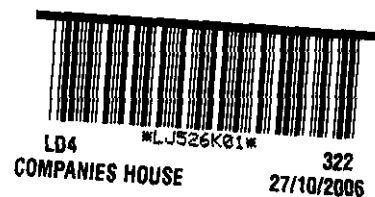


HI (CHESTER SOUTH) LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2005



HI (CHESTER SOUTH) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

The board of directors

M Newman
R Prince

Company secretary

Paul Hastings Administrative Services Limited

Registered office

88 Wood Street
London
EC2V 7AJ

Auditors

Deloitte & Touche LLP
Chartered Accountants
& Registered Auditors
London

HI (CHESTER SOUTH) LIMITED

THE DIRECTORS' REPORT

PERIOD FROM 25 MAY 2005 TO 31 DECEMBER 2005

The directors present their report and the financial statements of the company for the period from 25 May 2005 to 31 December 2005.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The company's principal activity is the ownership of hotels in the UK.

It is the intention of the directors that the company will continue operating in this capacity. The directors view the results and the future prospects of the company as satisfactory.

RESULTS AND DIVIDENDS

The profit on ordinary activities after taxation for the period ended 31 December 2005 was £49,000 (period ended 24 May 2005 – profit of £25,000).

The directors do not propose a dividend for this period (period ended 24 May 2005 - £Nil).

CHANGE OF ACCOUNTING REFERENCE DATE

On 10 February 2006 the company changed its accounting reference date to 31 December.

DIRECTORS

The directors who served the company during the period were as follows:

M Newman

R Prince

A Fish

(Resigned 23 August 2005)

There are no directors' interests requiring disclosure under the Companies Act 1985.

AUDITORS

Ernst & Young LLP have resigned as auditors to the company and Deloitte & Touche LLP were appointed by the directors to fill the casual vacancy, in accordance with section 388(1) of the Companies Act 1985.

ELECTIVE RESOLUTIONS

The company has passed Elective Resolutions to dispense with the laying of the financial statements before the company in General Meeting, the appointment of auditors annually and the holding of Annual General Meetings, pursuant to sections 252, 386 and 366A of the Companies Act.

DIRECTORS' RESPONSIBILITIES

The Statement of Directors' Responsibilities shown on page 3 forms an integral part of the Directors' Report.

Signed on behalf of the directors

Director

Approved on 22/6/06

HI (CHESTER SOUTH) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

PERIOD FROM 25 MAY 2005 TO 31 DECEMBER 2005

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial period which 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 those financial statements, the directors are required to:

select suitable accounting policies, as described on pages 8 to 9, and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the directors are aware there is no relevant audit information of which the company's auditors are unaware; and;
- the directors have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

HI (CHESTER SOUTH) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HI (CHESTER SOUTH) LIMITED

PERIOD FROM 25 MAY 2005 TO 31 DECEMBER 2005

We have audited the financial statements of HI (Chester South) Limited for the period ended 31 December 2005 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 15. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also 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.

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 judgements 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.

HI (CHESTER SOUTH) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HI (CHESTER SOUTH) LIMITED *(continued)*

PERIOD FROM 25 MAY 2005 TO 31 DECEMBER 2005

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 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.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
Date

HI (CHESTER SOUTH) LIMITED

PROFIT AND LOSS ACCOUNT

PERIOD FROM 25 MAY 2005 TO 31 DECEMBER 2005

		Period from 25 May 05 to 31 Dec 05 £000	Period from 1 Jan 05 to 24 May 05 £000
	Note		
TURNOVER	2	303	197
OPERATING COSTS:			
Depreciation written off fixed assets		(188)	(132)
OPERATING PROFIT	3	115	65
Interest payable	5	(45)	(36)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		70	29
Tax on profit on ordinary activities	6	(21)	(4)
RETAINED PROFIT FOR THE FINANCIAL PERIOD		49	25

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the period as set out above.

Accordingly no statement of total recognised gains and losses is presented.

The notes on pages 8 to 14 form part of these financial statements.

HI (CHESTER SOUTH) LIMITED

BALANCE SHEET

31 DECEMBER 2005

	Note	£000	31 Dec 05 £000	24 May 05 £000
FIXED ASSETS				
Tangible fixed assets	7		4,860	5,000
CURRENT ASSETS				
Debtors	8	506		1,072
CREDITORS: Amounts falling due within one year	9	(1,629)		(2,357)
NET CURRENT LIABILITIES			(1,123)	(1,285)
TOTAL ASSETS LESS CURRENT LIABILITIES			3,737	3,715
PROVISIONS FOR LIABILITIES AND CHARGES				
Deferred taxation	10		(743)	(770)
			<u>2,994</u>	<u>2,945</u>
CAPITAL AND RESERVES				
Called-up equity share capital	12		100	100
Share premium account	13		3,513	3,513
Profit and loss account	13		(619)	(668)
EQUITY SHAREHOLDERS' FUNDS	13		<u>2,994</u>	<u>2,945</u>

These financial statements were approved by the directors on the 22/6/06 and are signed on their behalf by:

Director

The notes on pages 8 to 14 form part of these financial statements.

HI (CHESTER SOUTH) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 25 MAY 2005 TO 31 DECEMBER 2005

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention.

They have been drawn up to comply with applicable United Kingdom law and accounting standards, which have been applied consistently throughout the current and prior period.

Cash flow statement

The directors have taken advantage of the exemption in FRS 1 "Cash Flow Statements" (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

Fixed assets

All fixed assets are stated at cost less depreciation and any provision for impairment.

Impairment

Any impairment arising on an income-generating unit is charged to the profit and loss account.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold and long lease land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life as follows:

Freehold buildings	- periods up to 50 years
Non core assets (including building surface finishes and services)	- up to 25 years
Plant and machinery	- between 10 and 15 years
Furniture and equipment	- between 3 and 20 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Operating leases

Rents receivable under operating leases are credited to the profit and loss account on a straight line basis over the lease term.

HI (CHESTER SOUTH) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 25 MAY 2005 TO 31 DECEMBER 2005

1. ACCOUNTING POLICIES *(continued)*

Deferred taxation

Deferred tax assets and liabilities are recognised, subject to certain exceptions, in respect of all material timing differences between the recognition of gains and losses in the financial statements and for tax purposes. Those timing differences recognised include accelerated capital allowances, unrelieved tax losses and short term timing differences. Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets and the gain on sale of assets rolled into replacement assets.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

The taxation liabilities of certain group undertakings are reduced wholly or in part by the surrender of losses by fellow group undertakings. The tax benefits arising from group relief are recognised in the financial statements of both the surrendering and recipient companies, being paid at a rate of 30% of the losses surrendered.

Financial instruments

In preparing the financial statements for the current period, the company has adopted the presentation paragraph of FRS 25, 'Financial instruments'. Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

The adoption of FRS 25 has had no effect on the presentation of current and comparative information.

HI (CHESTER SOUTH) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 25 MAY 2005 TO 31 DECEMBER 2005

2. TURNOVER

The turnover and profit before tax are attributable to the one principal activity of the company.
An analysis of turnover is given below:

	Period from 25 May 05 to 31 Dec 05 £000	Period from 1 Jan 05 to 24 May 05 £000
United Kingdom	<u>303</u>	<u>197</u>

Rents receivable under operating leases in the period ended 31 December 2005 amounted to £303,000 (period ended 24 May 2005 - £197,000).

3. OPERATING PROFIT

Operating profit is stated after charging:

	Period from 25 May 05 to 31 Dec 05 £000	Period from 1 Jan 05 to 24 May 05 £000
Depreciation of owned fixed assets	<u>188</u>	<u>132</u>

Auditors' remuneration has been borne by a fellow group undertaking in both the current and prior period.

4. DIRECTORS' EMOLUMENTS

Directors' emoluments for the period were £Nil. In the prior period Directors' emoluments were paid for by other group undertakings.

There were no staff employed by the company in either the current or the prior period.

5. INTEREST PAYABLE

	Period from 25 May 05 to 31 Dec 05 £000	Period from 1 Jan 05 to 24 May 05 £000
Interest payable to fellow group undertakings	<u>45</u>	<u>36</u>

HI (CHESTER SOUTH) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 25 MAY 2005 TO 31 DECEMBER 2005

6. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the period

	Period from 25 May 05 to 31 Dec 05 £000	Period from 1 Jan 05 to 24 May 05 £000
Current tax:		
UK Corporation tax based on the results for the period at 30% (to 24 May 05 - 30%)		
Current period	48	19
Adjustments in respect of prior periods	-	(5)
Total current tax	48	14
Deferred tax:		
Origination and reversal of timing differences	(27)	(11)
Adjustments in respect of prior periods	-	1
Total deferred tax	(27)	(10)
Tax on profit on ordinary activities	21	4

(b) Factors affecting current tax charge

	Period from 25 May 05 to 31 Dec 05 £000	Period from 1 Jan 05 to 24 May 05 £000
Profit on ordinary activities before taxation	70	29
	%	%
UK corporation tax standard rate	30.0	30.0
Permanent differences	1.2	-
Capital allowances in excess of depreciation	18.2	37.0
Timing differences	19.4	-
Prior period adjustments	-	(17.0)
Effective current tax rate on ordinary activities	68.8	50.0

HI (CHESTER SOUTH) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 25 MAY 2005 TO 31 DECEMBER 2005

7. TANGIBLE FIXED ASSETS

	Land and buildings: Freehold £000	Plant and Machinery £000	Furniture and equipment £000	Total £000
COST				
At 25 May 2005	1,761	2,368	1,548	5,677
Additions	—	6	42	48
At 31 December 2005	<u>1,761</u>	<u>2,374</u>	<u>1,590</u>	<u>5,725</u>
DEPRECIATION				
At 25 May 2005	25	234	418	677
Charge for the period	7	65	116	188
At 31 December 2005	<u>32</u>	<u>299</u>	<u>534</u>	<u>865</u>
NET BOOK VALUE				
At 31 December 2005	<u>1,729</u>	<u>2,075</u>	<u>1,056</u>	<u>4,860</u>
At 24 May 2005	<u>1,736</u>	<u>2,134</u>	<u>1,130</u>	<u>5,000</u>

All of the above fixed assets were held for use in operating leases.

The company's assets are held as security in respect of bank loans taken by LRG Acquisition Limited, an intermediate parent undertaking. The amount of the loans secured is stated in the accounts of LRG Acquisition Limited.

8. DEBTORS

	31 Dec 05 £000	24 May 05 £000
Amounts owed by fellow group undertakings	498	1,072
Other debtors	8	—
	<u>506</u>	<u>1,072</u>

9. CREDITORS: Amounts falling due within one year

	31 Dec 05 £000	24 May 05 £000
Trade creditors	31	3
Amounts owed to fellow group undertakings	1,498	2,300
Corporation tax	100	52
Other creditors	—	2
	<u>1,629</u>	<u>2,357</u>

HI (CHESTER SOUTH) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 25 MAY 2005 TO 31 DECEMBER 2005

10. DEFERRED TAXATION

The movement in the deferred taxation provision during the period was:

	Period from 25 May 05 to 31 Dec 05 £000	Period from 1 Jan 05 to 24 May 05 £000
At 25 May 2005	770	780
Current period movement	(27)	(10)
Provision carried forward	<u>743</u>	<u>770</u>

Analysed as tax on timing differences related to:

	31 Dec 05 £000	24 May 05 £000
Fixed assets	757	770
Other	(14)	-
	<u>743</u>	<u>770</u>

No provision has been made for deferred tax on the sale of properties at their net book value amounts as the company is not committed to their disposal. The total amount unprovided is estimated at £129,000 (period ended 24 May 2005 £10,000).

No provision has been made for deferred tax on the sale of properties where gains have been rolled over into replacement assets. The total amount unprovided is estimated at £30,000 (period ended 24 May 2005 - £Nil). It is not anticipated that any tax will be payable in the foreseeable future.

11. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemptions available under FRS 8 "Related Party Transactions", and has not disclosed transactions with group companies and related parties on the basis that the group accounts in which the company is included, are publicly available.

12. SHARE CAPITAL

Authorised share capital:

	31 Dec 05 £000	24 May 05 £000
50,000,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

Allotted, called up and fully paid:

	31 Dec 05 No	£000	24 May 05 No	£000
Ordinary shares of £1 each	<u>100,001</u>	<u>100</u>	<u>100,001</u>	<u>100</u>

HI (CHESTER SOUTH) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 25 MAY 2005 TO 31 DECEMBER 2005

13. RECONCILIATION OF EQUITY SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £000	Share premium account £000	Profit and loss account £000	Total equity shareholders' funds £000
Balance brought forward at 25 May 05	100	3,513	(668)	2,945
Retained profit for the period	—	—	49	49
Balance carried forward at 31 Dec 05	<u>100</u>	<u>3,513</u>	<u>(619)</u>	<u>2,994</u>

14. CAPITAL COMMITMENTS

	31 Dec 05 £000	24 May 05 £000
Committed but not provided	<u>225</u>	<u>5</u>

15. PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate parent company and controlling party is LRG Holdings Limited. The immediate parent is LRG Hotels Limited.

The smallest and largest group of companies for which consolidated financial statements are prepared is LRG Holdings Limited. Copies of the consolidated financial statements of LRG Holdings Limited may be obtained from the registered office located at 88 Wood Street, London, EC2V 7AJ.