Marston Crewe Hall Limited

Directors' report and financial statements

Registered number: 5600743

28 December 2008

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 annual report and the audited financial statements for the year ended 28 December 2008.

Principal activity and business review

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

The company's principal activity is that of a property investment company.

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.

Property insurance and consequential loss

The company's key asset is its interest in freehold property and as such mitigates the risk of damage or destruction of that asset by putting in place appropriate insurance cover. The cover is provided on a group-wide basis and provides for full reinstatement value of the property and loss of gross profits for a period of three years.

Dividends

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

Directors and directors' interests

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 *(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 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 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 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

KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Independent auditors' report to the members of Marston Crewe Hall Limited

We have audited the financial statements of Marston Crewe Hall Limited for the year ended 28 December 2008 which comprise the Profit and Loss Account, the Note of Historical Cost Profits and Losses, the Statement of Total Recognised Gains and Losses, 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 Crewe Hall 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 profit 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 30 December 2008

	Note	Year ended 28 December 2008 £'000	Year ended 30 December 2007 £'000
Turnover	2	**1,075**	1,075
Cost of sales		-	-
Gross profit		**1,075**	1,075
Administrative expenses		**(191)**	(191)
Operating profit		**884**	884
Interest receivable and similar income	3	**279**	179
Interest payable and similar charges	4	**(40)**	(8)
Profit on ordinary activities before taxation	5	**1,123**	1,055
Tax on profit on ordinary activities	6	**(336)**	355
Profit for the financial year	12	**787**	1,410

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

Note of historical cost profits and losses

for the 52 week year ended 28 December 2008

	Note	Year ended 28 December 2008 £'000	Year ended 30 December 2007 £'000
Reported profit on ordinary activities before taxation		**1,123**	1,055
Difference between historical cost depreciation and the actual depreciation charge for the year calculated on revalued amounts	12	**2**	3
Historical cost profit on ordinary activities before taxation		**1,125**	1,058
Historical cost profit for the year retained after taxation		**789**	1,413

Statement of total recognised gains and losses

for the 52 week year ended 28 December 2008

	Note	Year ended 28 December 2008 £'000	Year ended 30 December 2007 £'000
Profit for the financial year	12	**787**	1,410
Unrealised surplus on revaluation of freehold property	12	**4,496**	-
Total recognised gains and losses in year		**5,283**	1,410

Balance sheet
as at 28 December 2008

	Notes	28 December 2008 £'000	30 December 2007 £'000
Fixed assets			
Tangible assets	7	**19,935**	15,630
Current assets			
Debtors	8	**3,610**	2,256
Cash at bank and in hand		-	-
		3,610	2,256
Creditors: amounts falling due within one year	9	**(775)**	(399)
Net current assets		**2,835**	1,857
Total assets less current liabilities		**22,770**	17,487
Provision for liabilities and charges	10	-	-
Net assets		**22,770**	17,487
Capital and reserves			
Called up share capital	11	**15,000**	15,000
Revaluation reserve	12	**5,488**	994
Profit and loss account	12	**2,282**	1,493
Total equity shareholders' funds	13	**22,770**	17,487

The financial statements on pages 7 to 15 were approved by the board of directors on 17 July 2009 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 as modified to include the revaluation of certain tangible fixed assets.

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 financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules as modified to include the revaluation of certain tangible fixed assets.

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.

Tangible assets
No depreciation is provided on freehold land. Depreciation is provided on all tangible fixed assets, other than freehold land, on a straight line basis, over their estimated useful economic lives as follows:

Freehold property	-	up to 50 years
Plant and equipment	-	between 10 and 20 years

Turnover

Turnover, which excludes value added tax, transactions between group companies and trade discounts, represents the invoiced value of goods and services supplied.

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 Segmental reporting

The company's turnover, profit before taxation and net assets are derived from its principal activity within the UK and as such no segmental information has been disclosed.

Notes *(continued)*

3 Interest receivable and similar income

	2008 £'000	2007 £'000
Interest receivable from group undertakings	**279**	179

4 Interest payable and similar charges

	2008 £'000	2007 £'000
Interest payable to group undertakings	**40**	8

5 Profit on ordinary activities before taxation

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation charge for the year	**191**	191
Property rent receivable	**(1,075)**	(1,075)

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

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

Notes *(continued)*

6 Tax on profit on ordinary activities

	2008 £'000	2007 £'000
Current year		
Group relief	**336**	324
Deferred tax	**-**	(1,439)
Release of remaining deferred tax asset	**-**	95
Prior year	**336**	(1,020)
Deferred tax	**-**	665
	336	(355)

The current tax charge for the year is higher *(2007: higher)* than the standard rate of corporation tax in the UK of 28.5% *(2007:30%)*. The differences are explained below.

	2008 £'000	2007 £'000
Current tax reconciliation		
Profit on ordinary activities before tax	**1,123**	1,055
Current tax charge at 28.5% *(2007: 30%)*	**320**	316
Effects of:		
Deferred tax provided	**43**	1,439
Effect of HBA abolition	**-**	(1,393)
Expenses not allowable for tax purposes	**11**	12
HBA allowances claimed	**(38)**	(50)
Total current tax charge (see above)	**336**	324

Notes *(continued)*

7 Tangible fixed assets

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost or valuation			
At beginning of year	13,728	2,269	15,997
Revaluation	4,496	-	4,496
At end of year	18,224	2,269	20,493
Depreciation			
At beginning of year	(53)	(314)	(367)
Charge for year	(40)	(151)	(191)
At end of year	(93)	(465)	(558)
Net book value			
At 28 December 2008	**18,131**	**1,804**	**19,935**
At 30 December 2007	13,675	1,955	15,630

The company's freehold property was independently valued by Jones Lang LaSalle in October 2006. The valuation was prepared on the basis of market value in accordance with the practice statements contained in the RICS Appraisal and Valuation Manual published by Royal Institution of Chartered Surveyors. On 28 December 2008 the directors performed their own internal valuation of the company's freehold property. This was carried out using discounted cash flow techniques. The results of this internal valuation are recorded in these financial statements.

The historical cost and net book value of the company's freehold land and buildings included above at valuation is as follows:

	2008 £'000	2007 £'000
Historical cost	**12,731**	12,731
Historical net book value	**12,643**	12,681

8 Debtors

	2008 £'000	2007 £'000
Amounts due from group undertakings	**3,610**	2,256

9 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Amounts due to group undertakings	**775**	399

Notes *(continued)*

10 Provision for liabilities and charges

	2008 £'000	2007 £'000
Deferred taxation		
At beginning of year	-	679
Current year credit	-	(1,439)
Prior year charge	-	665
Release of remaining deferred tax asset	-	95
At end of year	-	-

The amounts provided for deferred taxation and the amounts not provided are set out below:

	2008		2007	
	Provided £'000	Provided £'000	Provided £'000	Unprovided £'000
Difference between accumulated depreciation and capital allowances	-	(130)	-	(88)
On revaluation of land and buildings	-	3,020	-	847
Deferred tax liability	-	2,890	-	759

No provision has been made in respect of the unrealised property revaluation surplus because it is not the directors current intention to dispose of the property. Other deferred tax timing differences have not been provided because of the uncertainty of their reversal.

11 Called up share capital

	2008 £000	2007 £000
Authorised		
25,000,000 ordinary shares of £1 each	25,000	25,000
Allotted, called up and fully paid		
15,000,001 ordinary shares of £1 each	15,000	15,000

12 Reserves

The reserves of the company are as follows:

	Revaluation reserve £'000	Profit & loss account £'000	Total £'000
At beginning of year	994	1,493	2,487
Profit for the year	-	787	787
Transfer in respect of depreciation provided on revaluation surplus	(2)	2	-
Revaluation of freehold property in the year	4,496	-	4,496
At end of year	5,488	2,282	7,770

Notes *(continued)*

13 Reconciliation of movements in shareholders' funds

	2008 £'000	2007 £'000
Opening shareholders' funds	17,487	16,077
Profit for the year	787	1,410
Unrealised surplus on revaluation of freehold property	4,496	-
Closing shareholders' funds	**22,770**	17,487

14 Ultimate controlling party

The entire issued share capital of the company is owned by MH Freeholds 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.

15 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.