

Company Registration No. 769170

TRAVELODGE HOTELS LIMITED
(Formerly Travelrest Services Limited))

Report and financial statements

53 weeks ended 31 December 2003



TRAVELODGE HOTELS LIMITED (Formerly Travelrest Services Limited))

REPORT AND FINANCIAL STATEMENTS 2003

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TRAVELODGE HOTELS LIMITED
REPORT AND FINANCIAL STATEMENTS 2003
OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Grant Hearn
Jon Mortimore
Tim Scoble
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 company changed its name to Travelodge Hotels Limited from Travelrest Services Limited on 30 March 2004.

The Directors present their annual report and the audited financial statements for the 53 weeks ended 31 December 2003.

ACTIVITIES

The Company has two trading activities. The principal activity is lodging, represented by the Travelodge low cost hotel chain, which is the UK's only low cost hotel chain with over 13,200 rooms and over 235 lodges. The company also operates a catering activity, mainly operated by Little Chef, which is the UK's leading roadside restaurant business with 360 restaurants.

The company was acquired by TLLC Limited, a subsidiary of TLLC Group Holdings Limited, effective as of 30 January 2003.

BUSINESS REVIEW

The Group made an operating loss of £7.8m after exceptional costs of £48.7m for the 53 week period ending 31 December 2003, and after taking account of depreciation, profit on disposal of fixed assets and net interest received, a profit after tax of £27.3m.

PROPOSED DIVIDEND

The Directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

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

| | Date appointed | Date resigned |
|-------------------|-------------------|------------------|
| Grant Hearn | March 27, 2003 | - |
| Jon Mortimore | October 20, 2003 | - |
| Tim Scoble | October 24, 2003 | - |
| Harry Turner | October 24, 2003 | - |
| Kevin Jackson | November 19, 2002 | March 27, 2003 |
| Simon Turl | January 7, 2002 | August 29, 2003 |
| Christopher Hicks | March 27, 2003 | October 15, 2003 |

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 as follows:

| | At 25 December 2002 | At 31 December 2003 |
|--------------|---------------------|-----------------------|
| Tim Scoble | - | 3,000 ordinary shares |
| Harry Turner | - | 7,500 ordinary shares |

The ordinary shares referred to above are shares of TLLC Group Holdings Limited.

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.

TRAVELODGE HOTELS LIMITED
DIRECTORS' REPORT (CONTINUED)

DONATIONS

The charitable donations made by the Company and charged in the accounts were £8,624 (2002: £nil). There were no political donations during the period.

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.

CLOSE COMPANY

The company is not a close company or close investment holding company for UK taxation purposes.

AUDITORS

KPMG resigned as auditors in April 2004 and the directors appointed Deloitte & Touche LLP. Pursuant to section 386 of the Companies Act 1985 an elective resolution has been passed to dispense with the requirement to reappoint auditors annually.

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

Jon Mortimore
2 July 2004

TRAVELODGE HOTELS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial period 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 and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- 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. They are also responsible for the system of internal control, 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 53 week period ended 31 December 2003 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 23. 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 period, 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 2003 and of the profit of the company for the 53 week period then 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

2/7/04

TRAVELODGE HOTELS LIMITED

PROFIT AND LOSS ACCOUNT

For the 53 weeks to 31 December 2003

| | Notes | 53 weeks to 31 December 2003 | | | 65 weeks to 25 December 2002 |
|--|-------|--------------------------------|----------------------|-------------------------------|---------------------------------|
| | | Before exceptional items | Exceptional items | After exceptional items | |
| | | £m | £m | £m | £m |
| SALES | 2 | 333.5 | - | 333.5 | 385.1 |
| Cost of sales | | (83.1) | - | (83.1) | (111.3) |
| GROSS PROFIT | | 250.4 | - | 250.4 | 273.8 |
| Administrative Expenses | 3 | (209.5) | (48.7) | (258.2) | (378.9) |
| OPERATING PROFIT/ (LOSS) | 4 | 40.9 | (48.7) | (7.8) | (105.1) |
| EBITDA (Earnings before interest, tax, depreciation) | | 47.4 | (48.7) | (1.3) | (82.3) |
| Depreciation | 11 | (6.5) | - | (6.5) | (22.8) |
| Operating profit/ (loss) | | 40.9 | (48.7) | (7.8) | (105.1) |
| Income from shares in group undertakings | | | | - | 7.5 |
| Income from shares in other fixed asset investments | | | | - | 0.4 |
| Loss on disposal of fixed asset investments | | | | - | (3.4) |
| Profit on disposal of tangible fixed assets | 5 | | | 16.8 | 43.0 |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST | | | | 9.0 | (57.6) |
| Net interest receivable/ (payable) | 8 | | | 12.5 | (7.9) |
| PROFIT/ (LOSS) ON ORDINARY ACTIVITIES BEFORE TAX | | | | 21.5 | (65.5) |
| Tax credit/(charge) on profit/ (loss) on ordinary activities | 9 | | | 5.8 | (2.3) |
| PROFIT/ (LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION | | | | 27.3 | (67.8) |
| Dividends | 10 | | | - | (218.8) |
| RETAINED PROFIT/(LOSS) FOR THE PERIOD | | | | 27.3 | (286.6) |

All results in the current financial period were derived from continuing operations.

TRAVELODGE HOTELS LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES****For the 53 weeks to 31 December 2003**

| | 53 weeks to 31 December 2003 | 65 weeks to 25 December 2002 |
|---|---|---|
| | £m | £m |
| Profit/ (Loss) for the financial period | 27.3 | (67.8) |
| Unrealised net surplus on revaluation of properties | - | 29.1 |
| Total recognised gains and losses for the period | 27.3 | (38.7) |

NOTE OF HISTORICAL COST PROFITS AND LOSSES**For the 53 weeks to 31 December 2003**

| | 53 weeks to 31 December 2003 | 65 weeks to 25 December 2002 |
|---|---|---|
| | £m | £m |
| Reported profit /(loss) on ordinary activities before taxation | 21.5 | (65.5) |
| Realisation of prior years' property revaluation gains | 11.3 | 149.8 |
| Difference between an historical cost depreciation charge and the actual depreciation charge for the year | 2.3 | - |
| Realisation of prior years' investment revaluation gains | - | 1.8 |
| Historical cost profit on ordinary activities before taxation | 35.1 | 86.1 |
| Historical cost profit/ (loss) for the period retained after taxation and dividends | 40.9 | (135.0) |

TRAVELODGE HOTELS LIMITED

BALANCE SHEET

| | | As at 31 December 2003 £m | As at 25 December 2002 £m |
|--|--------------|------------------------------------|------------------------------------|
| | <i>Notes</i> | | |
| FIXED ASSETS | | | |
| Tangible assets | 11 | 147.4 | 118.6 |
| Investments | 12 | 12.8 | 12.8 |
| | | <u>160.2</u> | <u>131.4</u> |
| CURRENT ASSETS | | | |
| Stocks | 13 | 1.5 | 2.0 |
| Debtors | 14 | 413.9 | 526.4 |
| Cash at bank and in hand | | 3.7 | 4.0 |
| | | <u>419.1</u> | <u>532.4</u> |
| CREDITORS: amounts falling due within one year | 15 | (49.3) | (181.3) |
| NET CURRENT ASSETS | | <u>369.8</u> | <u>351.1</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>530.0</u> | <u>482.5</u> |
| CREDITORS: amounts falling due after more than one year | | | |
| Other creditors | | - | (2.5) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 17 | (22.7) | - |
| NET ASSETS | | <u>507.3</u> | <u>480.0</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 18 | 300.0 | 300.0 |
| Revaluation reserve | 19 | 50.6 | 64.0 |
| Profit and loss account | 19 | 156.7 | 116.0 |
| EQUITY SHAREHOLDERS' FUNDS | | <u>507.3</u> | <u>480.0</u> |

These financial statements were approved by the Board of Directors on 2 July 2004

Jon Mortimore

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the 53 weeks to 31 December 2003

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. Accounting policies have been consistently applied throughout the period and a summary of the more important 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. 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.

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.

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the 53 weeks to 31 December 2003

1 ACCOUNTING POLICIES (CONTINUED)

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.

2 ANALYSIS OF SALES

| | 53 weeks to 31 December 2003 | 65 weeks to 25 December 2002 |
|---------------------------|---------------------------------|---------------------------------|
| SALES | £m | £m |
| Lodging ¹ | 144.3 | 163.1 |
| Catering ¹ | 150.2 | 178.5 |
| Petrol sales ¹ | 39.0 | 43.5 |
| | 333.5 | 385.1 |

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, is attributable to the activities shown above.

1 - UK only

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the 53 weeks to 31 December 2003

3 EXCEPTIONAL ITEMS INCLUDED IN OPERATING PROFIT

Exceptional items totalling £48.7m consist of £21.1m provisions for onerous leases (note 17), revaluation write downs in tangible fixed assets of £24.3m (note 11), 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 relates 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.

Exceptional items incurred in the period ended 25 December 2002 totalled £135.7m consisting of £134.2m of provisions against tangible fixed assets and other tangible fixed asset write-downs, and £1.5m of provisions against fixed asset investments.

4 OPERATING PROFIT/ (LOSS)

| | 53 weeks to 31 December 2003 £m | 65 weeks to 25 December 2002 £m |
|--|---------------------------------------|---------------------------------------|
| Operating profit/ (loss) is after charging: | | |
| Depreciation | 6.5 | 22.8 |
| Operating lease rentals | 36.1 | 19.7 |
| Auditors' remuneration - Audit work | - | - |
| - Non audit work | 0.6 | - |

Auditors' remuneration in 2002 and 2003 was borne by another group company.

The company sold the beneficial interest in certain property interests to newly incorporated wholly-owned subsidiaries in 2002. Included in operating lease rentals are £16.9m of rentals payable and £1.6m of licence fees payable to these subsidiaries for the use of these properties. Operating lease rentals became payable from various dates during the period as leases were entered into for certain of the properties. Licence fees were payable throughout the period in respect of other properties where no lease agreement was entered into.

5 PROFIT ON DISPOSAL OF TANGIBLE FIXED ASSETS

| | 53 weeks to 31 December 2003 £m | 65 weeks to 25 December 2002 £m |
|---|---------------------------------------|---------------------------------------|
| Profit on disposal of fixed assets | 1.2 | 12.3 |
| Profit on disposal of properties to subsidiary undertakings | 15.6 | 30.7 |
| | 16.8 | 43.0 |

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.

6 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

| | 53 weeks to 31 December 2003 | 65 weeks to 25 December 2002 |
|---|---|---|
| | £ '000 | £ '000 |
| Directors' emoluments | 1,111 | 1,184 |
| Remuneration of the highest paid director | 612 | 395 |

Directors' emoluments in 2003 include £759,000 basic salary, £328,000 compensation for loss of office and £24,000 benefits in kind.

The highest paid director was the former Chief Executive, who resigned on 29th August 2003. His remuneration included a bonus paid by the previous owner, Compass Group plc, of £240,000 and compensation for loss of office of a further £240,000.

| Employee costs during the period (including Directors) | £m | £m |
|---|-------------|-------------|
| Wages and salaries | 84.2 | 89.0 |
| Social security costs | 5.2 | 5.5 |
| Pension costs | 0.7 | 0.8 |
| Employee costs before exceptionals | 90.1 | 95.3 |
| Exceptional items | 1.8 | - |
| | 91.9 | 95.3 |

| | Number | Number |
|------------------------------------|---------------|---------------|
| Average number of persons employed | 9,387 | 9,560 |

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.

7 LEASE COMMITMENTS

At 31 December 2003 the Company had annual operating lease commitments of £40.7m (2002: £8.3m) principally relating to property leases. Of this £40.7m, £0.1m expires within one year, £0.1m expires in 2 to 5 years and £40.5m expires in more than 5 years.

8 NET INTEREST (RECEIVABLE)/ PAYABLE AND SIMILAR CHARGES

| | 53 weeks to 31 December 2003 | 65 weeks to 25 December 2002 |
|---|---|---|
| | £m | £m |
| Bank interest payable | 0.1 | 6.6 |
| Interest payable to group undertakings | - | 37.3 |
| Unwinding of discount on provisions (note 17) | 1.4 | - |
| Bank interest receivable | - | (1.0) |
| Interest receivable from group undertakings | (14.0) | (35.0) |
| Net interest (receivable) / payable | (12.5) | 7.9 |

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the 53 weeks to 31 December 2003

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 53 weeks to 31 December 2003 | 65 weeks to 25 December 2002 |
|--|---|---|
| | £m | £m |
| Current Tax: | | |
| UK corporation tax on profits/(losses) of the period at 30% | - | 2.0 |
| Adjustments in respect of prior periods | (5.8) | 0.7 |
| Total current tax charge | (5.8) | 2.7 |
| Deferred tax | - | (0.4) |
| Tax (credit)/charge on profit/(loss) on ordinary activities | (5.8) | 2.3 |

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

| | 53 weeks to 31 December 2003 | 65 weeks to 25 December 2002 |
|---|---|---|
| | £m | £m |
| Profit/ (loss) on ordinary activities before tax | 21.5 | (65.5) |
| UK corporation tax rate of 30% | 6.5 | (19.7) |
| Effects of: | | |
| Items not chargeable to corporation tax | (4.8) | (0.8) |
| Group relief and other timing differences | (9.5) | (24.9) |
| Expenses not deductible for tax purposes | 7.8 | 43.4 |
| Adjustments in respect of prior years | 5.8 | (0.7) |
| Current tax credit/(charge) for the period | 5.8 | (2.7) |

No provision for UK corporation tax has been made for the period to 31 December 2003 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 2003 | 31 December 2002 |
|---|-------------------------|-------------------------|
| | Unprovided | Unprovided |
| | £m | £m |
| Difference between accumulated depreciation and amortisation and capital allowances | 14.7 | 13.7 |
| Other timing differences | 1.8 | 2.2 |
| Deferred tax asset | 16.5 | 15.9 |

No provision for the net deferred tax asset has been made given that the company is not expected to be tax paying in the UK for the foreseeable future and therefore will not have sufficient taxable profits from which a reversal of the underlying timing difference can be deducted.

If the company's property was sold at the value at which it is included in these accounts, a tax liability of £nil would arise.

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the 53 weeks to 31 December 2003

10 DIVIDENDS

| | 53 weeks to 31 December 2003 £m | 65 weeks to 25 December 2002 £m |
|--------------------------------------|---------------------------------------|---------------------------------------|
| Dividend in specie paid and proposed | - | (218.8) |

On 18 November 2002 certain hotels, other properties and a number of subsidiary undertakings were distributed as a dividend in specie to Wasely Roadside Restaurants limited. The investment in subsidiary undertakings amounted to £122,367,000 and the hotel properties and other fixed assets amounted to £96,496,000.

11 TANGIBLE FIXED ASSETS

| | Freehold & long leaseholds £m | Short-term leasehold improvement £m | Fixtures & fittings £m | Total £m |
|---------------------------------|--|--|------------------------------|--------------|
| Cost or valuation | | | | |
| At 25 December 2002 | 92.9 | 8.8 | 16.9 | 118.6 |
| Additions | 10.1 | 4.6 | 16.2 | 30.9 |
| Intra group additions | 35.2 | 18.1 | - | 53.3 |
| Revaluation write down | (11.1) | (13.2) | - | (24.3) |
| Intra group disposals | (24.7) | - | - | (24.7) |
| At 31 December 2003 | 102.4 | 18.3 | 33.1 | 153.8 |
| Accumulated depreciation | | | | |
| At 25 December 2002 | - | - | - | - |
| Charge for the period | (1.9) | (2.4) | (2.2) | (6.5) |
| Depreciation on disposals | 0.1 | - | - | 0.1 |
| At 31 December 2003 | (1.8) | (2.4) | (2.2) | (6.4) |
| Net book value | | | | |
| At 31 December 2003 | 100.6 | 15.9 | 30.9 | 147.4 |
| At 25 December 2002 | 92.9 | 8.8 | 16.9 | 118.6 |

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

Formal valuations of restaurant properties and budget hotels were carried out by Insignia Hotels Limited, Chartered Surveyors, on an existing use basis in December 2002. A subsequent review by the directors identified a number of sites where a further valuation adjustment was required.

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

Intra group additions comprise beneficial interests in certain properties which the company had agreed to sell to certain subsidiaries, which were recorded as disposals in 2002 which were not legally completed. These properties have been recorded as additions in 2003 and revalued.

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the 53 weeks to 31 December 2003

11 TANGIBLE FIXED ASSETS (CONTINUED)

Historical cost of property and fixed assets

| | 2003 £m | 2002 £m |
|--------------------------------|------------|------------|
| Cost | 111.8 | 69.7 |
| Accumulated depreciation | (15.0) | (15.1) |
| Historical cost net book value | 96.8 | 54.6 |

12 INVESTMENTS HELD AS FIXED ASSETS

| | Shares in subsidiaries £m |
|---|---------------------------------|
| Shares at cost at 25 December 2002 and 31 December 2003 | 20.7 |
| Provisions at 25 December 2002 and 31 December 2003 | (7.9) |
| Net book amount at 25 December 2002 and 31 December 2003 | 12.8 |

Investments held as fixed assets constitute shares in subsidiary undertakings which are listed below.

| Direct subsidiary undertakings | Business Description | Country of Incorporation | % of equity held |
|--|---------------------------------|-------------------------------------|-----------------------------|
| Anchor Hotels Limited | Dormant | England | 100 |
| Kelly's Kitchen Limited | Dormant | England | 100 |
| Little Chef Limited | Dormant | England | 100 |
| Stewart Watt Limited | Hotel operator | Scotland | 100 |
| Travelodge Limited (formerly Galleon World Travel Limited) | Dormant | England | 100 |
| Waseley Fourteen Ltd (formerly Compass Restaurant Properties Limited) | Property lessor | England | 100 |
| Waseley Ten Limited (formerly Compass Catering Services Limited) | Dormant | England | 100 |
| Waseley Twelve Limited (formerly Compass Cleaning Services Limited) | Dormant | England | 100 |
| TLLC Levpropco1 Limited | Property lessor | England | 100 |
| TLLC Levpropco2 Limited | Property lessor | England | 100 |
| TLLC Levpropco3 Limited | Property lessor | England | 100 |
| TLLC Levpropco4 Limited | Property lessor | England | 100 |
| TLLC Levpropco5 Limited | Property lessor | England | 100 |
| TLLC Levpropco6 Limited | Property lessor | England | 100 |
| TLLC Levpropco7 Limited | Property lessor | England | 100 |
| TLLC Levpropco8 Limited | Property lessor | England | 100 |
| TLLC Levpropco9 Limited | Property lessor | England | 100 |
| TLLC Levpropco10 Limited | Property lessor | England | 100 |
| TLLC Propholdco1 Limited | Holding company | England | 100 |
| TLLC Regents Palace Limited | Hotel operator | England | 100 |

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12 INVESTMENTS HELD AS FIXED ASSETS (CONTINUED)

| Indirect subsidiary undertakings | Business Description | Country of Incorporation | % of equity held |
|---|-----------------------------|---------------------------------|-------------------------|
| Happy Eater Limited | Dormant | England | 100 |
| TLLC BridgeCo1 Limited | Property lessor | England | 100 |
| TLLC BridgeCo2 Limited | Property lessor | England | 100 |
| TLLC BridgeCo3 Limited | Property lessor | England | 100 |
| TLLC BridgeCo4 Limited | Property lessor | England | 100 |
| TLLC BridgeCo5 Limited | Property lessor | England | 100 |
| TLLC BridgeCo6 Limited | Property lessor | England | 100 |
| TLLC BridgeCo7 Limited | Dormant | England | 100 |
| TLLC BridgeCo8 Limited | Property lessor | England | 100 |
| TLLC BridgeCo9 Limited | Property lessor | England | 100 |
| TLLC BridgeCo10 Limited | Property lessor | England | 100 |
| TLLC CMPropco1 Limited | Property lessor | England | 100 |
| TLLC CMPropco2 Limited | Property lessor | England | 100 |
| TLLC CMPropco3 Limited | Dormant | England | 100 |
| TLLC CMPropco4 Limited | Dormant | England | 100 |
| TLLC CMPropco5 Limited | Property lessor | England | 100 |
| TLLC CMPropco6 Limited | Property lessor | England | 100 |
| TLLC CMPropco7 Limited | Property lessor | England | 100 |
| TLLC CMPropco8 Limited | Property lessor | England | 100 |
| TLLC CMPropco9 Limited | Property lessor | England | 100 |
| TLLC CMPropco10 Limited | Property lessor | England | 100 |
| TLLC CMPropco11 Limited | Property lessor | England | 100 |
| TLLC CMPropco12 Limited | Property lessor | England | 100 |
| TLLC Propholdco2 Limited | Holding company | England | 100 |
| TLLC DevCo1 Limited | Property lessor | England | 100 |
| TLLC SpareCo Limited | Dormant | England | 100 |

TRAVELODGE HOTELS LIMITED
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13 STOCKS

| | 2003 | 2002 |
|-------------------------------------|------------|------------|
| | £m | £m |
| Raw materials and consumables | 0.8 | 1.0 |
| Finished goods and goods for resale | 0.7 | 1.0 |
| | 1.5 | 2.0 |

14 DEBTORS

| | 2003 | 2002 |
|---|--------------|--------------|
| | £m | £m |
| Amounts due within one year: | | |
| Trade debtors | 4.5 | 1.6 |
| Amounts owed by subsidiary undertakings | 392.1 | 524.6 |
| Corporation tax debtor | 3.9 | - |
| Other debtors | 10.8 | 0.2 |
| Prepayments and accrued income | 2.6 | - |
| | 413.9 | 526.4 |

15 CREDITORS

| | 2003 | 2002 |
|------------------------------------|---------------|----------------|
| | £m | £m |
| Amounts due within one year: | | |
| Trade creditors | (10.8) | (0.5) |
| Amounts due to group undertakings | - | (160.9) |
| Corporation tax payable | - | (2.0) |
| Other taxation and social security | (8.2) | (0.2) |
| Other creditors | (7.1) | - |
| Accruals and deferred income | (23.2) | (17.7) |
| | (49.3) | (181.3) |

16 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 £244.5m, Senior loan £186.2m, Mezzanine loan £72.1m, Junior loans (including Junior loan and Junior bridge loan) £34.3m and Development facility of £8.7m. The Commercial mortgage facility expires in 2010, the Senior loan expires in 2012, the Mezzanine loan expires in 2012, the Junior loans expire in 2013, and the Development facility loan expires in 2007. The interest rate range for the loans in the period to 31 December 2003 were as follows: Commercial mortgage loan 5.3% - 8.4%, Senior loan 5.9% - 7.2%, Mezzanine loan 12.6% - 13%, Junior loans, 13.6% - 14%, and Development facility loan 5.3% - 5.6%. In addition the Junior bridge loans and the Mezzanine loan carry equity warrant entitlements which could be converted into up to 0.7%, - 1.5% and 3.0% (respectively) of the equity of the Group.

The deep discounted bond issue price was £254.0m. The annual interest on the instrument ranges from 3% to 10% and is equivalent to compound interest of 7.7% per annum. At 31 December 2003, interest of £17.6m has been accrued. 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 22).

TRAVELODGE HOTELS LIMITED
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17 PROVISIONS FOR LIABILITIES AND CHARGES

| | Onerous leases | Dilapidations/ other | 2003 |
|------------------------------------|-----------------------|-----------------------------|---------------|
| | £m | £m | £m |
| Balance at 25 December 2002 | - | - | - |
| Provided for in the period | (21.1) | - | (21.1) |
| Transferred from creditors | - | (1.8) | (1.8) |
| Utilised in the period | 1.6 | - | 1.6 |
| Unwinding of discount of provision | (1.4) | - | (1.4) |
| Balance at 31 December 2003 | (20.9) | (1.8) | (22.7) |

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

18 CALLED UP SHARE CAPITAL

| | 2003 | 2002 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Authorised, issued, allotted and fully paid: | | |
| 300 million ordinary shares of £1 each | 300,000 | 300,000 |

19 CAPITAL AND RESERVES

| | Revaluation reserve | Share capital | Profit & Loss | Total |
|-------------------------------------|----------------------------|----------------------|--------------------------|--------------|
| | £m | £m | £m | £m |
| As at 25 December 2002 | 64.0 | 300.0 | 116.0 | 480.0 |
| Profit for the period | - | - | 27.3 | 27.3 |
| Realised revaluation surplus | (11.3) | - | 11.3 | - |
| Depreciation on revaluation reserve | (2.1) | - | 2.1 | - |
| As at 31 December 2003 | 50.6 | 300.0 | 156.7 | 507.3 |

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2003 £m | 2002 £m |
|--|------------|------------|
| Profit/(loss) for the financial period | 27.3 | (67.8) |
| Dividends | - | (218.9) |
| Other recognised gains | - | 29.1 |
| Opening shareholders' funds | 480.0 | 737.6 |
| Closing shareholders' funds | 507.3 | 480.0 |

21 CAPITAL COMMITMENTS

Contracts placed for future capital expenditure not provided for in these financial statements amounts to £2.8m (2002: £23.3m)

22 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 the group of companies controlled by TLLC Group Holdings Limited (note 16).

23 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.