

Company Registration No. 4721028

HI (Reading South) Limited

Report and financial statements

for the year ended 31 December 2010

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HI (Reading South) Limited

Report and financial statements 2010

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HI (Reading South) Limited

Report and financial statements 2010

Officers and professional advisers

Directors

R Prince
P Ekas

Company Secretary

Paul Hastings Administrative Services Limited

Registered Office

10 Bishops Square
8th Floor
London
E1 6EG

Auditors

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

HI (Reading South) Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2010

Principal activities and review of the business

The Company's principal activity is the ownership of hotels in the UK and to provide operating leases to other Group companies operating 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 loss on ordinary activities after taxation for the year ended 31 December 2010 was £762,000 (2009 profit £5,255,000) after an impairment charge for £1,079,000 (2009 impairment reversal £5,026,000)

The directors do not propose a dividend for this year (2009 nil)

Directors

The directors who served the Company during the year were as follows

R Prince
P Ekas

Small Company provisions

This report has been prepared in accordance with the special provisions for small companies under part 15 of the Companies Act 2006

Auditors

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 the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditors and appropriate arrangements are being made for them to be deemed reappointed as auditors in the absence of an Annual General Meeting

Approved by the Board of Directors
and signed on behalf of the Board

Director

23 MAY 2011



R PRINCE

HI (Reading South) Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 accounting 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 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.

Independent auditor's report to the members of HI (Reading South) Limited

We have audited the financial statements of HI (Reading South) Limited for the year ended 31 December 2010 which comprise the profit and loss account, the balance sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 auditors

As explained more fully in the Statement of directors' responsibilities, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

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 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom 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 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 HI (Reading South) 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

- the directors were not entitled to take advantage of the small companies exemption in preparing the directors' report, or
- 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



Timothy Steel (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

23 / 5 2011

HI (Reading South) Limited

Profit and loss account **Year ended 31 December 2010**

	Notes	2010 £'000	2009 £'000
Turnover	2	750	750
Operating costs			
Costs and overheads (net of impairment provision reversal/charge)		(1,409)	4,589
Operating (loss)/profit	3	(659)	5,339
Loss on disposal of fixed assets	5	(24)	-
(Loss)/profit on ordinary activities before taxation		(683)	5,339
Tax on (loss)/profit on ordinary activities	6	(79)	(84)
Retained (loss)/profit for the financial year		<u>(762)</u>	<u>5,255</u>

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 year as set out above. Accordingly no statement of total recognised gains and losses is presented

HI (Reading South) Limited

Balance sheet **31 December 2010**

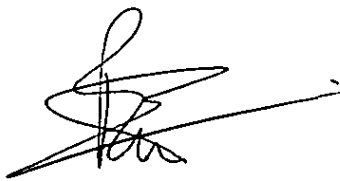
	Notes	2010 £'000	2009 £'000
Fixed assets			
Tangible fixed assets	7	8,400	9,750
Current assets			
Debtors	8	3,677	2,926
Creditors amounts falling due within one year	9	(1,411)	(1,192)
Net current assets		2,266	1,734
Total assets less current liabilities		10,666	11,484
Provision for liabilities			
Deferred taxation	10	(548)	(604)
Net assets		10,118	10,880
Capital and reserves			
Called-up share capital	11	100	100
Share premium account	12	24,162	24,162
Profit and loss account	12	(14,144)	(13,382)
Shareholders' funds	12	10,118	10,880

The financial statements of HI (Reading South) Limited, (registered number 4721028) were approved by the Board of Directors on **23 MAY** 2011

Signed on behalf of the Board of Directors

Director


R PRINCE


P EKAS

HI (Reading South) Limited

Notes to the accounts Year ended 31 December 2010

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 accounting standards, which have been applied consistently throughout the current and prior period

Going concern

The Company is part of the LRG Holdings Limited group ("the Group") and the Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the financial statements of LRG Holdings Limited

The Group meets its day to day working capital requirements from normal trading activities through its 61 hotels

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on page 2

The current economic conditions create uncertainty over the level of demand for the Group's hotels and as a result the directors have considered the ability of the Group to meet its operational and financing obligations over the next twelve months

In June 2010 agreement was reached with the Group's lenders to extend the maturity of short term senior loans for two years, to 24 May 2012, with a further twelve month extension at the option of the Group and subject to meeting certain tests. At the same time new interest rate swap and cap agreements were entered into to limit the risk of higher interest rates being payable on the group's loans. At the balance sheet date, 82.9% of the debt was fixed or capped to limit the effects of interest rates above 1.9% (2009 91.4% of the debt was fixed or capped to limit the effects of interest rates above 5.3%)

The Group's financial forecasts, taking account of the revised loan terms and reasonably possible changes in trading performance, show that the group will be able to operate within the level of its current and future facilities and remain in compliance with the terms of its loan agreements

The Company is dependent on continuing finance being made available by its parent undertaking to enable it to continue operating and to meet its liabilities as they fall due. The Company is in receipt of a letter from its parent company confirming that it will provide continuing support and the directors have made enquiries to form a reasonable expectation that the parent company has adequate resources to continue in operational existence and provide support for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts

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

Tangible fixed assets

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

Impairment

At each balance sheet date, the Company reviews carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The impairment review is completed on a cash-generating unit basis

HI (Reading South) Limited

Notes to the accounts

Year ended 31 December 2010

1. Accounting policies (continued)

Impairment (continued)

Recoverable amount is the higher of fair value less the costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects a market assessment of the time value of money.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of impairment loss is recognised as income immediately.

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:

Non core assets (including building surface finishes and services)	- up to 25 years
Leasehold buildings	- over the shorter of 50 years and their remaining lease periods
Plant and machinery	- between 5 and 15 years
Furniture and equipment	- between 3 and 20 years

Operating leases

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

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these 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 assets and liabilities are not discounted.

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 28% of the losses surrendered.

HI (Reading South) Limited

Notes to the accounts Year ended 31 December 2010

1 Accounting policies (continued)

Financial instruments

In preparing the financial statements for the past and current period, the Company has adopted the presentation paragraph of FRS 25, 'Financial Statements'. 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.

2 Turnover

Turnover, which is stated in the profit and loss account net of value added tax, represents rent receivable from another group entity.

The turnover and profit before tax are attributable to the one principal activity of the Company.

An analysis of turnover is given below:

	2010 £'000	2009 £'000
United Kingdom	750	750

Rents receivable under operating leases in the year ended 31 December 2010 amounted to £750,000 (2009: £750,000).

3. Operating loss/profit

Operating loss/profit is stated after charging:

	2010 £'000	2009 £'000
Depreciation of owned fixed assets	330	437
Impairment of owned fixed assets	1,079	(5,026)

Auditors' remuneration of £2,600 (2009: £2,600) has been borne by a fellow group undertaking in both the current and prior period.

4. Directors' emoluments

Directors' emoluments in the current and prior period were nil.

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

5 Loss on disposal of fixed assets

	2010 £'000	2009 £'000
Loss on disposal of fixed assets	24	-

HI (Reading South) Limited

Notes to the accounts Year ended 31 December 2010

6. Taxation on ordinary activities

(a) Analysis of tax credit in the year

	2010 £'000	2009 £'000
Current tax		
UK corporation tax on (loss)/profit of the period	133	111
Adjustment in respect of prior years	2	(4)
Total current tax	135	107
Deferred tax		
Origination and reversal of timing differences	(28)	(42)
Increase/decrease in tax rate	(20)	-
Adjustment in respect of prior periods	(8)	19
Total deferred tax	(56)	(23)
Tax on (loss)/profit on ordinary activities	79	84

(b) Factors affecting current tax charge

	2010 £'000	2009 £'000
(Loss)/profit on ordinary activities before taxation	(683)	5,339
Tax on (loss)/profit at standard UK rate of 28%	(191)	1,495
Effects of		
Expenses not deductible for tax purposes	296	(18)
Income not taxable for tax purposes	-	(1,407)
Capital Allowances for year in excess of depreciation	28	42
Adjustments to tax charge in respect of previous periods	2	(4)
Current tax charge for year	135	107

HI (Reading South) Limited

Notes to the accounts Year ended 31 December 2010

7. Tangible fixed assets

	Land and buildings long leasehold £'000	Plant and machinery £'000	Furniture and equipment £'000	Total £'000
Cost				
At 1 January 2010	20,111	2,613	2,946	25,670
Additions	-	29	54	83
Disposals	-	-	(43)	(43)
At 31 December 2010	<u>20,111</u>	<u>2,642</u>	<u>2,957</u>	<u>25,710</u>
Depreciation				
At 1 January 2010	13,797	497	1,626	15,920
Charge for the year	(24)	96	258	330
Impairment for the year	1,079	-	-	1,079
Disposals	-	-	(19)	(19)
At 31 December 2010	<u>14,852</u>	<u>593</u>	<u>1,865</u>	<u>17,310</u>
Net book value				
At 31 December 2010	<u>5,259</u>	<u>2,049</u>	<u>1,092</u>	<u>8,400</u>
At 31 December 2009	<u>6,314</u>	<u>2,116</u>	<u>1,320</u>	<u>9,750</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.

Fixed assets were reviewed for impairment in accordance with the Company's accounting policy. As a result, an impairment of £1,079,000 was recognised in the year. The recoverable amount, based on value in use, was determined using a pre-tax discount rate of 10.2% (2009: 10.2%) based on the estimate of the current market's assessment of the time value of money for an investment of equivalent risk.

8. Debtors

	2010 £'000	2009 £'000
Amounts owed by group undertakings	3,676	2,925
Other debtors	1	1
	<u>3,677</u>	<u>2,926</u>

There are no specific repayment terms on amounts owed by fellow group undertakings and no interest is charged.

HI (Reading South) Limited

Notes to the accounts

Year ended 31 December 2010

9. Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Trade creditors	1	3
Amounts owed to group undertakings	1,410	1,188
Other creditors	-	1
	<u>1,411</u>	<u>1,192</u>

There are no specific repayment terms on amounts owed by fellow group undertakings and no interest is charged

10. Deferred taxation

The movement in the deferred taxation provision was during the year

	2010 £'000	2009 £'000
Provision brought forward	604	627
Current year movement	(48)	19
Prior period adjustment	(8)	(42)
	<u>548</u>	<u>604</u>

	2010 £'000	2009 £'000
Analysed as tax on timing difference should be		
Fixed assets	<u>548</u>	<u>604</u>

No provision has been made for the deferred tax on the sale of properties at their net book value amounts as the Company is not committed to their disposal, nor has any provision been made for deferred tax on sale of properties where gains have been rolled over into replacement assets. The total amount unprovided is estimated at £nil (2009: £nil). It is not anticipated that any tax will be payable in the foreseeable future.

HI (Reading South) Limited

Notes to the accounts Year ended 31 December 2010

11. Called-up share capital

	2010 £'000	2009 £'000
Allotted, called-up and fully paid 100,001 ordinary shares of £1 each	100	100

12. Reconciliation of shareholders' funds and movement on reserves

	Called-up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 January 2010	100	24,162	(13,382)	10,880
Retained loss for the year	-	-	(762)	(762)
At 31 December 2010	100	24,162	(14,144)	10,118

13. Capital commitments

	2010 £'000	2009 £'000
Committed but not provided	31	44

14. 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 on the basis that the Company is a wholly owned subsidiary. In addition, the Group accounts in which the Company is included are publicly available.

15. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party is LRG Holdings Limited. The immediate parent undertaking 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 10 Bishops Square, 8th Floor, London, E1 6EG.