REGISTERED NUMBER: 00879456 (England and Wales)

# Adda Hotels

## STRATEGIC REPORT, REPORT OF THE DIRECTORS AND

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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**for the year ended 31 December 2015**

**COMPANY INFORMATION**
**for the year ended 31 December 2015**

| | |
|---|---|
| **DIRECTORS:** | Mr J Percival<br>Mr O Lifschitz<br>Mr J Tynan<br>Mr H Enayetullah<br>Hilton UK Corporate Director Limited<br>Mr S Beasley<br>Mr B Wilson<br>Mr C Heath |
| **SECRETARY:** | HLT Secretary Limited |
| **REGISTERED OFFICE:** | Maple Court<br>Central Park<br>Reeds Crescent<br>Watford<br>Hertfordshire<br>WD24 4QQ |
| **REGISTERED NUMBER:** | 00879456 (England and Wales) |
| **AUDITORS:** | Ernst & Young LLP<br>1 More London Place<br>London<br>SE1 2AF |

**STRATEGIC REPORT**
**for the year ended 31 December 2015**

The directors present their strategic report for the year ended 31 December 2015.

The principal activity of the company in the year under review was to operate twelve hotels under operating leases and manage two hotels under management contracts.

During the year the company transitioned from previously extant UK GAAP to FRS 101 - Reduced Disclosure Framework and has taken advantage of the disclosure exemptions allowed under this standard. The company's immediate parent undertaking, Hilton Worldwide Limited, was notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions. Details of the recognition or measurement differences arising on the adoption of FRS 101 are set out in the note 'First Year Adoption'.

**REVIEW OF BUSINESS**
The company's key financial indicators of performance during the year are considered to be:

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Turnover | 117,170,424 | 96,599,920 |
| Gross loss | (939,707) | (20,597,295) |
| Occupancy | 80% | 79% |

During the prior year the company acquired the share capital of nine newly established companies within the group. On 1 July 2014 Adda Hotels transferred the operations, working capital and short leasehold of eight of the hotels to the newly established company at net book value in exchange for an intercompany loan equal to the net book value of the assets transferred. During the current year and following recent analysis management considered that the most appropriate entity to assign the lease of the eight hotels to was this company. The operations, working capital and short leasehold of the hotels were therefore transferred back to Adda Hotels on 31 March 2015 at net book value in exchange for an intercompany loan equal to the net book value of the assets transferred.

Turnover in the current year includes the results of twelve leased hotels and two managed hotels. Turnover has increased on last year as the current year results contain 9 months of trading compared with 6 months in the prior period. The primary driver behind the movement in gross loss is related to the movement in revenue. The gross loss is further impacted by the lower impairment of fixed assets charge of £9,316,617 (2014: £25,456,549).

During the year the company participated in a legal entity rationalisation project aimed at reducing the number of entities in the wider Hilton Worldwide Holdings Inc. group. As part of the project the company wrote off three loans totalling £2,333,248 with subsidiaries within the Hilton Worldwide Holding Inc. group.

**PRINCIPAL RISKS AND UNCERTAINTIES**
Competitive risk
This company operates in a number of locations around the UK. Risks that arise come from competitors opening new hotels or improving an existing hotel. The company monitors its competitors' performance and participates in regular benchmarking to understand the company's position compared to its competitors.

Economic risk
The company is subject to the cyclical nature of the hospitality and travel industry not just in its own market but those of its customers. Budgeting and forecasting processes enable the company to identify risks in market trends early to enable mitigation of such risks.

Interest rate risk
This company is subject to interest rate risk on intercompany loans where the interest rate is linked to LIBOR. The company's treasury department monitors interest rates.

Management does not believe the company is any more exposed to financial statement risk factors than others in the industry and has a system of internal controls and procedures that attempt to mitigate such risk.

## FUTURE DEVELOPMENTS

The company will continue to operate and manage hotels under lease and management contracts in the future with a view to optimising returns.

**ON BEHALF OF THE BOARD:**

Mr S Beasley - Director

28 July 2016

**REPORT OF THE DIRECTORS**
**for the year ended 31 December 2015**

The directors present their report with the financial statements of the company for the year ended 31 December 2015.

**DIVIDENDS**
No dividends will be distributed for the year ended 31 December 2015.

**DIRECTORS**
The directors shown below have held office during the whole of the period from 1 January 2015 to the date of this report.

Mr J Tynan
Mr H Enayetullah
Hilton UK Corporate Director Limited

Other changes in directors holding office are as follows:

Mr J Percival - appointed 1 January 2015
Mr O Lifschitz - appointed 1 January 2015
Mr S Beasley - appointed 1 January 2015
Mr B Wilson - appointed 1 January 2015

Mr C Heath was appointed as a director after 31 December 2015 but prior to the date of this report.

**DIRECTORS' AND OFFICERS' LIABILITY**
During the year Hilton Worldwide Holdings Inc. purchased and maintained on behalf of the company liability insurance for its directors and officers, in respect of proceedings brought by third parties, as permitted by section 236 of the Companies Act 2006.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**
The directors are responsible for preparing the Strategic Report, Report of the Directors 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), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

**AUDITORS**
In accordance with section 485 of the Companies Act 2006, a resolution is proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company.

**ON BEHALF OF THE BOARD:**

Mr S Beasley - Director

28 July 2016

## REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF ADDA HOTELS

We have audited the financial statements of Adda Hotels for the year ended 31 December 2015 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Report of the Directors to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF ADDA HOTELS**

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Rebecca Turner (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
1 More London Place
London
SE1 2AF

28 July 2016

**Adda Hotels (Registered number: 00879456)**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
**for the year ended 31 December 2015**

| | Notes | 2015<br>£ | 2014<br>£ |
|---|---|---|---|
| **TURNOVER** | 3 | 117,170,424 | 96,599,920 |
| Cost of sales | | (118,110,131) | (117,197,215) |
| **GROSS LOSS** | | (939,707) | (20,597,295) |
| Other operating items | | (2,333,248) | - |
| Administrative expenses | | (8,353,963) | (7,431,320) |
| **OPERATING LOSS** | | (11,626,918) | (28,028,615) |
| Profit/(loss) on disposal of tangible fixed assets | | (572,402) | (16,119) |
| | | (12,199,320) | (28,044,734) |
| Interest receivable | 5 | 690,892 | 402,701 |
| Interest payable | 6 | (36,980) | - |
| **LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION** | 7 | (11,545,408) | (27,642,033) |
| Tax on loss on ordinary activities | 8 | (1,431,815) | (3,434,941) |
| **LOSS FOR THE FINANCIAL YEAR** | | (12,977,223) | (31,076,974) |
| **OTHER COMPREHENSIVE INCOME** | | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | (12,977,223) | (31,076,974) |

The notes form part of these financial statements

**Adda Hotels (Registered number: 00879456)**

**BALANCE SHEET**
**31 December 2015**

| | Notes | 2015 £ | 2014 £ |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Intangible assets | 9 | 12,915 | 19,974 |
| Tangible assets | 10 | 54,513,722 | 49,739,053 |
| Investments | 11 | 900 | 900 |
| | | 54,527,537 | 49,759,927 |
| **CURRENT ASSETS** | | | |
| Stocks | 12 | 252,273 | 137,321 |
| Debtors | 13 | 256,989,284 | 220,899,743 |
| Cash at bank and in hand | | 85,224 | 91,807 |
| | | 257,326,781 | 221,128,871 |
| **CREDITORS** | | | |
| Amounts falling due within one year | 14 | (335,346,588) | (281,403,845) |
| **NET CURRENT LIABILITIES** | | (78,019,807) | (60,274,974) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | (23,492,270) | (10,515,047) |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 16 | 110,005,500 | 110,005,500 |
| Retained earnings | 17 | (133,497,770) | (120,520,547) |
| **SHAREHOLDER FUNDS** | | (23,492,270) | (10,515,047) |

The financial statements were approved by the Board of Directors on 28 July 2016 and were signed on its behalf by:

Mr S Beasley - Director

The notes form part of these financial statements

**STATEMENT OF CHANGES IN EQUITY**
**for the year ended 31 December 2015**

| | Called up share capital £ | Retained earnings £ | Total equity £ |
|---|---|---|---|
| **Balance at 1 January 2014** | 110,005,500 | (89,443,573) | 20,561,927 |
| **Changes in equity** | | | |
| Total comprehensive income | - | (31,076,974) | (31,076,974) |
| **Balance at 31 December 2014** | 110,005,500 | (120,520,547) | (10,515,047) |
| **Changes in equity** | | | |
| Total comprehensive income | - | (12,977,223) | (12,977,223) |
| **Balance at 31 December 2015** | 110,005,500 | (133,497,770) | (23,492,270) |

The notes form part of these financial statements

## 1. FUNDAMENTAL ACCOUNTING CONCEPT

Adda Hotels is incorporated and domiciled in England and Wales.

The financial statements have been prepared under the going concern basis because the company's intermediate parent, Hilton Worldwide Inc., has indicated its willingness to provide adequate financial support to enable the company to meet its debts as they fall due.

## 2. ACCOUNTING POLICIES

**Basis of preparation**
These financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

The company's financial statements are presented in Sterling, which is the company's functional currency. Amounts have been rounded to the nearest £.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 16 and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 130(f), 134(d to f) and 135(c to e) of IAS 36 Impairments of Assets.

**Revenue recognition**
Turnover
Turnover derived from hotel operations arose wholly in the United Kingdom. Turnover is recognised when services have been rendered. The turnover of the hotel is derived primarily from the rental of rooms, conference and banqueting, food and beverage sales. Turnover is all rendering of services. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes.

Turnover derived from management fees, which arose wholly in the United Kingdom, is earned by the company usually under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and an incentive fee, which is generally based on the hotel's profitability or cash flows. Turnover is recognised when earned and realised or realisable under the terms of the contract. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes.

Interest income
Interest is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

## 2. ACCOUNTING POLICIES - continued

**Intangible assets**
Computer software is stated at cost less accumulated amortisation and accumulated impairment. Cost comprises the aggregate amount paid to acquire the asset and includes any costs directly attributable to preparing the asset for its intended use.

Amortisation is provided on computer software on a straight-line basis over its expected useful life of three years.

The carrying values of computer software are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to rise from its continued use. Gains or losses are included in profit or loss in the period of derecognition.

**Tangible fixed assets**
Leasehold improvements, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all leasehold improvements, plant and equipment, on a straight-line basis over its expected useful life as follows:
- Leasehold improvements - lower of 50 years or the lease term
- Fixtures, fittings and equipment - between 7.5% and 33.3% per annum

The carrying values of leasehold improvements, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. The depreciation period and the depreciation method are reviewed at least at each financial year end. Changes in the expected useful life is accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

An item of leasehold improvement, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in profit or loss in the period of derecognition.

2. **ACCOUNTING POLICIES - continued**

**Financial instruments**
Financial assets and liabilities are recognised when the company becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than those financial assets and liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition.

Financial assets
Financial assets within the scope of IAS 39 (Financial Instruments: Recognition and Measurement) are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial assets at initial recognition.

The company's financial assets are all 'loans and receivables' including trade debtors and intercompany loans, and cash.

The subsequent measurement of financial assets depends on their classification as follows:
- Intercompany loans are initially recognised at fair value and subsequently measured at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest in profit or loss. Losses arising from impairment are recognised in profit or loss in cost of sales.

- Debtors are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision for impairment is made through profit or loss when there is objective evidence that the company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

- Cash in the balance sheet comprise cash at bank and in hand.

Financial liabilities
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial liabilities at initial recognition.

The only financial liabilities are intercompany loans and creditors.

The measurement of financial liabilities depends on their classification as follows:
- After initial recognition, intercompany loans are subsequently measured at amortised cost using the effective interest method.

- Creditors are recognised and carried at their original invoiced value. Trade creditors are non-interest bearing and are normally settled on 60 day terms.

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Fair values
All the company's financial instruments (except for cash) are not traded in an active market, at initial recognition the fair value is determined using appropriate valuation techniques. Due to the nature of the financial instruments as short term and market rate instruments, transaction price is considered to be the fair value.

## 2. ACCOUNTING POLICIES - continued

**Stocks**
Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. These costs incurred are accounted for using a first-in, first-out basis.

**Taxation**
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:
- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which:
  (i) is not a business combination; and
  (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in profit or loss.

**Leases**
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in profit or loss on a straight line basis over the lease term.

Assets held under finance leases, which transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments.

**Employee benefit costs**
The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to profit or loss account in the period to which they relate.

2. **ACCOUNTING POLICIES - continued**

**Share based payments**
The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in profit or loss for the period.

**Judgements and key sources of estimation uncertainty**
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

**Critical judgements**
The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Taxation
Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in the note "Deferred Tax".

Operating lease commitments
The Company has entered into commercial property leases as a lessee. The classification of such leases as operating or finance lease requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet. All leases are classified as operating leases.

**Key sources of estimation uncertainty**
The following are the key assumptions concerning the future, and other sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets within the next financial year.

Impairment of fixed assets
Determining whether fixed assets are impaired requires an estimation of the value in use of the cash generating unit. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. Each hotel is one cash generating unit.

Details of any impairment loss are set out in the note "Tangible Fixed Assets".

3. **TURNOVER**

The turnover and loss before taxation are attributable to the one principal activity of the company.

4. **EMPLOYEES AND DIRECTORS**

All operations of the company during the year ended 31 December 2015 have been undertaken by employees of other companies within Hilton Worldwide Holdings Inc.. A charge of £21,378,719 has been included in the financial statements in cost of sales in respect of their services (2014: £17,597,573).

A total expense of £199,931 (2014: £142,254) has been recognised in profit or loss which relates to contributions to the defined contribution plan.

All the directors of the company are also directors of Hilton UK Hotels Ltd ("the group") and other group companies. The directors received total remuneration for the year of £2.0m (2014: £1.8m) all of which was paid by other companies within the Hilton UK Hotels group. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of Hilton UK Hotels other group companies.

## 5. INTEREST RECEIVABLE

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Interest receivable from fellow group undertakings | 690,892 | 402,701 |

## 6. INTEREST PAYABLE

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Interest payable to fellow group undertakings | 36,980 | - |

## 7. LOSS BEFORE TAXATION

This is stated after charging:

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Management charge payable to group undertakings | 4,887,044 | 3,900,392 |
| Fees payable to fellow group undertakings | 3,358,652 | 3,426,750 |
| Depreciation of tangible fixed assets | 5,065,708 | 4,944,177 |
| Amortisation of intangible fixed assets | 24,085 | 104,061 |
| Operating lease rentals - property | 36,191,743 | 29,880,558 |
| Operating lease rentals - property contingent rent | 1,932,833 | 1,562,198 |
| Operating lease rentals - other | 437,969 | 388,793 |
| Impairment charge on tangible fixed assets | 9,316,617 | 25,456,549 |
| Impairment losses on intangible fixed assets | 6,358 | 5,984 |

Other operating items consist of:

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Loss on loan extinguishment | 2,333,248 | - |

The remuneration of the auditors is borne entirely by Hilton Worldwide Limited.

## 8. TAXATION

**Analysis of tax expense**

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Deferred tax | 1,431,815 | 3,434,941 |
| Total tax expense in statement of profit or loss and other comprehensive income | 1,431,815 | 3,434,941 |

## 8. TAXATION - continued

**Factors affecting the tax expense**
The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

| | 2015 £ | 2014 £ |
|---|---|---|
| Loss on ordinary activities before income tax | (11,545,408) | (27,642,033) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.247% (2014 - 21.493%) | (2,337,599) | (5,941,102) |
| Effects of: | | |
| Non-deductible expenses/loss | 477,666 | 14,762 |
| Non-deductible depreciation and amortisation | 835,224 | 4,938,358 |
| Group relief received from fellow subsidiary companies free of charge | (299,171) | (152,159) |
| Deferred tax assets de-recognised | 2,739,572 | - |
| Tax rate reduction | 16,123 | (173,400) |
| Non-taxable income and profit | - | (28,727) |
| Adjustments in respect of prior periods | - | 199,324 |
| Deferred tax assets de-recognised on hotel transfers | - | 4,577,885 |
| Tax expense | 1,431,815 | 3,434,941 |

The Finance Act 2013, substantively enacted on 2 July 2013, reduced the main rate of corporation tax from 21% to 20% from 1 April 2015, whilst the Finance (No. 2) Act 2015, substantively enacted on 26 October 2015, included further reductions to this rate to 19% from 1 April 2017 and 18% from 1 April 2020. These changes are reflected in the deferred tax balances at 31 December 2015.

The Budget 2016 announcements on 16 March 2016 include the publication of the Business Tax Road Map, which sets out a further reduction in the main rate of corporation tax from 18% to 17% from 1 April 2020 and measures relating to the OECD Base Erosion and Profit Shifting Actions. The latter include limiting the utilisation of brought forward losses and interest deductions, to be effective from 1 April 2017. Whilst a full analysis cannot be carried out until the final legislation is published , it is expected that these measures will have limited impact on the current year's financial statements.

## 9. INTANGIBLE FIXED ASSETS

| | Computer software £ |
|---|---|
| **COST** | |
| At 1 January 2015 | 80,043 |
| Additions | 14,370 |
| Disposals | (3,161) |
| Transfer | 232,706 |
| At 31 December 2015 | 323,958 |
| **AMORTISATION** | |
| At 1 January 2015 | 60,070 |
| Amortisation for year | 24,085 |
| Eliminated on disposal | (2,763) |
| Impairments | 6,358 |
| Transfer | 223,293 |
| At 31 December 2015 | 311,043 |
| **NET BOOK VALUE** | |
| At 31 December 2015 | 12,915 |
| At 31 December 2014 | 19,973 |

The transfer represents assets transferring in as a result of the assignment of leases from the company's subsidiaries. The assets were transferred in at their existing net book value from the companies at the date of transfer.

The amounts written off intangible fixed assets comprise impairment of seven hotel's software. The impairment charge has been recognised as the hotels are historically loss-making and are forecasted to make a loss in the coming year.

The impairment charge has been measured by reference to the value in use of the cash generating unit, using a discount rate of 10%. The resulting impairment charge for the year has been expensed under cost of sales within the statement of profit or loss.

## 10. TANGIBLE FIXED ASSETS

| | Leasehold improvements £ | Fixtures, fittings and equipment £ | Totals £ |
|---|---|---|---|
| **COST** | | | |
| At 1 January 2015 | 113,429,106 | 21,762,615 | 135,191,721 |
| Additions | 6,406,159 | 5,560,546 | 11,966,705 |
| Disposals | (800,659) | (3,585,986) | (4,386,645) |
| Transfer | 18,741,095 | 34,142,719 | 52,883,814 |
| At 31 December 2015 | 137,775,701 | 57,879,894 | 195,655,595 |
| **DEPRECIATION** | | | |
| At 1 January 2015 | 71,159,989 | 14,292,679 | 85,452,668 |
| Charge for year | 2,401,092 | 2,664,617 | 5,065,709 |
| Eliminated on disposal | (368,561) | (3,446,080) | (3,814,641) |
| Impairments | 6,175,307 | 3,141,310 | 9,316,617 |
| Transfer | 13,924,599 | 31,196,921 | 45,121,520 |
| At 31 December 2015 | 93,292,426 | 47,849,447 | 141,141,873 |
| **NET BOOK VALUE** | | | |
| At 31 December 2015 | 44,483,275 | 10,030,447 | 54,513,722 |
| At 31 December 2014 | 42,269,117 | 7,469,936 | 49,739,053 |

The transfer represents assets transferring in as a result of the assignment of leases from the company's subsidiaries. The assets were transferred in at their existing net book value from the companies at the date of transfer.

The amounts written off tangible fixed assets comprise impairment of nine hotel's fixed assets. The impairment charge has been recognised as the hotels are historically loss-making and are forecasted to make a loss in the coming year. The impairment charge has been measured by reference to the value in use of the income generating unit, using a discount rate of 10%.

Fixed asset disposals include £572,402 of assets scrapped.

## 11. INVESTMENTS

| | Shares in group undertakings £ |
|---|---|
| **COST** | |
| At 1 January 2015 and 31 December 2015 | 900 |
| **NET BOOK VALUE** | |
| At 31 December 2015 | 900 |
| At 31 December 2014 | 900 |

## 11. INVESTMENTS - continued

Details of the investments in which the company holds nominal value of any class of share capital are as follows:

Investments in directly held subsidiary undertakings are denoted below with an asterisk; all other investments in subsidiary undertakings are indirectly held.

| | Country of registration and operation | Principal activities | Proportion of voting rightsand shares held |
|---|---|---|---|
| UK Leasing Cobham Limited* | England | Hotel operator | 100% |
| UK Leasing Croydon Limited* | England | Hotel operator | 100% |
| UK Leasing East Midlands Limited* | England | Hotel operator | 100% |
| UK Leasing Leeds City Limited* | England | Hotel operator | 100% |
| UK Leasing London Kensington Limited* | England | Hotel operator | 100% |
| UK Leasing Northampton Limited* | England | Hotel operator | 100% |
| UK Leasing Nottingham Limited* | England | Dormant | 100% |
| UK Leasing Watford Limited* | England | Hotel operator | 100% |
| UK Leasing York Limited* | England | Hotel operator | 100% |

Consolidated financial statements have not been prepared as the company is consolidated into the financial statements of a larger group, for which the consolidated financial statements are publicly available, as disclosed in the below note "Parent undertaking, controlling party and consolidating entity".

In the opinion of the directors the aggregate value of the investment in subsidiary undertakings is not less than the amounts at which they are stated in these financial statements.

## 12. STOCKS

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Goods for resale | 252,273 | 137,321 |

The directors estimate that the replacement cost of stocks is not materially different from their book value amounts.

## 13. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Trade debtors | 3,788,872 | 2,123,689 |
| Amounts owed by group undertakings | 241,011,721 | 211,510,400 |
| Other debtors | 500,637 | 1,033,429 |
| Deferred tax asset | - | 1,431,815 |
| Prepayments and accrued income | 11,688,054 | 4,800,410 |
| | 256,989,284 | 220,899,743 |

Amounts owed by group undertakings are included in amounts due within one year where there are no specified repayment terms. Amounts owed by group undertakings are technically repayable on demand and hence are included in amounts due within one year. The loans bear interest at a rate linked to LIBOR plus a margin.

## 14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Trade creditors | 1,136,964 | 625,658 |
| Amounts owed to group undertakings | 317,055,068 | 271,217,337 |
| Social security and other taxes | 4,661,701 | 2,872,187 |
| Other creditors | 800,530 | 141,543 |
| Accruals and deferred income | 11,692,325 | 6,547,120 |
| | 335,346,588 | 281,403,845 |

Amounts owed to group undertakings are included in amounts due within one year where there are no specified repayment terms and there is no fixed repayment schedule in place. While amounts owed to group undertakings are technically repayable on demand, and hence are included in amounts due within one year, the directors are of the opinion (as a result of their group role in relation to the group undertakings amounts are owed to) that in the ordinary course of business, repayment within such a timescale would not be required. The loans bear interest at LIBOR plus a margin.

## 15. DEFERRED TAX

| | £ |
|---|---|
| Balance at 1 January 2015 | (1,431,815) |
| Charge to Statement of Profit or Loss and Other Comprehensive Income during year | 1,431,815 |
| Balance at 31 December 2015 | - |

The deferred tax asset relates to:

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Decelerated capital allowances | - | 1,242,515 |
| Short term temporary differences | - | 189,299 |
| Total deferred tax asset | - | 1,431,815 |

Deferred tax assets and liabilities have been offset where they relate to income taxes payable to the same taxation authority.

At 31 December 2015, the company had temporary differences in respect of which no deferred tax assets were recognised amounting to £2,739,572 (2014: £nil).

## 16. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

| Number: | Class: | Nominal value: | 2015 £ | 2014 £ |
|---|---|---|---|---|
| 110,000,500 | Ordinary shares | £1 | 110,000,500 | 110,000,500 |
| 5,000 | Deferred shares | £1 | 5,000 | 5,000 |
| | | | 110,005,500 | 110,005,500 |

## 16. CALLED UP SHARE CAPITAL - continued

The deferred shares carry no rights to participate in the company's profits. On liquidation or otherwise, the surplus assets shall be applied first in repaying to the holders of ordinary shares £1,000 per share, and secondly repaying to the holders of the deferred shares the amount paid up on such shares; the balance of the surplus assets shall be distributed to the holders of the ordinary shares in proportion to the amounts paid up thereon. As regards voting on a show of hands, the holders of each class of share shall rank pari passu, and on a poll, each ordinary share shall carry 1,000 votes and each deferred share one vote.

## 17. RESERVES

| | Retained earnings £ |
|---|---|
| At 1 January 2015 | (120,520,547) |
| Deficit for the year | (12,977,223) |
| At 31 December 2015 | (133,497,770) |

## 18. SHARE-BASED PAYMENT TRANSACTIONS

Under a long term incentive scheme the company grants restricted stock units (RSU) to the general managers and hotel managers that entitle them to a compulsory cash payment. These annual grants vest within a one year period from the grant date and participants are required to be employed with the company on the vesting date. The amount of the cash payment is determined based on the share price of Hilton Worldwide Holdings Inc..

## 19. OTHER FINANCIAL COMMITMENTS

Lease commitments

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | 2015 £ | 2014 £ |
|---|---|---|
| Plant and equipment | | |
| Within one year | 495,122 | 254,140 |
| Within two to five years | 65,315 | 584 |
| | 560,437 | 254,724 |

| | 2015 £ | 2014 £ |
|---|---|---|
| Property | | |
| Within one year | 38,469,301 | 38,186,696 |
| Within two to five years | 153,877,205 | 52,746,786 |
| After five years | 478,709,510 | 13,978,444 |
| | 671,056,017 | 04,911,926 |

These operating leases also include contingent rents, which are determined by the turnover or profit performance of the hotel, and is based on budgeted results. No lease agreements contain an option for renewal.

## 20. PARENT UNDERTAKING, CONTROLLING PARTY AND CONSOLIDATING ENTITY

The company's immediate parent undertaking is Hilton Worldwide Limited, a hotel operator registered in England.

The ultimate parent the only undertaking for which group financial statements were prepared and into which the company is consolidated for 31 December 2015, was Hilton Worldwide Holdings Inc., a Delaware company incorporated in the United States of America. These group financial statements are available from the company secretary, Hilton Worldwide Holdings Inc., 7930 Jones Branch Drive, McLean, Fairfax County, Virginia VA 22102-3302, United States of America.

## 21. CAPITAL COMMITMENTS

The company has not entered into any capital commitments contracted for but not provided in the financial statements at period end.

## 22. CONTINGENT LIABILITIES

The company had jointly and severally guaranteed the value added tax liability of other companies within the same UK VAT group, which amounted to approximately £8.8m (2014: £9.4m) at 31 December 2015.

## 23. FIRST YEAR ADOPTION

For all periods up to and including the year ended 31 December 2014, the company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2015, are the first the company has prepared in accordance with FRS 101. Accordingly, the company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes. In preparing these financial statements, the company has started from an opening balance sheet as at 1 January 2014, the company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the company in restating its balance sheet as at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

**Adda Hotels (Registered number: 00879456)**

**RECONCILIATION OF EQUITY**
**1 January 2014**
**(DATE OF TRANSITION TO FRS 101)**

| | Notes | UK GAAP £ | Effect of transition to FRS 101 £ | FRS 101 £ |
|---|---|---|---|---|
| **FIXED ASSETS** | | | | |
| Intangible assets | A | - | 128,208 | 128,208 |
| Tangible assets | A | 81,064,023 | (128,208) | 80,935,815 |
| | | 81,064,023 | - | 81,064,023 |
| **CURRENT ASSETS** | | | | |
| Stocks | | 250,371 | - | 250,371 |
| Debtors | D | 23,203,188 | (1,878,605) | 21,324,583 |
| Cash at bank and in hand | | 94,609 | - | 94,609 |
| | | 23,548,168 | (1,878,605) | 21,669,563 |
| **CREDITORS** | | | | |
| Amounts falling due within one year | B | (81,206,118) | (965,541) | (82,171,659) |
| **NET CURRENT LIABILITIES** | | (57,657,950) | (2,844,146) | (60,502,096) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 23,406,073 | (2,844,146) | 20,561,927 |
| **NET ASSETS** | | 23,406,073 | (2,844,146) | 20,561,927 |
| **CAPITAL AND RESERVES** | | | | |
| Called up share capital | | 110,005,500 | - | 110,005,500 |
| Retained earnings | B,D | (86,599,427) | (2,844,146) | (89,443,573) |
| **SHAREHOLDER FUNDS** | | 23,406,073 | (2,844,146) | 20,561,927 |

The notes form part of these financial statements

**RECONCILIATION OF EQUITY - continued**
**31 December 2014**

| | Notes | UK GAAP £ | Effect of transition to FRS 101 £ | FRS 101 £ |
|---|---|---|---|---|
| **FIXED ASSETS** | | | | |
| Intangible assets | A | - | 19,974 | 19,974 |
| Tangible assets | A | 49,759,026 | (19,973) | 49,739,053 |
| Investments | | 900 | - | 900 |
| | | 49,759,926 | 1 | 49,759,927 |
| **CURRENT ASSETS** | | | | |
| Stocks | | 137,321 | - | 137,321 |
| Debtors | D | 222,216,376 | (1,316,633) | 220,899,743 |
| Cash at bank and in hand | | 91,807 | - | 91,807 |
| | | 222,445,504 | (1,316,633) | 221,128,871 |
| **CREDITORS** | | | | |
| Amounts falling due within one year | B | (280,488,067) | (915,778) | (281,403,845) |
| **NET CURRENT LIABILITIES** | | (58,042,563) | (2,232,411) | (60,274,974) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | (8,282,637) | (2,232,410) | (10,515,047) |
| **NET LIABILITIES** | | (8,282,637) | (2,232,410) | (10,515,047) |
| **CAPITAL AND RESERVES** | | | | |
| Called up share capital | | 110,005,500 | - | 110,005,500 |
| Retained earnings | B,D | (118,288,137) | (2,232,410) | (120,520,547) |
| **SHAREHOLDER FUNDS** | | (8,282,637) | (2,232,410) | (10,515,047) |

**Notes to the reconciliation of equity**

A. Recognition of intangible assets such as computer software

Under UK GAAP, computer software assets were recognised as tangible fixed assets and stated at cost less accumulated depreciation and accumulated impairment losses. Under FRS 101 computer software that is not an integral part of the related hardware is recognised as an intangible asset.

Upon transition to FRS 101 computer software with a cost of £80,043 at 31 December 2014 and £286,580 at 1 January 2014 has been transferred to intangible fixed assets The net book value of this computer software was £128,208 at 1 January 2014 and £19,973 31 December 2014. This adjustment represents a reclassification and there is no impact on opening retained earnings at 1 January 2014 or 1 January 2015.

B: Rental fixed uplifts

Under UK GAAP, rent is calculated as the greater of turnover or base rent taking into account any rental uplift in the period it occurs.

Upon transition to FRS 101, lease payments under operating leases have been recognised straight line over the lease term even if payments are not made on that basis. At 31 December 2014 £915,778 (1 January 2014 £965,541) has been recorded in creditors and cost of sales has been reduced by £49,764 as a result of smoothing the rental payments to account for any rental uplift.

**RECONCILIATION OF LOSS**
**for the year ended 31 December 2014**

| | Notes | UK GAAP £ | Effect of transition to FRS 101 £ | FRS 101 £ |
|---|---|---|---|---|
| **TURNOVER** | C | 98,159,877 | (1,559,957) | 96,599,920 |
| Cost of sales | B,C | (118,806,936) | 1,609,721 | (117,197,215) |
| **GROSS LOSS** | | (20,647,059) | 49,764 | (20,597,295) |
| Administrative expenses | | (7,431,320) | - | (7,431,320) |
| **OPERATING LOSS** | | (28,078,379) | 49,764 | (28,028,615) |
| Profit/(loss) on disposal of tangible fixed assets | | (16,119) | - | (16,119) |
| Interest receivable | | 402,701 | - | 402,701 |
| **LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION** | | (27,691,797) | 49,764 | (27,642,033) |
| Tax on loss on ordinary activities | D | (3,996,913) | 561,972 | (3,434,941) |
| **LOSS FOR THE FINANCIAL YEAR** | | (31,688,710) | 611,736 | (31,076,974) |

**Notes to the reconciliation of profit or loss**
C. Recognition of income and expenses relating to 'Customer Loyalty program'.

Under UK GAAP, income and related expenses in respect of the Hilton customer loyalty programme were recognised separately under turnover for income and cost of sales for related expenses. Under IFRS, the income is recognised net of any related expenses. As a result turnover and cost of sales have decreased by £1,559,957 in the prior year comparative amounts with £nil impact on profit or loss for the prior year.

D. Deferred taxation

Under UK GAAP, deferred tax was recognised for all timing differences (being the difference between an entity's taxable profits and its statutory results) which were expected to reverse.

Deferred tax under IAS 12 Income Tax is recognised on all taxable temporary differences and all deductible temporary differences and unused tax losses, to the extent that it is probable there will be sufficient taxable profits available in future periods. Temporary differences are the difference between the carrying value of an asset/liability in the financial statements and its tax base.

The most significant differences between FRS 101 and UK GAAP are that:
i) deferred tax is now recognised on the carrying value of buildings that qualified for hotel building allowance prior to its abolition from 1 April 2011.
ii) the initial recognition exemption now applies such that temporary differences arising from the initial recognition of assets and liabilities, not from a business combination and not affecting accounting or taxable profit/loss at that time, are regarded as permanent differences on which no deferred tax asset/liability is recognised.
iii) fixed rental uplifts are now spread over the lease terms, whilst the yearly increased rentals were charged to the profit and loss account as incurred under UK GAAP.

On transition to FRS 101 a deferred tax asset of £1,878,605 has been derecognised as at 1 January 2014 and of £1,316,633 at 31 December 2014.