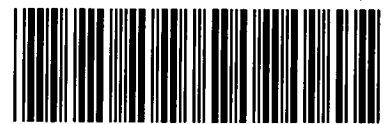


Marston Hotels Holdings Limited
Directors' report and financial
statements
Registered number 3948742
29 December 2013

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Contents

	Page numbers
Directors and advisors	1
Strategic report	2
Directors' report	4
Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements	5
Independent auditor's report to the members of Marston Hotels Holdings Limited	6
Profit and loss account	8
Balance sheet	9
Notes to financial statements	10

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 The Embankment
Neville Street
Leeds
LS1 4DW

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 QHotels group of companies, a UK provincial hotel group, and its investment is in a subsidiary undertaking that trades in the UK provincial hotel market. The company monitors the performance of its subsidiary undertaking 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 investment.

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 funds. This is provided by the QHotels group through a combination of shareholder equity from the immediate holding company and loans from other group undertakings.

Business review and results

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

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

The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiary undertakings. The directors, having assessed the responses of the directors of the company's parent, QHotels Holdings Limited, to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of QHotels Holdings Limited and its subsidiary undertakings to continue as a going concern or its ability to continue with the current banking facilities.

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of QHotels Holdings 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.

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 only other 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.

Strategic report *(continued)*

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.

Future developments

The directors are aware that IBRC, the lender of the group's bank loan at the year end, and its Special Liquidator have undertaken a process with a view to selling the loan to a third party. The directors have been informed that a sale of the bank loan to Sankaty Advisors was concluded on 25 March 2014. The directors of the parent company understand that Sankaty Advisors have a desire to restructure the group's finances and intend to enter into discussions with Sankaty Advisors with a view to agreeing a mutually satisfactory restructuring of the group's finances.

By order of the board


I Goulding
Company Secretary

28 March 2014

Directors' report

The directors present their directors' report and the financial statements for the 52 week year ended 29 December 2013.

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 dividend (2012: £nil).

Charitable and political donations

No contributions were made by the company for either charitable or political purposes (2012: £nil).

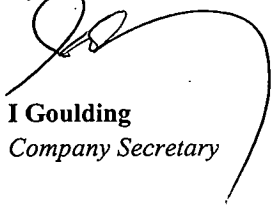
Disclosure of information to auditor

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

28 March 2014

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).

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 The Embankment
Neville Street
Leeds
LS1 4DW
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 29 December 2013 set out on pages 8 to 14. 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 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 29 December 2013 and of its loss 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

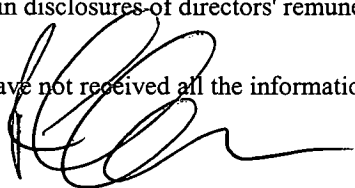
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's 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

28 March 2014

Profit and loss account

for the 52 week year ended 29 December 2013

	<i>Note</i>	Year ended 29 December 2013 £'000	Year ended 30 December 2012 £'000
Interest receivable and similar income	2	2,049	1,878
Interest payable and similar charges	3	(11,865)	(11,362)
Impairment of fixed asset investments	4	(17)	(310)
Writeback of fixed assets investment impairment	4	2,443	5,814
		<hr/>	<hr/>
Loss on ordinary activities before taxation	4	(7,390)	(3,980)
Tax on loss on ordinary activities	5	2,282	2,324
		<hr/>	<hr/>
Loss for the financial year	11	(5,108)	(1,656)
		<hr/>	<hr/>

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

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.

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

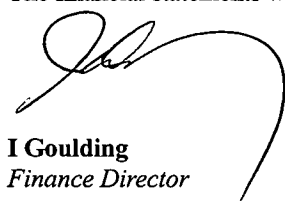
Notes on pages 10 to 14 form an integral part of the financial statements.

Balance sheet
as at 29 December 2013

	<i>Note</i>	As at 29 December 2013 £'000	As at 30 December 2012 £'000
Fixed assets			
Investments	6	132,732	130,306
Current assets			
Debtors	7	29,010	49,815
Creditors: amounts falling due within one year	8	(250,398)	(263,669)
Net current liabilities		(221,388)	(213,854)
Total assets less current liabilities		(88,656)	(83,548)
Net liabilities		(88,656)	(83,548)
Capital and reserves			
Called up share capital	10	169	169
Revaluation reserve	11	2,836	2,836
Profit and loss account	11	(91,661)	(86,553)
Total equity shareholders' deficit	12	(88,656)	(83,548)

Notes on pages 10 to 14 form an integral part of the financial statements.

The financial statements were approved by the board of directors on 28 March 2014 and 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 52 weeks ended 29 December 2013 (*2012: 52 weeks ended 30 December 2012*). 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

On 16 January 2013 the company's ultimate parent company, QHotels Group Limited, was placed into administration, all other subsidiary companies were unaffected. It has been replaced by a new intermediate parent company, QHotels Holdings Limited, which acquired the entire issued share capital of each of the direct subsidiaries of QHotels Group Limited. QHotels Holdings Limited is party to the group's bank facility agreement with Irish Bank Resolution Corporation and will act as the parent to the remaining companies in the group

QHotels Holdings Limited, acting as parent to all group companies other than 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. In particular it will not seek repayment of the amounts currently made available by it or any other fellow subsidiary undertaking.

The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiary undertakings. The directors, having assessed the responses of the directors of the company's parent, QHotels Holdings Limited, to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of QHotels Holdings Limited and its subsidiary undertakings to continue as a going concern or its ability to continue with the current banking facilities which were signed on 16 January 2013.

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of QHotels Holdings 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 and being included in the consolidated financial statements of QHotels Holdings Limited, an intermediate parent company.

Notes (continued)

1 Accounting policies (continued)

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. If any such indication exists, the asset's recoverable amount is estimated.

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 the statement of total recognised gains and losses until the carrying amount reaches the asset's depreciated historic cost

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.

2 Interest receivable and similar income

	Year ended 29 December 2013 £'000	Year ended 30 December 2012 £'000
Interest receivable from group undertakings	2,049	1,878

3 Interest payable and similar charges

	Year ended 29 December 2013 £'000	Year ended 30 December 2012 £'000
Interest payable to group undertakings	11,865	11,362

4 Loss on ordinary activities before taxation

The directors received no remuneration in respect of their services to this Company for the year ended 29 December 2013 (2012: £nil).

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 (2012: £1,000). The company paid no other fees to the auditors for other services (2012: £nil).

The exceptional items in the year were £17,000 (2012: £310,000) relating to the impairment of fixed asset investments and a reversal of prior years' impairments of fixed asset investments of £2,443,000 (2012: £5,814,000).

Notes (continued)

5 Tax on loss on ordinary activities

	Year ended 29 December 2013 £'000	Year ended 30 December 2012 £'000
Current year		
Group relief credit	2,282	2,324
	<hr/>	<hr/>
Tax credit in year	2,282	2,324
	<hr/>	<hr/>

Reductions in the UK corporate tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

The current tax credit for the year is higher (2012: *higher*) than the standard rate of corporation tax in the UK 23.25% (2012: 24.5%).

The differences are explained below:

	Year ended 30 December 2012 £'000	Year ended 1 January 2012 £'000
<i>Current tax reconciliation:</i>		
Loss on ordinary activities before tax	(7,390)	(3,980)
	<hr/>	<hr/>
Current tax credit at 23.25% (2012: 24.5%)	(1,719)	(975)
	<hr/>	<hr/>
<i>Effects of:</i>		
Non-qualifying reversal of fixed asset investments impairment	(563)	(1,349)
	<hr/>	<hr/>
Total current tax credit (see above)	(2,282)	(2,324)
	<hr/>	<hr/>

Notes (continued)

6 Fixed asset investments

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

	Shares in subsidiary undertakings £'000
<i>Cost or valuation</i>	
At beginning and end of year	147,006
<i>Amortisation</i>	
At beginning of year	(16,700)
Impairment reversal	2,426
At end of year	(14,274)
<i>Net book value</i>	
At 29 December 2013	132,732
At 30 December 2012	130,306

The company has investments of:

£16,529,294 (2012: £16,546,446) at cost less impairment, representing the whole of the issued ordinary share capital of Marston Hotels Limited, incorporated in England, which operates and manages a group of hotels.

£116,203,503 (2012: £113,760,014) at cost less impairment, 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

	29 December 2013 £'000	30 December 2012 £'000
Amounts owed from group undertakings	29,010	49,815

8 Creditors: amounts falling due within one year

	29 December 2013 £'000	30 December 2012 £'000
Amounts due to group undertakings	250,398	263,669

The loans due to group undertakings are repayable on demand and attract interest at 4.5%.

9 Deferred tax asset

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

	29 December 2013 £'000	30 December 2012 £'000
Short term timing differences	-	1,179

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

Notes (continued)

10 Called up share capital

	29 December 2013 £'000	30 December 2012 £'000
<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	2,836	(86,553)	(83,717)
Loss for the year	-	(5,108)	(5,108)
At end of year	2,836	(91,661)	(88,825)

12 Reconciliation of movements in shareholders deficit

	29 December 2013 £'000	30 December 2012 £'000
Opening shareholders' deficit	(83,548)	(81,892)
Loss for the year	(5,108)	(1,656)
Closing shareholders' deficit	(88,656)	(83,548)

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 highest level at which a consolidation is prepared is that of QHotels Holdings Limited, the immediate subsidiary of QHotels Group Limited and an intermediate parent company of this entity. The Group accounts of QHotels Holdings Limited can be obtained from Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ. Until 24 December 2012, the ultimate controlling party of QHotels Group Limited was Alchemy Partners Nominees Limited on behalf of investors in the Alchemy Investment Plan. The Alchemy Investment Plan is managed by Alchemy Partners (Guernsey) Limited. On 24 December 2012 Michael Purtill and Ian Goulding each acquired, for £1 each, 50% of the entire shareholding of 4,031,772 shares Alchemy Partners Nominees Limited had in QHotels Group Limited. Until 16th January 2013 the ultimate controlling parties of QHotels Group Limited was Michael Purtill and Ian Goulding. From that date the ultimate controlling parties of QHotels Group Limited (in administration) are with David Chubb and Michael Jervis of PricewaterhouseCoopers LLP as the joint administrators. Michael Purtill and Ian Goulding remain directors and shareholder of QHotels Group Limited (in administration).

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.