Morton Hotels (formerly Morton Hotels Limited)

Directors' report and financial statements

Registered number 175328

31 December 2006

Contents

Directors and advisors

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 14 month period ended 31 December 2006

Principal activity and business review

The result for the period is set out on page 7

The principal activity of the company was that of an owner and manager of a freehold hotel On 17 February 2006 the company sold the business and assets of its hotel to Westerwood Hotel Limited, a fellow subsidiary undertaking The company's principal activity is now that of a dormant company

On 13 February 2006 the company re registered itself from being a limited to unlimited company The company's name automatically changed from Morton Hotels Limited to Morton Hotels

On 14 February 2006 the nominal value of each share in the company was reduced, by special reduction, from £1 to £0 0001

The directors consider that the financial position at 31 December 2006 was satisfactory and they expect this to be maintained for the foreseeable future

Dividends

A dividend of £5,313,424 was paid on 14 February 2006 *(2005 £3,000,000)*

Directors and directors' interests

The directors of the company who served during the period were

	Date appointed	Date resigned
Michael Purtill	17 February 2006	
Ian Goulding	17 February 2006	
David Taylor	17 February 2006	
William Sword		17 February 2006
Grant Sword		17 February 2006
Keir Sword		14 February 2006
Paul Russell		9 February 2006
June Thompson		17 February 2006
Lynne Henderson		17 February 2006

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

Charitable and political donations

No contributions were made by the company for either charitable or political purposes *(2005 £nil)*

Directors' report *(continued)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

During the period KPMG LLP were appointed as auditors of the company

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

By order of the board

I Goulding
Company Secretary

16 July 2007

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 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 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

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Neville Street
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LS1 4DW
United Kingdom

Independent auditors' report to the members of Morton Hotels (formerly Morton Hotels Limited)

We have audited the financial statements of Morton Hotels for the period ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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 Morton Hotels (formerly Morton Hotels 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 31 December 2006 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

16 July 2007

Profit and loss account

for the 14 month period ended 31 December 2006

	Notes	14 month period ended 31 December 2006 £'000	Year ended 31 October 2005 £'000
Turnover	2		
Continuing operations			3,957
Discontinued operations		**1,002**	202
		1,002	4,159
Cost of sales	3	**(140)**	(586)
Gross profit		**862**	3,573
Administrative expenses	3	**(1,220)**	(2,810)
Operating profit – continuing operations			784
Operating loss – discontinued operations		**(358)**	(21)
Operating profit		**(358)**	763
Profit on sale on disposal of fixed assets		**9,251**	2,255
Interest receivable and similar income	6	**1,540**	128
Interest payable and similar charges	7	**(537)**	(110)
Profit on ordinary activities before taxation	8	**9,896**	3,036
Tax on profit on ordinary activities	9	**247**	(739)
Profit for the financial period	17	**10,143**	2,297

There is no difference between the profit on ordinary activities before taxation and the retained profit for the period stated above, and their historical cost equivalents

Statement of total recognised gains and losses

for the 14 month period ended 31 December 2006

		14 month period ended 31 December 2006 £'000	Year ended 31 October 2005 £'000
Profit for the period	17	**10,143**	2,297
Dividends	10	**(5,313)**	(3,000)
Total gains and losses for the period		**4,830**	(703)

Balance sheet
as at 31 December 2006

	Notes	**31 December 2006 £'000**	31 October 2005 £'000
Fixed assets			
Tangible assets	*11*		6,326
Current assets			
Stocks	*12*		67
Debtors	*13*	**16,178**	318
Cash at bank and in hand			568
		16,178	953
Creditors amounts falling due within one year	*14*	**(5,940)**	(1,438)
Net current liabilities		**10,238**	(485)
Total assets less current liabilities		**10,238**	5,841
Provision for liabilities and charges	*15*		(433)
Total net assets		**10,238**	5,408
Capital and reserves			
Called up share capital	*16*		2,590
Profit and loss account	*17*	**10,238**	2,818
Total equity shareholders' funds	*18*	**10,238**	5,408

The financial statements on pages 7 to 14 were approved by the board of directors on 16 July 2007 and ere signed on its behalf by

I Goulding
Finance Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

Basis of accounting

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

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

Stock

Stock is valued at the lower of cost and net realisable value

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 period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

2 Segmental reporting

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

3 Cost of sales and administration expenses

	Continuing operations	**Discontinued operations**	**14 month period ended 31 December 2006**
	£'000	**£'000**	**£'000**
Cost of sales		**140**	**140**
Administrative expenses		**1,220**	**1,220**

	Continuing operations	Discontinued operations	14 month period ended 31 October 2005
	£'000	£'000	£'000
Cost of sales	546	40	586
Administrative expenses	2,626	184	2,810

Notes *(continued)*

4 Directors' emoluments

	14 month period ended 31 December 2006 £'000	Year ended 31 October 2005 £'000
Emoluments for qualifying services	**36**	109
Company pension contributions to money purchase schemes	**5**	15
Termination payments to departed directors	**255**	
	296	124

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to nil *(2005 2)*

5 Employees

The average number of employees (including directors) during the period was

	14 month period ended 31 December 2006 Number	Year ended 31 October 2005 Number
Management and administration	**8**	8
Other	**109**	109
	117	117

	14 month period ended 31 December 2006 £'000	Year ended 31 October 2005 £'000
Wages and salaries	**623**	1,271
Social security costs	**25**	85
Other pension costs	**5**	17
	653	1,373

6 Interest receivable and similar income

	14 month period ended 31 December 2006 £'000	Year ended 31 October 2005 £'000
Interest receivable from group undertakings	**1,537**	
Other bank interest receivable	**3**	128
	1,540	128

Notes *(continued)*

7 Interest payable and similar charges

	14 month period ended 31 December 2006 £'000	Year ended 31 October 2005 £'000
Interest payable on bank loans and overdrafts	1	110
Interest payable to group undertakings	536	
	537	110

8 Profit on ordinary activities before taxation

	14 month period ended 31 December 2006 £'000	Year ended 31 October 2005 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation of tangible assets	70	239
Profit on disposal of tangible assets	(9,251)	
Auditor's remuneration		
Audit	7	7
Other services		

9 Tax on profit on ordinary activities

	14 month period ended 31 December 2006 £'000	Year ended 31 October 2005 £'000
Corporation tax in respect of		
Current period	185	717
Period periods	1	3
	186	720
Deferred taxation		
Current period	(433)	(633)
Prior period		652
	(247)	739

The current tax charge for the period is lower *(2005 lower)* than the standard rate of corporation tax in the UK of 30% *(2005 30%)* The differences are explained below

	14 months ended 31 December 2006 £'000	Year ended 31 October 2005 £'000
Profit on ordinary activities before tax	9,896	3,036
Current tax at 30%	2,969	911
Effects of		
Capital allowances in advance of depreciation	(6)	(41)
Excess book gain		(183)
Disallowed expenses	(3)	30
Non taxable profit on disposal of fixed assets	(2,775)	
Current tax charge	185	717

Notes *(continued)*

10 Dividends

	14 month period ended 31 December 2006 £'000	Year ended 31 October 2005 £'000
Ordinary final paid	**5,313**	3,000

11 Tangible fixed assets

	Land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 November 2005	3,807	3,359	7,166
Additions		12	12
Disposals	(3,807)	(3,371)	(7,178)
At 31 December 2006			
Depreciation			
At 1 November 2005	(125)	(715)	(840)
Charge for period	(5)	(65)	(70)
Disposals	130	780	910
At 31 December 2006			
Net book value			
At 31 December 2006			
At 31 October 2005	3,682	2,644	6,326

12 Stocks

	31 December 2006 £'000	31 October 2005 £'000
Finished goods and goods for resale		67

13 Debtors

	31 December 2006 £'000	31 October 2005 £'000
Trade debtors		171
Other debtors		64
Prepayments and accrued income		83
Amounts due from group undertakings	**16,178**	
	16,178	318

Notes *(continued)*

14 Creditors: amounts falling due within one year

	31 December 2006 £'000	31 October 2005 £'000
Trade creditors		354
Corporation tax		717
Other taxes and social security costs		169
Accruals and deferred income		49
Amounts due to group undertakings	5,940	149
	5,940	1,438

15 Provision for liabilities and charges

	Deferred tax liability £'000
Balance at beginning of period	433
Released in period	(433)
Balance at end of period	

The deferred tax liability is made up as follows

	31 December 2006 £'000	31 October 2005 £'000
Accelerated capital allowances		433

16 Share capital

	31 December 2006 £	31 October 2005 £
Authorised		
5,000,000 ordinary shares of £0 0001 each *(2005 £1 each)*	500	5,000,000
Allotted, called up and fully paid		
2,589,760 ordinary shares of £0 0001 each *(2005 £1 each)*	259	2,589,760

On 13 February 2006 the company re registered itself from being a limited to an unlimited company

On 14 February 2006 the nominal value of each share in the company was reduced, by special resolution, from £1 to £0 0001 and the reduction was transferred to the profit and loss account

Notes *(continued)*

17 Reserves

		Profit and loss account £
Balance at beginning of period		2,818
Profit for the period	10,143	
Dividends	(5,313)	
Reduction in nominal value of share capital	2,590	
Balance at end of period	**10,238**	

Included in the profit and loss account at 31 December 2006 is an amount of £9 3m (2005 £nil) that is non distributable

18 Reconciliation of movements in shareholders' funds

	31 December 2006 £'000	31 October 2005 £'000
Opening shareholders' funds	**5,408**	6,111
Profit for the period	**10,143**	2,297
Dividends	**(5,313)**	(3,000)
Closing shareholders' funds	**10,238**	5,408

19 Pension costs

The company maintained a defined contribution pension scheme to which it contributes The assets of the scheme are held separately from the company in independently administered funds The pension cost charged in the period represents contributions payable by the company to the fund and amounted to £5,000 *(2005 £17,000)*

20 Ultimate controlling party

The entire issued share capital of the company is owned by Morton Hotels (Holdings) Limited The ultimate controlling party is QHotels Group Limited, a company incorporated in Great Britain and registered in England and Wales The Group accounts of QHotels Group Limited can be obtained from Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ 86 7% of the issued share capital of QHotels Group Limited is held by Alchemy Partners Nominees Limited on behalf of investors in the Alchemy Investment Plan The Alchemy Investment Plan is managed by Alchemy Partners (Guernsey) Investment Limited

21 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