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MOTORWAY SERVICES LIMITED
31 October 1977

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REPORT OF THE DIRECTORS TO BE PRESENTED AT THE ANNUAL GENERAL MEETING
OF THE COMPANY TO BE HELD ON 31ST MARCH, 1978

The Directors present herewith their Annual Report and Statement of Accounts for the year ended 31st October 1977.

ACTIVITIES

The main activity of the Company was the operation of Travelodge Motels and motorway service areas. There are now 208 hotel bedrooms under the control of the company at Newport Pagnell and Charnock Richard. The profit/(loss) before taxation for the year ended 31st October 1977 was £1618 530

ACCOUNTSDIVIDEND

The Directors recommend that a gross dividend of £ Nil be paid in respect of the year ended 31st October 1977.

HOLDING
COMPANY

The Company's ultimate holding company is Trust Houses Forte Limited, which is incorporated in England.

DIRECTORS

The following persons were Directors of the Company during the year ended 31st October 1977:-

Mr. E. Hartwell
Mr. E. Leyton
Mr. L.H. Bond
Mr. A.D. McDowell (resigned 9.7.77)
Mr. B. Bratt (resigned 9.7.77)
Mr. R.B. Colomb

DIRECTORS'
INTERESTS

Those Directors who are not also Directors of Trust Houses Forte Limited had interests in that company's share and loan capital as follows:-

Ordinary shares of 25p each	As at 1.11.1976 or date of appointment	As at 31.10.1977
R.B. Colomb	NIL	NIL
E. Leyton	16,438	16,438
L.H. Bond	15,100	15,100

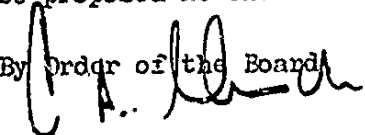
The undermentioned Directors are also Directors of Trust Houses Forte Limited and as such their interests in that company are not required to be recorded in this Company's Register of Directors' Interests:-

Mr. E. Hartwell

AUDITORS

Price Waterhouse & Co. have expressed their willingness to continue in office and a resolution for their re-appointment as Auditors will be proposed at the Annual General Meeting.

Dated 1st March 1978
1 Jermyn Street,
London SW1Y 4UH

By Order of the Board

R.D. CHINCH
Secretary

AUDITORS' REPORT TO THE MEMBERS OF
MOTORWAY SERVICES LIMITED

We have examined the annexed accounts and notes which have been prepared under the historical cost convention as modified by the revaluation of properties. In our opinion these accounts give, under the convention stated, a true and fair view of the state of the affairs of the company at 31 October 1977 and of its profit and source and application of funds for the year then ended and comply with the Companies Acts 1948 and 1967.

Pricewaterhouse Co.

Chartered Accountants

8 February 1978

MOTORWAY SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 OCTOBER 1977

	1977	1976
	<u>£11,948,165</u>	<u>£11,676,785</u>
TURNOVER (Note 2)	618,530	771,573
PROFIT BEFORE TAXATION (Note 3)	<u>333,430</u>	<u>438,471</u>
TAXATION (Note 4)	285,100	333,102
PROFIT AFTER TAXATION		
BALANCE BROUGHT FORWARD		
Profit retained at beginning of year	183,847	20,005
Change in basis of deferred taxation (Note 1)	<u>4,776</u>	<u>130,740</u>
	<u>188,623</u>	<u>150,745</u>
	473,723	483,847
		<u>300,000</u>
DIVIDEND	<u>£473,723</u>	<u>£183,847</u>
BALANCE CARRIED FORWARD		

MOTORWAY SERVICES LIMITED

BALANCE SHEET - 31 OCTOBER 1977

	<u>1977</u>	<u>1976</u>
<u>ASSETS EMPLOYED</u>		
FIXED ASSETS (Note 6)	4,036,017	3,977,808
SINKING FUND POLICIES		
Premiums paid (surrender value £348,000; 1976 - £319,926)	316,775	294,123
DEFERRED TAXATION (Note 7)	6,000	156,762
AMOUNT OWING BY FELLOW SUBSIDIARY	72,046	393,399
LESS AMOUNT OWING TO HOLDING COMPANY	<u>-</u>	<u>201,814</u>
	72,046	191,585
 CURRENT ASSETS		
Stocks (Note 1)	337,192	364,211
Debtors	92,818	20,476
Short Term Deposits	150,000	150,000
Cash at Bank	<u>166,114</u>	<u>105,342</u>
	746,124	640,029
 LESS: CURRENT LIABILITIES		
Taxation	522,847	473,955
Creditors	494,077	397,629
Amount due to Blue Star Garages Limited	1,624	220,185
Dividend payable	<u>-</u>	<u>300,000</u>
	1,018,548	1,391,769
 NET CURRENT LIABILITIES	(272,424)	(751,740)
	<u>£4,158,414</u>	<u>£3,868,538</u>

MOTORWAY SERVICES LIMITED

BALANCE SHEET - 31 OCTOBER 1977 (CONTINUED)

	<u>1977</u>	<u>1976</u>
<u>FINANCED BY</u>		
SHARE CAPITAL		
Authorised, issued and fully paid 60,000 ordinary shares of £1 each	60,000	60,000
CAPITAL RESERVES (Note 8)	2,424,691	2,424,691
PROFIT RETAINED	473,723	185,847
	<u>2,958,414</u>	<u>2,668,538</u>
MORTGAGE DEBENTURES (Note 9)	1,200,000	1,200,000
DIRECTORS		
G.B. Chiandetti		
E. Hartwell		
	<u>£4,158,414</u>	<u>£3,868,538</u>

MOTORWAY SERVICES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31 OCTOBER 1977

	1977	1976
FUNDS GENERATED FROM OPERATIONS		
Profit before taxation	618,530	771,573
Items not involving movement of funds		
Depreciation	134,997	133,644
Surplus on disposal of fixed assets	(3,588)	-
	749,939	905,217
FUNDS FROM OTHER SOURCES		
Sale of fixed assets	6,138	-
	756,077	905,217
WORKING CAPITAL MOVEMENT		
Decrease in amount owing by a fellow subsidiary and holding company	119,539	68,392
Decrease in stocks	27,019	20,669
Decrease/(increase) in debtors	(72,342)	14,789
(Decrease)/increase in creditors	96,448	(15,753)
(Decrease) in amount owed to Blue Star Garages Limited	(218,561)	(9,382)
	(47,897)	78,715
	708,180	983,932
APPLICATION OF FUNDS		
Purchase of fixed assets	195,756	90,846
Dividend paid	300,000	280,000
Taxation paid	129,000	427,933
Sinking fund policy premiums paid	22,652	22,652
	647,408	821,431
INCREASE IN LIQUID FUNDS	£60,772	£162,501

MOTORWAY SERVICES LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1977

1. ACCOUNTING POLICIES

(1) Deferred taxation

Provision is made for deferred taxation from timing differences between profits as computed for taxation purposes and profits as stated in the accounts except to the extent that the liability will not be payable in the foreseeable future. Timing differences are due primarily to the excess of tax allowances on fixed assets over the corresponding depreciation charged in the accounts and stock appreciation relief. In previous years full provision was made for deferred taxation calculated on the deferral method.

(2) Internal professional fees and pre-opening expenses

Internal professional costs, incurred during the construction of motorway service areas, are capitalised. In addition pre-opening and development expenses incurred up to the date of opening are deferred and written off over five years.

(3) Depreciation

No depreciation is provided on freehold properties or properties held on leases with fifty years and over to run at the balance sheet date. Properties held on leases of less than fifty years are amortised over the unexpired term. All other assets are depreciated over their estimated useful lives except for plate, linen and utensils which are stated at directors' valuation, replacements being charged against profits.

(4) Stock valuation

Stocks are valued at the lower of cost, including motor fuel duty, and net realisable value.

2. TURNOVER

Turnover is the amount received for goods sold and services provided and includes motor fuel duty of £3,135,245.

MOTORWAY SERVICES LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1977 (CONTINUED)

3 PROFIT BEFORE TAXATION

This is after charging:

	<u>1977</u>	<u>1976</u>
Interest payable		
On Bank and other loans repayable within five years	27,000	27,069
On other loans	<u>81,000</u>	<u>81,000</u>
	<u>108,000</u>	<u>108,000</u>
Auditors' remuneration	<u>2,500</u>	<u>850</u>
Amortisation and depreciation:		
Short leasehold	78,779	76,376
Plant and equipment	<u>56,218</u>	<u>57,268</u>
	<u>134,997</u>	<u>133,644</u>

4. TAXATION

Corporation tax at 52% (1976 - 52%)
based upon the profits for the year:

Current	344,616	433,695
Prior year	(5,186)	-
Deferred	<u>(6,000)</u>	<u>4,776</u>
	<u>333,430</u>	<u>438,471</u>

5. DIRECTORS EMOLUMENTS

None of the directors has received any emoluments from the company.

MOTORWAY SERVICES LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1977 (CONTINUED)

6. FIXED ASSETS

	<u>Land and Buildings</u>		<u>Plant and equipment</u>	<u>Total</u>
	<u>Freehold</u>	<u>Short Leasehold</u>		
Cost or valuation at 31 October 1976	881,176	3,032,304	497,802	4,411,282
Additions at cost		130,711	65,045	195,756
Disposals at cost	(2,550)		(3,738)	(6,288)
	<u>878,626</u>	<u>3,163,015</u>	<u>559,109</u>	<u>4,600,750</u>
Less accumulated depreciation at 31 October 1977	-	(373,050)	(210,108)	(583,158)
	<u>878,626</u>	<u>2,789,965</u>	<u>349,001</u>	<u>4,017,592</u>
Plate, Linen and utensils				18,425
				<u>4,036,017</u>
Net book value at 31 October 1977				986,450
Cost				<u>3,614,300</u>
Valuation 1972				<u>£4,600,750</u>

Certain of the company's freehold and leasehold properties were revalued on a going concern basis as at 31 October 1972 by an independent firm of professional valuers. Subsequent additions are shown at cost.

7 DEFERRED TAXATION

	<u>1977</u>	<u>1976</u>
Advance Corporation Tax recoverable	-	161,538
Short timing differences	154,514	-
Excess of tax allowances over depreciation	<u>(148,514)</u>	<u>(4,776)</u>
	<u>£ 6,000</u>	<u>£156,762</u>

The total contingent liability to taxation arising from timing differences at 31 October 1977 amounted to £148,514.

MOTORWAY SERVICES LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1977 (CONTINUED)

8 CAPITAL RESERVES

Share premium account	280,000
General reserve	2,144,691
Balance at 31 October 1977	<u>£2,424,691</u>

9 MORTGAGE DEBENTURES

	Interest rate	1977	1976
Repayable 1 September 1979	6 $\frac{3}{4}$ %	400,000	400,000
Repayable 31 October 1991	10 $\frac{1}{8}$ %	800,000	800,000
		<u>1,200,000</u>	<u>1,200,000</u>

No premium is payable on redemption unless the company exercises its right to redeem before redemption date.

The mortgage debentures are secured by way of charges on certain of the Company's Freehold Properties together with the Company's Sinking Fund Policies.

10 COMMITMENTS FOR CAPITAL EXPENDITURE

	1977	1976
Committed at 31 October	<u>£34,000</u>	<u>£104,000</u>

11 CONTINGENT LIABILITIES

There is no present intention of selling any of the properties revalued at 31 October 1972 and no provision has been made in these accounts for any tax liability which might arise if such sales took place. It is estimated that if these properties had been sold on 31 October 1977 at their net book values at that date the tax liability which might have arisen would not have exceeded £500,000.

12 TRADE DEBTORS AND TRADE CREDITORS

The Company's trade debtor and creditor balances are maintained by a division of a fellow subsidiary company, Forte and Co., Popular and Motorways Division. The net amount is reflected in the inter-company balance and totalled £72,046.