Company Registration No. 769170

TRAVELODGE HOTELS LIMITED

Report and financial statements

Year ended 31 December 2006

TRAVELODGE HOTELS LIMITED

REPORT AND FINANCIAL STATEMENTS 2006

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Grant Hearn
Jon Mortimore
Guy Parsons
Paul Harvey

COMPANY SECRETARY

Jon Mortimore

REGISTERED OFFICE

Sleepy Hollow
Aylesbury Road
Thame
OX9 3AT

BANKERS

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

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
LONDON
E14 4BB

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 2006

ACTIVITIES AND BUSINESS REVIEW

During the year to 31 December 2006 the financial performance of the continuing business of the Company improved Sales from the Travelodge brand (representing the continuing business) increased by 18% to £201 6m (2005 £170 9m) and EBITDAR (Earnings before interest, tax, depreciation, exceptional items and rent for the continuing business) grew by 20% to £92 9m (2005 £77 6m)

During the year the Company opened 27 new hotels (2,548 new rooms) and continued to make good progress growing and securing the development pipeline of new hotels The strength of the Travelodge brand also improved to become the No 1 recognised hotel brand in the UK (measured by the BDRC in terms of both unaided awareness and prompted awareness)

The Company plans to open at least 12,000 rooms over the next four years, including 3,000 rooms in 2007, giving an expectation of at least 32,000 rooms in the UK by 2010 During the year, good progress was made securing and growing the total pipeline, which currently stands at around 16,000 new rooms (c 200 specifically identified hotels) and the Company is currently building 17 new hotels, all of which will open in the next 12 months

The Company made an operating loss of £19 9m (2005 operating profit of £22 8m) after exceptional items of £31 3m (2005 £3 4m) and amounts written off investments of £8 6m (2005 £nil) Before exceptional items and amounts written off investments, the Company made an operating profit of £20 0m (continuing business 2005 £19 8m) Loss before tax was £5 0m (2005 profit of £26 5m)

DIVIDENDS

On 31 August 2006 a dividend of £192 7m was paid (2005 £nil) This represented a payment of 64p per share (2005 £nil) No further dividends are proposed for the year ended 31 December 2006 The dividend was paid to the immediate parent company TLLC Limited to put it into a position of net assets (rather than net liabilities) The dividend was paid to ensure the companies were all in a position of net assets in respect of the refinancing and sale process in September 2006

DIRECTORS AND THEIR INTERESTS

The Directors, who served throughout the year, except as noted, were as follows

Paul Harvey (appointed 6 November 2006)
Grant Hearn
Jon Mortimore
Guy Parsons
Harry Turner (resigned 11 September 2006)

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, Travelodge Limited

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

INSURANCE

The Company maintains insurance in respect of Directors and officers against any such liabilities are referred to in section 309A of the Companies Act 1985

DONATIONS

The charitable donations made by the Company and charged in the accounts were £6,820 (2005 £5,200) There were no political donations during the year (2005 £nil)

TRAVELODGE HOTELS LIMITED

DIRECTORS' REPORT (CONTINUED)

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, age, ethnic origin, disability or sexual orientation

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is exposed to financial risk through its assets and liabilities The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due The most important components of financial risk are interest rate risk, credit risk, liquidity risk, cash flow risk and price risk

Due to certain of the Company's assets being pledged as security for the loans of the immediate parent companies the financial risks the Directors consider most relevant to the Company are interest risk and liquidity risk These risks are mitigated by using interest rate swaps and the nature of the bank facilities of the immediate parent companies
Interest rate risk The Company is subject to an interest charge on its intercompany debt This charge is based on the cost to the Group of the external debt held In order to mitigate the risk of changes in interest rates, the Group borrows at fixed and floating rates, and uses interest rate swaps to generate the desired interest profile

Group risks are discussed within the Annual Report of the ultimate parent company, Travelodge Limited, which does not form part of this report

AUDITORS

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

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware, and
- the Director has 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 s234ZA of the Companies Act 1985

ELECTIVE RESOLUTIONS

The Company has passed elective resolutions to dispense with the laying of the Annual Report and Accounts before the Company in a General Meeting, the appointment of auditors annually and the holding of Annual General Meetings, pursuant to sections 252, 386 and 366A respectively of the Companies Act 1985

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

Jon Mortimore
Secretary
29 June 2007

TRAVELODGE HOTELS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' 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) The financial statements are required by law to 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 judgements and estimates that are reasonable and prudent,
- state whether applicable UK 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 that 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 1985 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 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 2006 which comprise the profit and loss account, the statement of total recognised gains and losses, the note of historical cost profits and losses, the balance sheet and the related notes 1 to 25 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
The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRAVELODGE HOTELS LIMITED (CONTINUED)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
29 June 2007

TRAVELODGE HOTELS LIMITED

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2006

	Notes	**Year ended 31 December 2006**	Year ended 31 December 2005		
		Total £m	**Continuing £m**	**Discontinued £m**	**Total £m**
TURNOVER	*2*	**201.6**	170 9	94 7	265 6
Cost of sales		**(10.6)**	(9 8)	(30 6)	(40 4)
GROSS PROFIT		**191 0**	161 1	64 1	225 2
Administrative expenses		**(210 9)**	(144 7)	(57 7)	(202 4)
OPERATING (LOSS)/PROFIT	*3*	**(19.9)**	16 4	6 4	22 8
EBITDAR *(Earnings before interest, tax, depreciation exceptional items & rent)*		**92 9**	77 6	10 7	88 3
Net rent expense		**(55.9)**	(47 1)	(2 6)	(49 7)
EBITDA *(Earnings before interest, tax, depreciation & exceptional items)*		**37.0**	30 5	8 1	38 6
Depreciation	*11*	**(17.0)**	(10 7)	(1 7)	(12 4)
Exceptional items	*3*	**(31.3)**	(3 4)	-	(3 4)
Amounts written off investments	*3*	**(8.6)**	-	-	-
Operating (loss)/profit		**(19.9)**	16 4	6 4	22 8
Loss on disposal of tangible fixed assets	*4*	**(6 7)**			(4 6)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		**(26 6)**			18 2
Income from shares in group undertakings	*7*	**19 1**			-
Net interest receivable and similar income	*8*	**2 5**			8 3
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		**(5.0)**			26 5
Tax credit on loss on ordinary activities	*10*	**4 6**			1 8
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		**(0.4)**			28 3

All results in the current year are derived from continuing operations

TRAVELODGE HOTELS LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES AND NOTE OF HISTORICAL COST PROFITS AND LOSSES

For the year ended 31 December 2006

	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Statement of total recognised gains and losses		
(Loss)/profit for the financial year	(0.4)	28.3
Impairment loss reversing previous upward revaluation	(6.4)	-
Unrealised surplus on revaluation of leasehold properties	186.6	-
Total gains recognised since the last financial period	179.8	28 3
Note of historical costs profits and losses		
Reported (loss)/profit on ordinary activities before taxation	(5.0)	26.5
Realisation of prior years' property revaluation gains	0.2	5.6
Difference between historical cost depreciation charge and the actual depreciation charge for the year	3 1	2.4
Historical cost (loss)/profit on ordinary activities before taxation	(1 7)	34.5
Historical cost profit for the year retained after taxation	2.9	36.3

TRAVELODGE HOTELS LIMITED

BALANCE SHEET

	Notes	31 December 2006 £m	31 December 2005 £m
FIXED ASSETS			
Tangible assets	*11*	**347.5**	177 5
Investments	*12*	**21.7**	12 8
		369.2	190 3
CURRENT ASSETS			
Stocks	*13*	**0.5**	0 1
Debtors	*14*	**325.1**	499 6
Cash at bank and in hand		**5.2**	1 0
		330.8	500 7
CREDITORS: amounts falling due within one year	*15*	**(82.2)**	(63 6)
NET CURRENT ASSETS		**248.6**	437 1
TOTAL ASSETS LESS CURRENT LIABILITIES		**617.8**	627 4
CREDITORS: amounts falling due after more than one year	*16*	**(29.8)**	(27 9)
PROVISIONS FOR LIABILITIES	*18*	**(19.7)**	(21 2)
NET ASSETS		**568.3**	578 3
CAPITAL AND RESERVES			
Called up share capital	*19*	**300.0**	300 0
Revaluation reserve	*20*	**212.3**	35 2
Profit and loss account	*20*	**56.0**	243 1
SHAREHOLDERS' FUNDS	*21*	**568.3**	578 3

These financial statements were approved by the Board of Directors and signed on their behalf by

Jon Mortimore
Director
29 June 2007

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the year ended 31 December 2006

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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) Accounting policies have been consistently applied throughout the current and prior year 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

Turnover
Turnover represents the amount receivable for goods and services supplied to customers in the normal course of business, net of VAT and trade discounts

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

Fixed assets
Long leaseholds, short leaseholds and finance leaseholds are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses Revaluations are performed with sufficient regularity that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date

Any revaluation increase arising on the revaluation of such leaseholds is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the profit and loss account to the extent of the decrease previously charged A decrease in the carrying value arising on the revaluation of such leaseholds is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset

Depreciation on revalued leaseholds is charged to income On the subsequent sale or retirement of a revalued leasehold, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings

Fixtures and fittings and computer equipment are stated at cost less accumulated depreciation and any recognised impairment loss

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

- Leasehold land and buildings are depreciated to their estimated residual values over the shorter of fifty years and their remaining lease periods
- Other assets are depreciated over ten to fifteen years for plant and machinery, long life fixtures, fittings, equipment and information technology hardware, and up to seven years for short life fixtures, fittings and equipment
- Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease

1 ACCOUNTING POLICIES (CONTINUED)

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

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

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 2006

2 ANALYSIS OF TURNOVER

		Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
TURNOVER			
Continuing	- Travelodge UK	201 6	170 9
Discontinued	- Restaurants	-	94 7
		201 6	265.6

Turnover represents amounts derived from the provision of goods and services which fall within the Company's ordinary activities after the deduction of trade discounts and value added tax

Discontinued operations was the Company's restaurant business which was sold on 20 October 2005

3 OPERATING PROFIT

		Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Operating profit is after charging:			
Depreciation		17 0	12 4
Net operating lease rentals		55 9	49 7
Auditors' remuneration	- Audit work	0 3	0 2
	- Non audit work	2 7	2 5
Exceptional items[1 3]		31 3	3 4
Amounts written off investments[2]		8 6	-

1 - In the financial year to 31 December 2006, exceptional costs charged against operating profit consisted of £7 4m relating to onerous lease provisions in respect of the discontinued restaurants business, £12 2m impairment losses relating to leasehold assets following a review for impairment, £4 9m of costs relating to the reorganisation of the Company, £2 7m of equity settled share based payments, £0 7m written off trade debtors relating to the discontinued restaurants business and £3 4m bonus paid to certain directors and employees following the completion of the sale of TLLC Group Holdings Limited to compensate them for tax costs arising on the disposal of their shares

2 - During the year, the Company wrote off £8 6m of investments following a review for impairments of subsidiaries as part of the process to ensure that all companies were in a position of net assets in respect of the refinancing and sale process in September 2006 (note 12)

3 - In the financial year to 31 December 2005, exceptional costs charged against operating profit of £5 5m related to a Company reorganisation of £2 9m and vacant premises of £2 6m Also the Company reassessed previously recorded liabilities at the date of acquisition by TLLC Limited and as a result £2 1m of previously made exceptional charges were written back to profit through exceptional items

4 LOSS ON DISPOSAL OF FIXED ASSETS

	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
(Loss)/profit on disposal of sale of restaurant business[1 3]	(1 9)	5 1
Loss on hotel disposals[2 4]	(4 8)	(9 7)
	(6 7)	(4.6)

1 - In the financial year to 31 December 2006 the Company completed the sale of the remainder of its restaurant business, with gross proceeds of £3 9m, transaction costs of £2 2m, and net operating assets disposed of £3 6m

2 - In the financial year to 31 December 2006 the Company sold and leased back a number of hotels, with gross proceeds of £5 1m and operating assets disposed of £9 9m

3 - In the financial year to 31 December 2005 the Company sold its restaurant business, with gross proceeds of £58 8m (including settlement of intercompany receivables), transaction costs of £15 1m, fixed assets disposed of £26 6m, operating assets disposed of £1 0m, provisions written back of £11 3m and amounts owing from subsidiary undertakings disposed of £22 3m

4 - In the financial year to 31 December 2005 the Company completed a number of sale and leaseback transactions, with gross proceeds of £51 4m, the net book value of operating assets disposed of £15 5m and amounts owing from subsidiary undertakings disposed of £46 4m £2 1m of accruals relating to the sale and leaseback of certain hotels which completed in the year ended 31 December 2004 were released as unnecessary Also, the Directors, having taken appropriate advice, have determined that the gross proceeds received exceeded the fair value of the assets disposed by £1 3m due to the strength of the Company's covenant supporting the leaseback rental guarantee and the amount to which the gross proceeds exceeded the fair value of the assets disposed has, in accordance with SSAP 13, therefore been deferred to be released over the term of the lease

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the year ended 31 December 2006

5 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' emoluments for 2006 totalled £6,608,000 and the remuneration of the highest paid Director was £3,235,000 (2005 £391,000) Directors' emoluments include basic salary £1,065,000 (2005 £1,045,000), bonuses of £5,539,000 (2005 £nil) and benefits in kind £4,000 (2005 £53,000)

Employee costs during the year (including Directors)[1]	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Wages and salaries	46 9	71 2
Social security costs	3.0	5 0
Pension costs	0 3	0 6
Employee costs before exceptional items	50 2	76 8
Exceptional items[2 3]	6 1	1 1
	56.3	77 9

1 - Employee costs relating to discontinuing activities included in the above are wages and salaries of £nil (2005 £29 1m), social security costs of £nil (2005 £2 0m) and pension costs of £nil (2005 £0 3m)

2 - The exceptional cost in 2006 include £2 7m equity-settled share based payments (note 22) and £3 4m bonus paid to certain directors and employees following the completion of the sale of TLLC Group Holdings Limited to compensate them for tax costs arising on the disposal of their shares

3 - The exceptional cost in 2005 of £1 1m mainly represents redundancy costs

		Year ended 31 December 2006 Number	Year ended 31 December 2005 Number
Average number of persons employed	- Continuing	2,711	2,653
	- Discontinued	-	2,121

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 year

6 OPERATING LEASE COMMITMENTS

At 31 December 2006 the Company had annual operating lease commitments of £50 8m (2005 £43 6m) principally relating to property leases All commitments expire in more than five years

7 INCOME FROM SHARES IN GROUP UNDERTAKINGS

On 31 August 2006 the Company received dividends totalling £19 1m (2005 £nil) from TLLC Propholdco2 Limited, Stewart Watt Limited, TLLC DevCo1 Limited and TLLC BridgeCo9 Limited

8 NET INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Finance lease interest charge	(3 9)	(3 6)
Unwinding of discount on provisions (note 18)	(0 6)	(0 5)
Interest payable to group undertakings	(1 5)	(0 4)
Interest receivable from group undertakings	8 5	11 4
Interest receivable	-	1 4
Net interest receivable	**2 5**	**8 3**

9 DIVIDENDS

On 31 August 2006 a dividend of £192 7m was paid (2005 £nil) This represented a payment of 64p per share (2005 £nil) No further dividends are proposed for the year ended 31 December 2006 The dividend was paid to the immediate parent company TLLC Limited to put it into a position of net assets (rather than net liabilities) The dividend was paid to ensure the companies were all in a position of net assets in respect of the refinancing and sale process in September 2006

10 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Current tax		
Adjustments in respect of prior tax periods	-	1 1
Deferred tax		
Origination and reversal of timing differences	(4 6)	(2 9)
Tax credit on profit on ordinary activities	**(4.6)**	**(1 8)**

The difference between the total current tax and the amount calculated by applying the standard rate of UK corporation tax of 30% to the profit before tax is as follows

	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
(Loss)/profit on ordinary activities before tax	(5 0)	26 5
UK corporation tax rate of 30% (2005 30%)	(1 5)	8 0
Effects of		
Capital allowances in excess of depreciation	0 4	(6 8)
Items not chargeable to corporation tax	(5 8)	-
Tax relieved by group losses for nil consideration	(1 4)	(5 5)
Taxable profits arising on disposal of property	2 1	4 0
Expenses not deductible for tax purposes	6 2	0 3
Adjustments in respect of prior tax periods	-	1 1
Current tax charge for the year	-	**1.1**

No provision for UK corporation tax has been made for the year to 31 December 2006 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 Travelodge Limited group 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 2006 Provided £m	31 December 2006 Unprovided £m	31 December 2005 Provided £m	31 December 2005 Unprovided £m
Accelerated capital allowances	1 4	-	6 0	-
Capital gains	-	(8 2)	-	(9 4)
Deferred tax liability/ (asset)	**1.4**	**(8.2)**	**6.0**	**(9 4)**

The potential net deferred tax asset shown above has not been recognised due to lack of certainty that there will be suitbale taxable profits from which the future reversal of the underlying timing differences can be deducted

In the event of a disposal of fixed assets at the values at which they are held in the accounts, a tax charge of up to £57m could arise, before utilisation of any potential reliefs

TRAVELODGE HOTELS LIMITED
NOTES FOR THE ACCOUNTS
For the year ended 31 December 2006

11 TANGIBLE FIXED ASSETS

	Long leaseholds £m	Short-term leasehold interests £m	Finance leaseholds £m	Fixtures and fittings £m	Computer Equipment £m	Total £m
Cost or valuation						
At 1 January 2006	10 0	90 0	24 4	69 2	5 6	199 2
Additions						
- capital expenditure	-	10 7	-	18 8	0 7	30 2
- movement on capital creditors	-	1 0	0 4	1 1	-	2 5
Disposals						
- external	(6 3)	(5 4)	(2 3)	-	-	(14 0)
Reclassification	(0 3)	6 4	10 7	(16 5)	(0 3)	-
Revaluation increase	-	175 6	-	-	-	175 6
At 31 December 2006	**3.4**	**278.3**	**33.2**	**72.6**	**6.0**	**393.5**
Accumulated depreciation						
At 1 January 2006	(1 1)	(8 3)	(1 5)	(9 7)	(1 1)	(21 7)
Charge for the year	0 4	(5 6)	(0 8)	(9 2)	(1 8)	(17 0)
Disposals	-	0 1	-	-	-	0 1
Reclassification	0 6	(0 4)	(0 2)	(0 9)	0 9	-
Impairment losses	(0 3)	(10 5)	(7 6)	-	-	(18 4)
Adjustments on revaluations	-	11 0	-	-	-	11 0
At 31 December 2006	**(0.4)**	**(13.7)**	**(10 1)**	**(19.8)**	**(2.0)**	**(46.0)**
Net book value						
At 31 December 2006	**3.0**	**264.6**	**23.1**	**52.8**	**4.0**	**347.5**
At 31 December 2005	8 9	81 7	22 9	59 5	4 5	177.5

Long leasehold properties are stated at cost or valuation

A revaluation of the company's interests in leasehold properties was carried out by an internal chartered surveyor on an existing use basis in September 2006

The company reviewed the asset categories of the tangible fixed assets during the year in connection with the change in ownership and as a result have reclassified a number of assets These reclassifications have had no impact on the profit and loss account for the year

Fixed assets relating to discontinuing activities included within the above are £nil (2005 £6 2m)

Historical cost of tangible fixed assets

	2006 £m	2005 £m
Cost	**185.3**	166 4
Accumulated depreciation	**(50.1)**	(24 1)
Historical cost net book value	**135 2**	**142 3**

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12 INVESTMENTS HELD AS FIXED ASSETS

	Shares in subsidiaries £m
Cost	
At 1 January 2006	20 7
Additions (capital contributions to subsidiaries)	17 5
At 31 December 2006	**38.2**
Provisions for impairment	
At 1 January 2006	(7 9)
Written off	(8 6)
At 31 December 2006	**(16 5)**
Net book value	
At 31 December 2006	**21.7**
At 31 December 2005	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
TLLC Regent Palace Limited	Trading	Great Britain	100
Stewart Watt Limited	Non-trading	Great Britain	100
TLLC LevPropCo1 Limited	Property Lessor	Great Britain	100
TLLC LevPropCo5 Limited	Property Lessor	Great Britain	100
TLLC LevPropCo7 Limited	Property Lessor	Great Britain	100
Anchor Hotels Limited	Non-trading	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
TLLC PropHoldCo 1 Limited	Non-trading	Great Britain	100
Waseley Ten Limited	Dormant	Great Britain	100
Waseley Twelve Limited	Dormant	Great Britain	100
Waseley Fourteen Limited	Dormant	Great Britain	100
Inhoco 3220 Limited (formerly Little Chef Limited)	Dormant	Great Britain	100
TLLC Hotels Limited (formerly Travelodge Limited)	Dormant	Great Britain	100

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13 STOCKS

	2006 £m	2005 £m
Finished goods and goods for resale	**0.5**	**0.1**

14 DEBTORS

	2006 £m	2005 £m
Amounts due within one year		
Trade debtors	8 5	5 3
Amounts owed by Group undertakings	297 4	483 3
Corporation tax debtor	2 0	2 0
Other debtors	1 5	1 1
Prepayments and accrued income	15 7	7 9
	325.1	**499.6**

15 CREDITORS: amounts falling due within one year

	2006 £m	2005 £m
Amounts due within one year		
Trade creditors	(4 5)	(5 7)
Amounts due to group undertakings	(33 9)	(20 5)
Other taxation and social security	(3 5)	(2 1)
Other creditors	(27 2)	(22 5)
Accruals and deferred income	(13 1)	(12 8)
	(82.2)	**(63.6)**

16 CREDITORS: amounts falling due after more than one year

	2006 £m	2005 £m
Accruals and deferred income	(4 7)	(3 2)
Obligations under finance leases		
- Due after five years	(25 1)	(24 7)
Total obligations under finance leases	(25 1)	(24 7)
	(29.8)	**(27.9)**

17 FUNDING

Travelodge Hotels Lımıted ıs a member of a group whıch finances ıts operatıons through a mıxture of bank borrowıngs, a Eurobond, trade credıt and share capıtal

The bank debt of the Group was refinanced on 5 September 2006 and at 31 December 2006 was made up of the followıng Commercıal mortgage £95 2m (2005 £79 4m), Senıor loan £295 5m (2005 £70 7m), Mezzanıne loan £86 4m (2005 £46 4m), PIK loan £42 5m (2005 £23 2)

The commercıal mortgage facılıty expıres ın 2013, the Mezzanıne loan expıres ın 2016, the PIK loan expıres ın 2017 Of the Senıor loans £4 8m expıres between 2010 and 2011 and £290 7m expıres between 2014 and 2016

A Eurobond was ıssued by the Group on 5 September 2006 at £183 5m and at 31 December stood at £193 6m (2005 £nıl) The annual ınterest on the Eurobond ıs 17% and ıt ıs redeemable ın 2017

Travelodge Hotels Lımıted has guaranteed the oblıgatıons and lıabılıtıes descrıbed above (under a number of bankıng agreements) whıch were entered ınto by the group of companıes controlled by Travelodge Lımıted (note 24)

18 PROVISIONS FOR LIABILITIES

	Deferred tax (note 10) £m	Vacant propertıes £m	Redundancy £m	Total £m
Balance at 1 January 2006	(6 0)	(12 9)	(2 3)	**(21.2)**
Increase ın provısıons	-	(7 4)	-	**(7.4)**
Dısposals	-	0 3	-	**0.3**
Utılısatıon	-	2 3	2 3	**4.6**
Unwındıng of dıscount on provısıons (note 8)	-	(0 6)	-	**(0.6)**
Credıt to the profit and loss account	4 6	-	-	**4.6**
Balance at 31 December 2006	**(1.4)**	**(18.3)**	-	**(19.7)**

Dılapıdatıon and onerous lease provısıons wıll be utılısed over the remaınıng perıods of the leases

Provısıons relatıng to dıscontınued actıvıtıes ıncluded wıthın the above are £nıl (2005 £4 2m)

19 CALLED UP SHARE CAPITAL

	2006 £m	2005 £m
Authorısed, ıssued, allotted and fully paıd:		
300 mıllıon ordınary shares of £1 each	**300.0**	**300.0**

20 RESERVES

	Revaluation reserve £m	Share capital £m	Profit & loss £m	Total £m
As at 1 January 2006	35 2	300 0	243 1	**578.3**
Loss for the year	-	-	(0 4)	**(0.4)**
Credit to equity for share-based payments (note 22)	-	-	2 7	**2.7**
Dividends paid to immediate parent company	-	-	(192 7)	**(192.7)**
Revaluation surplus	186 6	-	-	**186.6**
Realised revaluation deficit	(6 4)	-	0 2	**(6.2)**
Depreciation on revaluation reserve	(3 1)	-	3 1	-
As at 31 December 2006	**212.3**	**300.0**	**56.0**	**568 3**

On 31 August 2006 a dividend of £192 7m was paid (2005 £nil) This represented a payment of 64p per share (2005 £nil) No further dividends are proposed for the year ended 31 December 2006 The dividend was paid to the immediate parent company TLLC Limited to put it into a position of net assets (rather than net liabilities) The dividend was paid to ensure the companies were all in a position of net assets in respect of the refinancing and sale process in September 2006

21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006 £m	2005 £m
Opening shareholders' funds	578 3	550 0
(Loss)/profit for the year	(0 4)	28 3
Credit to equity for share-based payments (note 22)	2 7	-
Dividends paid to immediate parent company	(192 7)	-
Revaluation surplus	186 6	-
Realised revaluation deficit	(6 2)	-
Closing shareholders' funds	**568.3**	**578.3**

22 EQUITY-SETTLED SHARE BASED PAYMENTS

During the year 19,200 shares in TLLC Group Holdings Limited were granted to employees and Directors of the Company in respect of services provided The shares were subsequently purchased by Dubai International Capital for £2 7m which represents the benefit received by the employees and Directors and this has been recognised as an expense related to equity-settled share based payments transactions in the year

23 CAPITAL COMMITMENTS

Contracts placed for future capital expenditure not provided for in these financial statements amounts to £0 2m (2005 £0 2m)

24 CONTINGENT LIABILITIES

The Company has a contingent liability under a number of leases that have been assigned to various third parties In certain circumstances, should the current lessee default on the payment of rent, a superior landlord may have recourse to the Company Should a superior landlord make a claim on the Company for unpaid rent, the Company would be required to settle that liability and subsequently the unit / units subject to the claim could be seized by the Company following petitioning of a court The Company could subsequently, subject to certain conditions, either trade from the unit or reassign the lease of the unit to a third party

At 31 December 2006 the estimated annual contingent rental liability was £0 3m (2005 £1 5m), represented by 13 units, with an average annual rental cost per unit of £21k and an average lease term remaining of 27 years

At 31 December 2006 the Company had guaranteed an indemnity issued in favour of the Royal Bank of Scotland PLC of €6 7m (2005 €7 6m), which related to the Company's development plans in Spain

Travelodge Hotels Limited has guaranteed the obligations and liabilities described in note 17 above totalling £713 2m (2005 £415 5m) under a number of banking agreements which were entered into by the group of companies controlled by Travelodge Limited

25 RELATED PARTY TRANSACTIONS AND ULTIMATE CONTROLLING PARTY

As a subsidiary of Travelodge 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 Dubai International Capital LLC ("DIC"), a Company incorporated in the United Arab Emirates, as the ultimate controlling party and the parent company of the largest group of which the Company is a member and for which Group financial statements are drawn up DIC invested in Travelodge Limited on 5 September 2006 Travelodge Limited is the parent company of the smallest group of which the Company is a member and for which the Group financial statements are drawn up Copies of the Travelodge Limited Group financial statements are available from its registered office Sleepy Hollow, Aylesbury Road, Thame OX9 3AT