REGISTERED NUMBER: 00879456 (England and Wales)

Adda Hotels

STRATEGIC REPORT, REPORT OF THE DIRECTORS AND

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS OF THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

COMPANY INFORMATION
for the year ended 31 December 2016

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

STRATEGIC REPORT
for the year ended 31 December 2016

The directors present their strategic report for the year ended 31 December 2016.

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.

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

	2016	2015
	£	£
Turnover	132,014,480	117,170,424
Gross loss	(13,149,673)	(939,707)
Occupancy	80%	80%

During the prior year the operations, working capital and short leasehold of eight hotels were transferred 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 12 months of trading compared with 9 months in the prior period for the eight hotels. The gross loss is impacted by the higher impairment of fixed assets change of £19,641,944 (2015: £9,316,617) due to the continued forecast under performance of certain hotels operated by the company.

During the prior 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. On 29 March 2017, the United Kingdom (U.K.) government formally announced that the UK will leave the European Union (E.U.). The U.K. government has since begun the process negotiating the terms of the U.K.'s future relationship with the E.U. Although it is unknown what those terms will be Brexit may create global economic uncertainty, which may cause our customers to closely monitor their costs and reduce their spending on travel and corporate events. As yet it is uncertain what impacts on the company will be but management continues to monitor this on an ongoing basis. Budgeting and forecasting processes enable the company to identify risks in market trends early to help mitigate 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.

STRATEGIC REPORT
for the year ended 31 December 2016

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

20 June 2017

REPORT OF THE DIRECTORS
for the year ended 31 December 2016

The directors present their report with the financial statements of the company for the year ended 31 December 2016.

DIVIDENDS
No dividends will be distributed for the year ended 31 December 2016.

DIRECTORS
The directors shown below have held office during the whole of the period from 1 January 2016 to the date of this report.

Mr J Percival
Mr O Lifschitz
Mr J Tynan
Hilton UK Corporate Director Limited
Mr S Beasley
Mr B Wilson

Other changes in directors holding office are as follows:

Mr H Enayetullah - resigned 5 August 2016
Mr C Heath - appointed 1 March 2016

GOING CONCERN
The company's activities, together with the factors likely to affect its future development, its competitive, economic and interest rate risks are set out in the 'Review of Business' and 'Principal Risks and Uncertainties' section in the Strategic Report. The financial statements have been prepared under the going concern basis because the company's ultimate parent, Hilton Worldwide Holdings Inc. has provided a letter of support stating it will provide financial support, should it be needed, to enable the company to meet its debts as they fall due.

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, the 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

REPORT OF THE DIRECTORS
for the year ended 31 December 2016

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

20 June 2017

We have audited the financial statements of Adda Hotels for the year ended 31 December 2016 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 an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As 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 2016 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, based on the work undertaken in the course of the audit:
- 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.
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Report of the Directors.

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

20 June 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Notes	2016 £	2015 £
TURNOVER	4	132,014,480	117,170,424
Cost of sales		(145,164,153)	(118,110,131)
GROSS LOSS		(13,149,673)	(939,707)
Other operating items		-	(2,333,248)
Administrative expenses		(9,298,938)	(8,353,963)
OPERATING LOSS		(22,448,611)	(11,626,918)
Profit/(loss) on disposal of tangible fixed assets	6	(189,723)	(572,402)
		(22,638,334)	(12,199,320)
Interest receivable	7	726,092	690,892
Interest payable and similar expenses	8	(3,512,745)	(36,980)
LOSS BEFORE TAXATION	9	(25,424,987)	(11,545,408)
Tax on loss	10	-	(1,431,815)
LOSS FOR THE FINANCIAL YEAR		(25,424,987)	(12,977,223)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(25,424,987)	(12,977,223)

The notes form part of these financial statements

BALANCE SHEET
31 December 2016

	Notes	2016 £	2015 £
FIXED ASSETS			
Intangible assets	11	53,025	12,915
Tangible assets	12	45,942,946	54,513,722
Investments	13	900	900
		45,996,871	54,527,537
CURRENT ASSETS			
Stocks	14	207,760	252,273
Debtors	15	176,100,581	256,989,284
Cash in hand		94,906	85,224
		176,403,247	257,326,781
CREDITORS			
Amounts falling due within one year	16	(271,317,375)	(335,346,588)
NET CURRENT LIABILITIES		(94,914,128)	(78,019,807)
TOTAL ASSETS LESS CURRENT LIABILITIES		(48,917,257)	(23,492,270)
CAPITAL AND RESERVES			
Called up share capital	17	110,005,500	110,005,500
Retained earnings	18	(158,922,757)	(133,497,770)
SHAREHOLDER FUNDS		(48,917,257)	(23,492,270)

The financial statements were approved by the Board of Directors on 20 June 2017 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 2016

	Called up share capital £	Retained earnings £	Total equity £
Balance at 1 January 2015	110,005,500	(120,520,547)	(10,515,047)
Changes in equity			
Total comprehensive loss	-	(12,977,223)	(12,977,223)
Balance at 31 December 2015	110,005,500	(133,497,770)	(23,492,270)
Changes in equity			
Total comprehensive loss	-	(25,424,987)	(25,424,987)
Balance at 31 December 2016	110,005,500	(158,922,757)	(48,917,257)

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 ultimate parent, Hilton Worldwide Holdings Inc., has provided a letter agreeing to give financial support to enable the company to meet its debts as they fall due.

2. STATUTORY INFORMATION

Adda Hotels is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

3. 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.

3. **ACCOUNTING POLICIES- continued**

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 hotels is derived primarily from the rental of rooms, conference and banqueting, food and beverage sales. Turnover is all rendering of goods and 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 it 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.

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 are 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.

3. ACCOUNTING POLICIES - continued

Tangible fixed assets
Leasehold improvements, fixtures, fittings 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, fixtures, fittings 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, fixtures, fittings 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, fixtures, fittings 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.

3. 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 comprises 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.

3. **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. Rentals payable, including contingent rent as determined by reference to the turnover or profit of the hotel, 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.

3. **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 "Taxation".

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".

4. **TURNOVER**

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

5. **EMPLOYEES AND DIRECTORS**

All operations of the company during the year ended 31 December 2016 have been undertaken by employees of other companies within Hilton Worldwide Holdings Inc.. A charge of £25,771,406 has been included in the financial statements in cost of sales in respect of their services (2015: £ 21,378,719).

A total expense of £212,605 (2015: £199,931) has been recognised in profit or loss which relates to contributions to the defined contribution p lan.

All the directors of the company are also directors of Hilton UK Hotels Ltd and other group companies. The directors received total remuneration for the year of £2.3m (2015: £2.0m) 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.

6. PROFIT/(LOSS) ON DISPOSAL

	2016	2015
	£	£
Profit/(loss) on disposal of tangible fixed assets	189,723	572,402

7. INTEREST RECEIVABLE

	2016	2015
	£	£
Interest receivable from fellow group undertakings	726,092	690,892

8. INTEREST PAYABLE AND SIMILAR EXPENSES

	2016	2015
	£	£
Interest payable to fellow group undertakings	3,512,745	36,980

9. LOSS BEFORE TAXATION

This is stated after charging:

	2016	2015
	£	£
Management charge payable to group undertakings	5,578,989	4,887,044
Fees payable to fellow group undertakings	3,719,949	3,358,652
Depreciation of tangible fixed assets	4,297,359	5,065,708
Amortisation of intangible fixed assets	12,834	24,085
Operating lease rentals - property	38,064,736	36,191,743
Operating lease rentals - property contingent rent	5,953,555	1,932,833
Operating lease rentals - other	394,062	437,969
Impairment charge on tangible fixed assets	19,641,944	9,316,617
Impairment losses on intangible fixed assets	149,270	6,358

Other operating items consist of:

	2016	2015
	£	£
Loss on loan extinguishment	-	2,333,248

The £36,191,743 of operating lease rentals - property for 2015 includes £4,263,559 of contingent rent.

The remuneration of the auditors of £31,391 (2015: £48,556) is borne entirely by Hilton Worldwide Limited.

10. TAXATION

Analysis of tax expense

	2016	2015
	£	£
Deferred tax	-	1,431,815
Total tax expense in statement of profit or loss and other comprehensive income	-	1,431,815

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:

	2016	2015
	£	£
Loss before income tax	(25,424,987)	(11,545,408)
Loss multiplied by the standard rate of corporation tax in the UK of 20% (2015 - 20.247%)	(5,084,997)	(2,337,599)
Effects of:		
Expenses not deductible for tax purposes	12,194	477,666
Depreciation on non qualifying assets	176,650	835,224
Group relief received to/(from) fellow subsidiary companies free of charge	3,503,460	(299,171)
Deferred tax assets de-recognised	-	2,739,572
Tax rate reduction	-	16,123
Temporary differences subject to the initial recognition exception	(830,300)	-
Utilisation of deferred tax assets not previously recognised	2,222,993	-
Tax expense	-	1,431,815

At 31 December 2016 the company had temporary differences amounting to £24,995,664 (2015: £13,697,862). No deferred tax asset has been recognised as there is not currently sufficient certainty that future taxable profits will be generated by the company to recognise the asset against.

The Finance (No.2) Act 2015, substantively enacted on 28 October 2015, reduced the main rate of corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020, whilst the Finance Act 2016, substantively enacted on 6 September 2016, included further reduction of the rate of 18% to 17% from 1 April 2020. These changes do not have a material impact on the financial statements.

The Group's future tax charge could be affected by numerous factors including, but not limited to, the UK's triggering of Article 50 and any future consequences of the UK leaving the European Union, the UK's proposal to amend the tax rules relating to the utilisation of brought forward losses and any tax reforms adopted from the OECD's BEPS actions such as those in relation to the deductibility of interest, anti-avoidance or transfer pricing. No quantification of these changes is currently possible due to uncertainty around when any currently proposed rules will be enacted or effective.

11. INTANGIBLE FIXED ASSETS

	Computer software £
COST	
At 1 January 2016	323,958
Additions	202,213
At 31 December 2016	526,171
AMORTISATION	
At 1 January 2016	311,043
Amortisation for year	12,833
Impairments	149,270
At 31 December 2016	473,146
NET BOOK VALUE	
At 31 December 2016	53,025
At 31 December 2015	12,915

The amounts written off intangible fixed assets comprise impairment of ten hotels' 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 units, 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.

12. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Fixtures, fittings and equipment £	Totals £
COST			
At 1 January 2016	137,775,701	57,879,894	195,655,595
Additions	7,441,503	8,116,748	15,558,251
Disposals	(1,713,355)	(4,583,163)	(6,296,518)
At 31 December 2016	143,503,849	61,413,479	204,917,328
DEPRECIATION			
At 1 January 2016	93,292,426	47,849,447	141,141,873
Charge for year	1,836,142	2,461,216	4,297,358
Eliminated on disposal	(1,542,382)	(4,564,412)	(6,106,794)
Impairments	11,597,424	8,044,521	19,641,945
At 31 December 2016	105,183,610	53,790,772	158,974,382
NET BOOK VALUE			
At 31 December 2016	38,320,239	7,622,707	45,942,946
At 31 December 2015	44,483,275	10,030,447	54,513,722

The amounts written off tangible fixed assets comprise impairment of ten hotels' 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 units, using a discount rate of 10%.

Fixed asset disposals include £189,723 of assets scrapped.

13. INVESTMENTS

	Shares in group undertakings £
COST	
At 1 January 2016 and 31 December 2016	900
NET BOOK VALUE	
At 31 December 2016	900
At 31 December 2015	900

13. 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.

14. STOCKS

	2016	2015
	£	£
Goods for resale	207,760	252,273

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

15. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£	£
Trade debtors	3,432,127	3,788,872
Amounts owed by group undertakings	160,473,932	241,011,721
Other debtors	1,501	500,637
Prepayments and accrued income	12,193,021	11,688,054
	176,100,581	256,989,284

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.

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£	£
Trade creditors	2,997,593	1,136,964
Amounts owed to group undertakings	252,697,781	317,055,068
Social security and other taxes	4,085,306	4,661,701
Other creditors	393,227	800,530
Accruals and deferred income	11,143,468	11,692,325
	271,317,375	335,346,588

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.

17. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2016 £	2015 £
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

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.

18. RESERVES

	Retained earnings £
At 1 January 2016	(133,497,770)
Deficit for the year	(25,424,987)
At 31 December 2016	(158,922,757)

19. OTHER FINANCIAL COMMITMENTS

Lease commitments

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

	2016 £	2015 £
Plant and equipment		
Within one year	392,822	495,122
Within two to five years	34,397	65,315
	427,219	560,437

	2016 £	2015 £
Property		
Within one year	38,663,309	38,469,301
Within two to five years	154,653,236	153,877,205
After five years	443,537,884	478,709,510
	636,854,429	671,056,017

Certain property operating leases include a contingent rent clause. Contingent rent is determined with reference to the turnover or profit of the hotel. Contingent rent is not included in the commitments shown in the table above but to the extent it has been incurred in the year is shown in the profit or loss account disclosure. No lease agreements contain an option for renewal.

20. SHARE-BASED PAYMENT TRANSACTIONS

Under a long term incentive scheme Hilton Worldwide Holdings Inc. 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..

21. 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 2016, 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 .

22. CAPITAL COMMITMENTS

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

23: 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 £6.1m (2015: £8.8m) at 31 December 2016.