applied as a reduction in the investment carrying value of the subsidiary undertaking.

During the year the company subscribed for additional shares issued by the following subsidiaries:

MH Freeholds Limited	£11,055,089

The company has the following wholly owned investments, incorporated in England of:

- £24,051,613 *(2015: £26,057,640)* at cost less impairment, of Marston Hotels Limited, which operates and manages a group of hotels.
- £132,519,594 *(2015: £121,464,582)* at cost less impairment, of MH Freeholds Limited, which is a property investment holding company.

The registered office of both subsidiary undertakings is Wellington House, Cliffe Park, Bruntcliffe Road, Morley, Leeds, LS27 0RY.

7 Debtors

	1 January 2017	3 January 2016
	£'000	£'000
Amounts due from group undertakings	**16**	33,080

The loans due from group undertakings are payable on demand and attract interest at 7.0%

8 Creditors: amounts falling due within one year

	1 January 2017	3 January 2016
	£'000	£'000
Amounts due to group undertakings	**35**	280,712

The loans due to group undertakings are repayable on demand and attract interest at 7.0%.

Notes *(continued)*

9 Called up share capital

	1 January 2017	3 January 2016
	£'000	£'000
Authorised, allotted, called up and fully paid		
1 ordinary shares of £3,511,000 each *(2015: 168,710 of £1 each)*	**3,511**	169

On 12 July 2016 the company issued 242,686,290 new ordinary shares of £1 each to its immediate parent company. The consideration for the share subscription was satisfied by a transfer through its inter-company loan account. The whole of the issued share capital was then consolidated into one share of £242,855,000. On the same date the company underwent a capital reduction reducing the value of its one share by £239,344,000 and that amount was transferred to the profit and loss account.

10 Ultimate controlling party

The entire issued capital of the company is owned by QHotels Investments Limited. The ultimate controlling party is Devonshire Point Investment S.a.r.l, a company incorporated in Luxembourg whose registered office is 4, rue Lou Hemmer, L-1748 Findel.

11 Contingent liabilities

As at 1 January 2017 the company had the following contingent liabilities *(3 January 2016: none)*:

On 18 April 2016 the company became a co-borrower with Stratton Point 1 Limited on a bank loan. The loan is secured by a cross-guaranteed charge over the assets of the company and all of its subsidiary undertakings, together with the assets of its co-borrower and all of its subsidiary undertakings.

On 2 May 2016 Stratton Point 1 Limited and its subsidiary undertakings joined the QHotels Limited VAT group, a subsidiary undertaking, of which the company is a member. All members within a VAT group are jointly and severally liable for the liabilities of the other members of the VAT group.