

Company Registration No. 769170

TRAVELODGE HOTELS LIMITED

Report and financial statements

Year ended 31 December 2004



TRAVELODGE HOTELS LIMITED
REPORT AND FINANCIAL STATEMENTS 2004
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TRAVELODGE HOTELS LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Grant Hearn
Jon Mortimore
Guy Parsons
Harry Turner

COMPANY SECRETARY

Jon Mortimore

REGISTERED OFFICE

Travelodge Reservation Centre
Castlegate Way
Dudley
DY14TE

BANKERS

The Royal Bank of Scotland plc
135 Bishopgate
LONDON
EC2M 3UR

CIBC World Markets plc
Cottons Centre
Cottons Lane
LONDON
SE1 2QL

SOLICITORS

Addleshaw Goddard
150 Aldersgate Street
LONDON
EC1A 4EJ

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
LONDON

TRAVELODGE HOTELS LIMITED

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2004.

ACTIVITIES AND BUSINESS REVIEW

The principal trading asset of the Company is the Travelodge budget hotel brand which now trades from 252 low-cost hotels in the UK, represented by 14,959 rooms (including 8 new hotels, 744 rooms, opened in the first quarter of 2005) with 9 hotels (1,560 rooms) in Central London.

The financial year to 31 December 2004 has seen a focusing of the Company around its core activity of growing and strengthening the Travelodge brand.

The Company completed sale and leaseback transactions on 23 properties for a loss of £6.5m (gross consideration of £22.1m, transaction costs of £4.8m and net book value of fixed assets of £23.8m). The operating leases on these properties are on normal commercial terms, and the majority of the lease terms are 25-years, with some at 35-years for those properties located in city locations. All leases include a right at the Company's option only to renew the lease for a further 25 years at the end of the initial term and, rent reviews, in line with normal practice, are upwards only every five years and usually based on RPI indices.

During the year, the Company closed and subsequently disposed of a number of poor performing catering units. At the balance sheet date, 60 units had been sold for gross cash consideration of £6.7m, (before transaction and closure costs of £3.4m).

The Company made earnings before interest, tax, depreciation and rent (EBITDAR) of £ 73.0m (2003 restated: £34.9m).

The Company made an operating profit of £18.7m (2003: loss of £5.4m) after exceptional costs of £13.0m (2003: 48.7m) for the year ended 31 December 2004, and after taking account of depreciation, profit on disposal of fixed assets and net interest received, profit after tax of £45.7m (2003 restated: £26.3m)

PROPOSED DIVIDEND

The Directors do not recommend the payment of a dividend (2003: £nil).

DIRECTORS AND THEIR INTERESTS

The Directors, who worked throughout the period were as follows:

	Date appointed	Date resigned
Grant Hearn	-	-
Jon Mortimore	-	-
Guy Parsons	1 December 2004	-
Harry Turner	-	-
Tim Scoble	-	12 November 2004

TRAVELODGE HOTELS LIMITED
DIRECTORS' REPORT (CONTINUED)

There were no beneficial interests of the Directors and their immediate families in the Company or any other Companies in the group, other than those disclosed in the parent holding company, TLLC Group Holdings Limited, except for shares of TLLC Group Holdings Limited as follows:

	At 31 December 2003 or at date of appointment	At 31 December 2004
Guy Parsons	-	7,500 ordinary 'A' shares
	-	7,500 ordinary 'B' shares
Harry Turner	7,500 ordinary shares	10,500 ordinary 'A' shares
	-	10,500 ordinary 'B' shares

No Director has had a material interest, directly or indirectly, at any time during the period in any contract significant to the business in the Company.

INSURANCE

The Company maintains insurance in respect of the Directors and officers against any such liabilities as are referred to in section 325 of the Companies Act 1985.

DONATIONS

The charitable donations made by the Company and charged in the accounts were £5,768 (2003: £8,624). There were no political donations during the year.

DISABLED PERSONS

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees

EMPLOYEE INVOLVEMENT

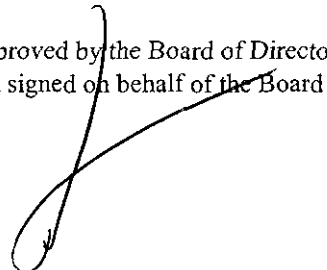
The Board recognises that its employees are the most important asset of the Company. The Company is an equal opportunity employer and is committed to ensuring no employee or applicant is treated less favourably on grounds of race, religion, gender, ethnic origin, disability or sexual orientation.

Employees are encouraged to become members of the Company stakeholder pension scheme.

AUDITORS

Deloitte and Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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



Jon Mortimore
4 August 2005

TRAVELODGE HOTELS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the company for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 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. They are also responsible for the system of internal control, for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRAVELODGE HOTELS LIMITED

We have audited the financial statements of TRAVELODGE HOTELS LIMITED for the year ended 31 December 2004 which comprise the profit and loss account, the statement of total recognised gains and losses, the note of historical cost profit and losses, the balance sheet, and the related notes 1 to 24. 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 accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

We read the directors' report for the above year, and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of the profit of the company for the then year ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

4 August 2005

TRAVELODGE HOTELS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2004

	Notes	Year ended 31 December 2004			Restated (see note 2) 53 weeks to 31 December 2003
		Before exceptional items	Exceptional items (note 4)	After exceptional items	
		£m	£m	£m	£m
SALES	1,3	312.8	-	312.8	333.5
Cost of sales		(60.0)	-	(60.0)	(83.1)
GROSS PROFIT		252.8	-	252.8	250.4
Administrative Expenses	4	(221.1)	(13.0)	(234.1)	(255.8)
OPERATING PROFIT/ (LOSS)	5	31.7	(13.0)	18.7	(5.4)
EBITDAR (<i>Earnings before interest, tax, depreciation & rent</i>)		86.0	(13.0)	73.0	34.9
Net rent charged		(43.1)	-	(43.1)	(33.3)
EBITDA (<i>Earnings before interest, tax, depreciation</i>)		42.9	(13.0)	29.9	1.6
Depreciation	11	(11.2)	-	(11.2)	(7.0)
Operating profit/ (loss)		31.7	(13.0)	18.7	(5.4)
(Loss)/ profit on disposal of tangible fixed assets	6			(1.2)	16.8
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST				17.5	11.4
Net interest receivable	9			29.1	9.1
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX				46.6	20.5
Tax (charge)/credit on profit on ordinary activities	10			(0.9)	5.8
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION				45.7	26.3

All transactions are derived from continuing operations.

TRAVELODGE HOTELS LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2004

	Year ended 31 December 2004	Restated (see note 2) 53 weeks to 31 December 2003
	£m	£m
Profit for the financial year/period	45.7	26.3
Prior year adjustment (as explained in note 2)	(3.0)	
Total recognised gains and losses since last annual report and financial statements	42.7	

NOTE OF HISTORICAL COST PROFITS AND LOSSES

For the year ended 31 December 2004

	Year ended 31 December 2004	Restated (see note 2) 53 weeks to 31 December 2003
	£m	£m
Reported profit on ordinary activities before taxation	46.6	20.5
Realisation of prior years' property revaluation gains	5.5	11.3
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	1.9	2.3
Historical cost profit on ordinary activities before taxation	54.0	34.1
Historical cost profit for the period retained after taxation and dividends	53.1	42.0

TRAVELODGE HOTELS LIMITED

BALANCE SHEET

		31 December	Restated (see note 2) 31 December
	<i>Notes</i>	2004	2003
		£m	£m
FIXED ASSETS			
Tangible assets	11	189.2	166.0
Investments	12	12.8	12.8
		<u>202.0</u>	<u>178.8</u>
CURRENT ASSETS			
Stocks	13	1.0	1.5
Debtors	14	476.5	413.9
Cash at bank and in hand		3.0	3.7
		<u>480.5</u>	<u>419.1</u>
CREDITORS: amounts falling due within one year	15	(72.7)	(49.3)
NET CURRENT ASSETS		<u>407.8</u>	<u>369.8</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>609.8</u>	<u>548.6</u>
CREDITORS: amounts falling due after more than one year	16	(27.7)	(23.8)
PROVISIONS FOR LIABILITIES AND CHARGES	18	(32.1)	(20.5)
NET ASSETS		<u>550.0</u>	<u>504.3</u>
CAPITAL AND RESERVES			
Called up share capital	19	300.0	300.0
Revaluation reserve	20	43.2	50.6
Profit and loss account	20	206.8	153.7
EQUITY SHAREHOLDERS' FUNDS	21	<u>550.0</u>	<u>504.3</u>

These financial statements were approved by the Board of Directors on 4 August 2005.

Jon Morimore

1 ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluations of certain fixed assets and in accordance with applicable United Kingdom accounting standards and law. Accounting policies have been consistently applied throughout the period and a summary of the principal accounting policies is set out below.

Under Financial Reporting Standard 1 (Revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its ultimate parent company includes the Company's cash flows in its own published consolidated accounts.

The Company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare consolidated accounts.

Sales

Sales represent the amount receivable for goods and services supplied to customers in the normal course of business, net of VAT.

Stocks

Stocks comprise finished goods and goods for resale and are stated at the lower of cost and net realisable value.

Fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation

Depreciable fixed assets are written off on a straight line basis over their estimated useful lives as follows:

- Freehold land is not depreciated.
- Freehold buildings are depreciated to their estimated residual values over periods up to fifty years.
- Leasehold land and buildings are depreciated to their estimated residual values over the shorter of fifty years and their remaining lease periods.
- All other assets are depreciated over ten to fifteen years for plant & machinery; up to five years for short life fixtures, fittings, equipment and information technology software and hardware; and up to ten years for long life fixtures, fittings, equipment and information technology software and hardware.

Leased assets

Rental costs under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease, allowing for inflationary increases. Incentives received by the Group to enter into leases as a lessee are credited to the profit and loss account on a straight line basis over the lease term or, if shorter, the period to the first review date on which rent is adjusted to the prevailing market rate.

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital element of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

1 ACCOUNTING POLICIES (CONTINUED)

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on all 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 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.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into sterling at rates prevailing at the balance sheet date. Profit and loss account items denominated in foreign currencies are translated at the average exchange rates for the period. The results of international operations are translated at the average rate of exchange during the period and their balance sheets at the rates ruling at the balance sheet date, and are dealt with through reserves. All other exchange difference are dealt with in the profit and loss account.

Pension costs

The company only offers a defined contribution scheme to its employees. The amount charged to the profit and loss account for this scheme in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the year ended 31 December 2004

2 PRIOR PERIOD ADJUSTMENT

A group wide review of the classification of assets held under leases has resulted in five property leases being re-categorised as a finance lease instead of an operating lease. The effect of this on the 2003 comparative figures is to increase the previously reported 2003 profit by £1.1m and to decrease previously reported net assets at 31 December 2003 by £3.0m.

Effect on profit and loss account:

	59 weeks ended 31 December 2003 - Restated	59 weeks ended 31 December 2003 - Previously reported
	£m	£m
Operating lease rentals	33.3	36.1
Depreciation - owned assets	6.5	6.5
Depreciation - leased assets	0.5	-
Finance lease interest charge	3.4	-
	<u>43.7</u>	<u>42.6</u>

Effect on balance sheet:

	2003 - Restated	2003 - Previously reported
	£m	£m
Fixed assets - Finance lease property at cost	19.1	-
Fixed assets - Finance lease property accumulated depreciation	(0.5)	-
Provisions	(20.5)	(22.7)
Finance lease creditor	(23.8)	-
	<u>(25.7)</u>	<u>(22.7)</u>
Profit and loss retained reserves	<u>153.7</u>	<u>156.7</u>

3 ANALYSIS OF SALES

	Year ended 31 December 2004	53 weeks to 31 December 2003
	£m	£m
SALES		
Hotels ¹	155.7	144.4
Catering ¹	118.7	127.4
Petrol ¹	23.5	22.0
	<u>297.9</u>	<u>293.8</u>
Discontinued ²	14.9	39.7
	<u>312.8</u>	<u>333.5</u>

Sales represent amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and value added tax. The sales and pre-tax profit, all of which arises in the United Kingdom and Ireland, are attributable to the activities shown above.

1 - UK only

2 - UK and Ireland

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the year ended 31 December 2004

4 EXCEPTIONAL ITEMS INCLUDED IN OPERATING PROFIT

Exceptional costs charged against operating profit of £13.0m consists of £4.5m redundancy and recruitment costs, £3.5m of costs arising from separation from the Company's previous owner and establishment of a new infrastructure, a cost of £6.0m for provisions set up for onerous leases, and a gain of £1.0m relating to the write back of various excess provisions on creditors.

Exceptional items in 2003 totalled £48.7m, consisting of £21.1m provisions for onerous leases, revaluation write downs in tangible fixed assets of £24.3m, a gain of £1.3m arising on a transfer of certain assets to the former parent company and £4.6m of restructuring costs. Of the £4.6m restructuring costs, £1.4m related to the separation from the acquired company's previous owner, £3.0m redundancy and recruitment payments and £0.2m costs incurred in setting up the Company's new structure.

5 OPERATING PROFIT/ (LOSS)

	Year ended to 31 December 2004 £m	Restated (note 2) 65 weeks to 31 December 2003 £m
Operating profit/ (loss) is after charging:		
Depreciation	11.2	6.5
Net operating lease rentals	43.1	33.3
Auditors' remuneration - Audit work	0.3	-
- Non audit work	3.3	0.6
Exceptional items	13.0	48.7

Auditors' remuneration in 2003 was borne by another group company.

6 PROFIT ON DISPOSAL OF FIXED ASSETS

	Year ended 31 December 2004 £m	53 weeks to 31 December 2003 £m
(Loss)/ profit on disposal of tangible assets	(5.3)	16.8
Profit on disposal of investments	4.1	-
	(1.2)	16.8

The 2004 loss on disposal of tangible fixed assets includes loss on disposal of certain sale and leaseback transactions on 23 properties for a loss of £6.5m (gross consideration of £22.1m, transaction costs of £4.8m and net book value of fixed assets of £23.8m), disposal of 60 poor performing catering units for a profit of £2.9m (gross consideration of £6.7m, transaction and closure costs of £3.4m, and net book value of £0.4m), disposal of Ireland fixed assets for a loss of £3.9m, (proceeds of £nil, fees of £0.9m, net book value of fixed assets of £2.2m, other related assets £0.8m) and the disposal of 2 other properties for a profit of £2.2m (gross proceeds of £4.0m and net book value of fixed assets of £1.8m).

In 2003, the profit on disposal of properties relates to the sale of the beneficial interest in certain property interests to wholly-owned subsidiaries, the consideration for which was left outstanding as an inter-company debt. The sale took place at open market value.

The 2004 profit on disposal of investments of £4.1m (2003: nil) consisted of £4.1m consideration on the disposal of a subsidiary undertaking which operated Travelodges in the island of Ireland, which had a carrying value of £nil.

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the year ended 31 December 2004

7 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 31 December 2004	53 weeks to 31 December 2003
	£ '000	£ '000
Directors' emoluments	1,629	1,111
Remuneration of the highest paid director	580	612

Directors' emoluments in 2004 include basic salary £1,387,000 (2003: £759,000), compensation for loss of office £nil (2003: £328,000), fees £214,000 (2003: £nil) and benefits in kind £28,000 (2003: £27,000).

Employee costs during the period (including Directors)	£m	£m
Wages and salaries	85.7	84.2
Social security costs	5.5	5.2
Pension costs	0.7	0.7
Employee costs before exceptionals	91.9	90.1
Exceptional items	4.5	1.8
	96.4	91.9

	Number	Number
Average number of persons employed	6,620	5,953

The average number of employees includes all employees whether full time or part time employees. The average number of employees comprises full time equivalents which has been calculated by dividing the total number of hours worked by part time staff by the hours in a full time working week.

No directors were members of the Company money purchase pension scheme during the period.

8 LEASE COMMITMENTS

At 31 December 2004 the Company had annual operating lease commitments of £46.5m (2003; restated (note 2) £37.8m) principally relating to property leases. Of this, £0.1m (2003: £0.1m) expires within one year, £0.2m (2003: £0.1m) expires in 2 to 5 years and £46.2m (2003: restated £37.6m) expires in more than 5 years.

9 NET INTEREST RECEIVABLE AND SIMILAR CHARGES

	Year ended 31 December 2004	Restated (Note 2) 53 weeks to 31 December 2003
	£m	£m
Bank interest payable	-	(0.1)
Finance lease interest charge	(3.6)	(3.4)
Unwinding of discount on provisions (note 18)	(1.1)	(1.4)
Interest payable to group undertakings	(0.6)	-
Interest receivable from group undertakings	34.4	14.0
Net interest receivable	29.1	9.1

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the year ended 31 December 2004

10 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2004 £m	53 weeks to 31 December 2003 £m
Current Tax:		
UK corporation tax on profits/(losses) of the year/ period at 30%	-	-
Group relief	-	-
Adjustments in respect of prior periods	(8.0)	(5.8)
Total current tax credit	(8.0)	(5.8)
Deferred tax	8.9	-
Tax charge /(credit) on profit on ordinary activities	0.9	(5.8)

The difference between the total current tax and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Year ended 31 December 2004 £m	53 weeks to 31 December 2003 £m
Profit on ordinary activities before tax	46.6	20.5
UK corporation tax rate of 30%	14.0	6.2
Effects of:		
Capital allowances in excess of depreciation	0.3	-
Items not chargeable to corporation tax	(2.5)	(4.8)
Tax relieved by group losses for nil consideration	(12.1)	-
Tax losses and other timing differences	-	(9.5)
Expenses not deductible for tax purposes	0.3	7.8
Adjustments in respect of prior periods	(8.0)	(5.5)
Current tax credit for the year/ period	(8.0)	(5.8)

No provision for UK corporation tax has been made for the year to 31 December 2004 since the profit for the year will be sheltered by group relief expected to be made available to the company by other companies in the TLLC Holdings 5 Limited group. No charge will be made by these group companies for the surrender of group relief. It is anticipated that tax losses and the availability of capital allowances in excess of depreciation will reduce future tax charges.

Deferred tax is as follows:

	31 December 2004 Provided £m	31 December 2004 Unprovided £m	31 December 2003 Provided £m	31 December 2003 Unprovided £m
Difference between accumulated depreciation and amortisation and capital allowances	8.9	-	-	(14.7)
Other timing differences	-	-	-	(1.8)
Capital gains	-	(2.7)	-	-
Deferred tax liability/ (asset)	8.9	(2.7)	-	(16.5)

In the event of a disposal of fixed assets at the values at which they are held in the accounts, there are sufficient losses or roll over relief in the group to shelter any chargeable gains.

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the year ended 31 December 2004

11 TANGIBLE FIXED ASSETS

	Freehold & long leaseholds £m	Short-term leasehold improvements £m	Restated (note 2) Finance leases £m	Fixtures & fittings £m	Restated (note 2) Total £m
Cost					
At 1 January 2004	102.4	18.3	19.1	33.1	172.9
Additions - capital expenditure	2.2	15.0	-	27.8	45.0
- movement on capital creditors	0.5	0.8	-	0.5	1.8
- intra group	8.5	7.3	-	-	15.8
Disposals - external	(20.4)	(7.3)	-	(2.4)	(30.1)
- intra group	(0.9)	-	-	-	(0.9)
Re-classification	(64.9)	69.2	2.6	(6.9)	-
At 31 December 2004	27.4	103.3	21.7	52.1	204.5
Accumulated depreciation					
At 1 January 2004	(1.8)	(2.4)	(0.5)	(2.2)	(6.9)
Charge for the period	(0.8)	(4.7)	(0.4)	(5.3)	(11.2)
Disposals	1.1	0.6	-	1.1	2.8
Reclassification	0.7	(0.5)	(0.2)	-	-
At 31 December 2004	(0.8)	(7.0)	(1.1)	(6.4)	(15.3)
Net book value					
At 31 December 2004	26.6	96.3	20.6	45.7	189.2
At 31 December 2003	100.6	15.9	18.6	30.9	166.0

Freehold and long leasehold properties are stated at cost or valuation.

Formal valuations of restaurant properties and budget hotels were carried out by an independent Chartered Surveyors, on an existing use basis in December 2002. Subsequent reviews by the directors in 2003 identified a number of sites where a further valuation adjustment was required.

The comparatives have been restated to reflect the recategorisation of five leased properties from operating leases to a finance leased assets (see note 2).

Included in the freehold and long leasehold assets is an amount of £8.7m (2003: £10.5m) of non-depreciable assets, which principally relates to land.

Historical cost of tangible fixed assets

	2004 £m	Restated (note 2) 2003 £m
Cost	165.9	130.9
Accumulated depreciation	(22.4)	(15.5)
Historical cost net book value	143.5	115.4

TRAVELODGE HOTELS LIMITED
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12 INVESTMENTS HELD AS FIXED ASSETS

	Shares in subsidiaries £m
Shares at cost at 31 December 2003 and 31 December 2004	20.7
Provisions at 31 December 2003 and 31 December 2004	(7.9)
Net book amount at 31 December 2003 and 31 December 2004	12.8

Investments held as fixed assets constitute shares in subsidiary undertakings which are listed below.
Investments with a book value of £1 were disposed of during the year.

Direct subsidiary undertakings	Business Description	Country of Incorporation	% of equity held
TLLC Regent Palace Limited	Trading	Great Britain	100
Stewart Watt Limited	Trading	Great Britain	100
TLLC LevPropCo2 Limited	Holding company	Great Britain	100
TLLC LevPropCo8 Limited	Holding company	Great Britain	100
TLLC LevPropCo9 Limited	Holding company	Great Britain	100
TLLC LevPropCo1 Limited	Property Lessor	Great Britain	100
TLLC LevPropCo5 Limited	Property Lessor	Great Britain	100
TLLC LevPropCo6 Limited	Property Lessor	Great Britain	100
TLLC LevPropCo7 Limited	Property Lessor	Great Britain	100
Anchor Hotels Limited	Dormant	Great Britain	100
Kelly's Kitchen Limited	Dormant	Great Britain	100
TLLC LevPropCo3 Limited	Dormant	Great Britain	100
TLLC LevPropCo4 Limited	Dormant	Great Britain	100
Travelodge Limited	Dormant	Great Britain	100
TLLC PropHoldCo 1 Limited	Dormant	Great Britain	100
Waseley Ten Limited	Dormant	Great Britain	100
Waseley Twelve Limited	Dormant	Great Britain	100
Waseley Fourteen Limited	Dormant	Great Britain	100
Little Chef Limited	Dormant	Great Britain	100
Indirect subsidiary undertakings			
TLLC BridgeCo3 Limited	Property Lessor	Great Britain	100
TLLC BridgeCo4 Limited	Property Lessor	Great Britain	100
TLLC BridgeCo7 Limited	Property Lessor	Great Britain	100
TLLC BridgeCo8 Limited	Property Lessor	Great Britain	100
TLLC BridgeCo9 Limited	Property Lessor	Great Britain	100
TLLC BridgeCo10 Limited	Property Lessor	Great Britain	100
TLLC CMPropCo6 Limited	Property Lessor	Great Britain	100
TLLC CMPropCo7 Limited	Property Lessor	Great Britain	100
TLLC DevCo1 Limited	Property Lessor	Great Britain	100
TLLC SparePropCo Limited	Property Lessor	Great Britain	100
TLLC LevSubPropCo2 Limited	Holding company	Great Britain	100
TLLC LevSubPropCo8 Limited	Holding company	Great Britain	100
TLLC LevSubPropCo9 Limited	Holding company	Great Britain	100
TLLC SpareCo Limited	Dormant	Great Britain	100
TLLC PropHoldCo 2 Limited	Debt holding company	Great Britain	100

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13 STOCKS

	2004	2003
	£m	£m
Finished goods and goods for resale	1.0	1.5

14 DEBTORS

	2004	2003
	£m	£m
Amounts due within one year:		
Trade debtors	2.8	4.5
Amounts owed by subsidiary undertakings	445.3	392.1
Corporation tax debtor	13.9	3.9
Other debtors	3.2	10.8
Prepayments and accrued income	11.3	2.6
	476.5	413.9

15 CREDITORS: amounts falling due within one year

	2004	2003
	£m	£m
Amounts due within one year:		
Trade creditors	(9.8)	(10.8)
Amounts due to group undertakings	(16.6)	-
Other taxation and social security	(5.1)	(8.2)
Other creditors	(19.7)	(7.1)
Accruals and deferred income	(21.5)	(23.2)
	(72.7)	(49.3)

16 CREDITORS: amounts falling due after more than one year

	2004	Restated (note 2) 2003
	£m	£m
Accruals and deferred income	(3.5)	-
Obligations under finance leases		
- Due between one and two years	-	-
- Due between two and five years	-	-
- Due after five years	(24.2)	(23.8)
Total obligations under finance leases	(24.2)	(23.8)
	(27.7)	(23.8)

The comparatives have been restated to reflect the recategorisation of five leased property from operating leases to finance leased assets (note 2).

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17 FUNDING

Travelodge Hotels Limited is a member of a group which finances its operations through a mixture of bank borrowings, deep discounted bond, trade credit and share capital.

The bank debt of the group was made up of the following: Commercial mortgage £79.9m(2003: £244.5m), Senior loan £99.8m (2003: £186.2m), Mezzanine loan £51.7m (2003: £72.1m), Junior loans (including Junior loan and Junior bridge loan) £23.2m (2003: £34.3m) and Development facility of £nil (2003: £8.7m). The Commercial mortgage facility expires in 2010, the Senior loan expires in 2012, the Mezzanine loan expires in 2012, the Junior loan expires in 2013, and the Development facility loan expires in 2007. During the year the Junior Bridge loan was fully repaid and the facility cancelled. Also during the year, the Commercial mortgage was renegotiated resulting in one tranche incurring a higher interest margin, however with a minimal impact on the weighted average cost of borrowing under this facility.

The deep discounted bond issue price was £254.0m. The annual interest on the instrument ranges from 3% to 10% and for the period to October 2004 was equivalent to compound interest of 7.7% per annum. On 19th October a prepayment of £68.6m was made resulting in a lower nominal value of £220m and a revised compound interest charge of 7.1%. Interest of £19.9m has been accrued for the year ending 31 December 2004 (2003: £17.6m). The bond is redeemable in 2013.

Travelodge Hotels Limited has guaranteed the obligations and liabilities described above (under a number of banking agreements) which were entered into by the group of companies controlled by TLLC Group Holdings Limited (note 23).

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £m	Onerous leases £m	Dilapidation s / other £m	Redundancy £m	2004 £m
Balance at 31 December 2003 (restated note 2)	-	(18.7)	(1.8)	-	(20.5)
Increase in provisions	-	(6.2)	(0.3)	(1.5)	(8.0)
Amounts written back	-	-	1.7	-	1.7
Disposals	-	3.3	-	-	3.3
Utilisation	-	1.4	-	-	1.4
Unwinding of discount of provision	-	(1.1)	-	-	(1.1)
Charge to the profit & loss account	(8.9)	-	-	-	(8.9)
Balance at 31 December 2004	(8.9)	(21.3)	(0.4)	(1.5)	(32.1)

Dilapidation and onerous lease provisions will be utilised over the remaining periods of the leases.

19 CALLED UP SHARE CAPITAL

	2004 £m	2003 £m
Authorised, issued, allotted and fully paid:		
300 million ordinary shares of £1 each	300	300

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20 CAPITAL AND RESERVES

	Revaluation reserve	Share capital	Profit & Loss	Total
	£m	£m	£m	£m
As at 1 January 2004 (restated)	50.6	300.0	153.7	504.3
Profit for the year	-	-	45.7	45.7
Realised revaluation surplus	(5.5)	-	5.5	-
Depreciation on revaluation reserve	(1.9)	-	1.9	-
As at 31 December 2004	43.2	300.0	206.8	550.0

21 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Restated 2004 £m
Profit for the year	45.7
Opening equity shareholders' funds	504.3
Closing equity shareholders' funds	550.0

22 CAPITAL COMMITMENTS

Contracts placed for future capital expenditure not provided for in these financial statements amounts to £0.4m (2003: £2.8m)

23 CONTINGENT LIABILITIES

The Company has a contingent liability under a number of leases that have been assigned to third parties. In certain circumstance the landlords may have recourse to Travelodge Hotels Limited or its subsidiaries. The Directors do not consider it practicable to estimate the possibility of such a claim arising nor its financial effect.

Travelodge Hotels Limited has guaranteed the obligations and liabilities (under a number of banking agreements) which were entered into by the group of companies controlled by TLLC Group Holdings Limited (note 17).

24 RELATED PARTY TRANSACTIONS AND ULTIMATE CONTROLLING PARTY

As a subsidiary of TLLC GROUP HOLDINGS LIMITED, the company has taken advantage of the exemption in FRS 8 'Related party transactions' not to disclose transactions with other members of the group.

The immediate parent company is TLLC Limited, which acquired the company effective as of 30 January 2003.

The Directors regard Permira (Europe) Limited, the general partner of Permira Europe II, as the ultimate controlling party. Permira Europe II invested in TLLC GROUP HOLDINGS LIMITED on 30 January 2003. TLLC GROUP HOLDINGS LIMITED is the parent company of the largest and smallest group of which the Company is a member and for which the group financial statements are drawn up. Copies of the group financial statements are available from the registered office, Travelodge Reservation Centre, Castlegate Way, Dudley, DY14TE.