

Registered number: 3130330

IHG HOTELS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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IHG HOTELS LIMITED

COMPANY INFORMATION

DIRECTORS

M Cockcroft
M Glover
N Henfrey
N Stocks
G Turner

COMPANY SECRETARY

F Cuttell

REGISTERED NUMBER

3130330

REGISTERED OFFICE

Broadwater Park
Denham
Buckinghamshire
UB9 5HR

INDEPENDENT AUDITOR

Ernst & Young LLP
One Colmore Square
Birmingham
B4 6HQ

IHG HOTELS LIMITED

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IHG HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

PRINCIPAL ACTIVITIES

IHG Hotels Limited (the "Company") is the regional franchisor for hotels operating under the InterContinental Hotels group's (consisting of InterContinental Hotels Group PLC and its subsidiaries) (the "Group") brand names (InterContinental® Hotels & Resorts, Crowne Plaza® Hotels & Resorts, Hotel Indigo®, Holiday Inn®, Holiday Inn Express®, Staybridge Suites® and Kimpton®) in Europe and Africa. In addition, the Company is engaged in the management of a number of hotels operating under these brands in the United Kingdom. The Company also acts as an investment holding company. It is the intention of the directors that the Company will continue operating in these capacities.

BUSINESS REVIEW

	2016	2015
	£000	£000
Turnover	109,276	101,424
Operating profit	42,672	34,142
Profit after tax	35,917	14,478
Shareholders' funds	458,310	422,393

The Company holds the intellectual property of the Group for Europe and Africa. In Europe, the largest portion of rooms is operated under the franchise business model and consequently the Company generates the largest part of its revenues from franchise fees.

During 2016, the Company earned total revenue of £109,276,000 (2015: £101,424,000). The Company predominantly invoices its European sales in the Euro and consequently, during 2016, it benefited from the decline in value of Sterling against the Euro.

Operating profit increased from £34,142,000 in 2015 to £42,672,000 in 2016. This was largely due to foreign exchange gains arising on trading activities, which increased from £578,000 in 2015 to £4,334,000 in 2016.

During 2016, the Company reported interest receivable and other income of £1,751,000 (2015: £24,287,000). The decrease in income is due mainly to foreign exchange gains arising on Euro-denominated debt which was only in place during 2015.

On 22 December 2016, the Company acquired the intellectual property rights for the Kimpton® hotels in Europe and Africa, for consideration of £7,085,000. As a result of this transaction, the Company will receive revenues from the Group's Kimpton® hotels within this region.

IHG HOTELS LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is reliant on the reputation of its brands and the protection of its intellectual property rights. Any event that materially damages the reputation of one or more of the Company's brands and/or failure to sustain the appeal of the Company's brands to its customers may have an adverse impact on the value of that brand and subsequent revenues from that brand or operation.

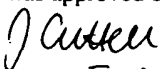
The Company is exposed to a variety of risks related to identifying, securing and retaining franchise and management agreements.

The Company is exposed to the risk of political and economic developments.

The Company is exposed to the risks of events that adversely impact domestic and/or international travel.

The Group's treasury function seeks to reduce the financial risk of the Group and manages liquidity to meet all foreseeable cash needs. The primary financial risks that are managed by treasury are exchange rate risk, interest rate risk, liquidity risk and credit risk. Full disclosure of the Group's treasury management policies and the risk profile of the Group are set out in the consolidated financial statements of InterContinental Hotels Group PLC which are prepared under International Financial Reporting Standards.

This report was approved by the Board and signed on its behalf by:


Director/Secretary **F CUTTELL**

Date: **08 JUN 2017**

IHG HOTELS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £ 35,917,000 (2015: £14,478,000).

The directors do not propose a dividend for the year ended 31 December 2016 (2015: £nil).

DIRECTORS

The directors who served during the year and since the year end were:

M Cockcroft
M Glover (appointed 20 July 2016)
N Henfrey
M Izzard (resigned 23 February 2017)
N Stocks
G Turner
R Wheeler (resigned 27 February 2017)

FUTURE DEVELOPMENTS

It is the intention of the directors that the Company will continue to operate as the Europe and Africa regional franchisor and as an investment holding company for the foreseeable future.

The directors view the results as satisfactory, as are the future prospects of the Company.

GOING CONCERN

The Company operates its activities in conjunction with other companies within the Group and therefore relies on the Group for its continued existence.

An overview of the business activities of the Group, including a review of the key business risks that the Group faces, is given in the Strategic Report in the InterContinental Hotels Group PLC Annual Report and Form 20-F 2016. Information on the Group's treasury management policies, including information on covenants and debt facilities; processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to liquidity risk and credit risk is also given in the Annual Report and Form 20-F 2016. In August 2016, the Group issued a ten-year £350m bond which replaces the £250m bond that matured in December 2016. In February 2017, the Group extended the maturity of its \$1.275bn facility to March 2022.

At the end of 2016, the Group was trading significantly within its banking covenants and debt facilities.

The Group's fee-based model and wide geographic spread mean that it is well placed to manage through uncertain times, and our forecasts and sensitivity projections, based on a range of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and, accordingly, they continue to adopt the going concern basis in preparing the financial statements.

IHG HOTELS LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

A qualifying third party indemnity provision has been granted in favour of existing and former directors of the Company by InterContinental Hotels Limited, in accordance with Section 232 of the Companies Act 2006. A copy of this indemnity provision is available for inspection by the members of the Company at the Company's registered office at Broadwater Park, Denham, Buckinghamshire, UB9 5HR.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

The auditor, Ernst & Young LLP, will be proposed for reappointment in accordance with Section 485 of the Companies Act 2006.

In accordance with the Companies Act 2006 Section 414C(11), the disclosure of principal risks and uncertainties has been included in the Strategic Report.

This report was approved by the Board and signed on its behalf by:



Director/Secretary **F CUTTELL**

Date: **08 JUN 2017**

IHG HOTELS LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IHG HOTELS LIMITED

We have audited the financial statements of IHG Hotels Limited for the year ended 31 December 2016, which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 20. 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 Auditor's 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 AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 Annual Report and financial statements 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 profit 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IHG HOTELS LIMITED

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 and the Directors' Report.

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

Lorna McNeil (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham

Date: 8 June 2017

IHG HOTELS LIMITED

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<i>Note</i>	<i>2016 £000</i>	<i>2015 £000</i>
Turnover	3	109,276	101,424
Administrative expenses		(66,604)	(67,282)
Operating profit	4	42,672	34,142
Income from fixed assets investments		-	215,828
Impairment of fixed asset investments		-	(251,572)
Interest receivable and other income	7	1,751	24,287
Interest payable and similar expenses	8	(35)	(1,547)
Profit before taxation		44,388	21,138
Taxation	9	(8,471)	(6,660)
Profit for the year		35,917	14,478

There were no recognised gains and losses for the current or prior year other than those included in the Income Statement.

The notes on pages 11 to 27 form part of these financial statements.

All amounts relate to continuing operations.

IHG HOTELS LIMITED
REGISTERED NUMBER:3130330

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	<i>Note</i>	2016 £000	2015 £000
Fixed assets			
Intangible assets	10	322,374	308,022
Investments	11	60,937	60,937
		<u>383,311</u>	<u>368,959</u>
Current assets			
Debtors	12	121,535	114,734
Cash at bank		7,581	3,661
		<u>129,116</u>	<u>118,395</u>
Creditors: Amounts falling due within one year	13	(45,794)	(57,251)
Net current assets		<u>83,322</u>	<u>61,144</u>
Total assets less current liabilities		<u>466,633</u>	<u>430,103</u>
Provisions for liabilities	14	(8,323)	(7,710)
Net assets		<u>458,310</u>	<u>422,393</u>
Capital and reserves			
Called up share capital	15	50,797	50,797
Share premium account	16	306,752	306,752
Profit and loss account		100,761	64,844
Total equity		<u>458,310</u>	<u>422,393</u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:

Director
Date:


Nicolette Henfrey

08 JUN 2017

The notes on pages 11 to 27 form part of these financial statements.

IHG HOTELS LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<i>Called up share capital</i>	<i>Share premium account</i>	<i>Profit and loss account</i>	<i>Total equity</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2015	50,797	306,752	50,366	407,915
Profit for the year	-	-	14,478	14,478
At 1 January 2016	50,797	306,752	64,844	422,393
Profit for the year	-	-	35,917	35,917
At 31 December 2016	50,797	306,752	100,761	458,310

The notes on pages 11 to 27 form part of these financial statements.

IHG HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES

1.1 STATEMENT OF COMPLIANCE WITH FRS 101

The Company is incorporated and domiciled in England and Wales.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000), except where otherwise indicated.

These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements as it is a wholly owned subsidiary of InterContinental Hotels Group PLC, which prepares consolidated financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The Company's ultimate parent undertaking, InterContinental Hotels Group PLC includes the Company in its consolidated financial statements. The consolidated financial statements of InterContinental Hotels Group PLC are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are publicly available and may be obtained from the address given in note 19.

1.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with FRS 101, as applied in accordance with the provisions of the Companies Act 2006. FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU.

The following disclosures have not been provided as permitted by FRS 101:

- a Cash Flow Statement and related notes as required by IAS 7 'Statement of Cash Flows';
- comparative period reconciliations for share capital and intangible assets as required by IAS 1 'Presentation of Financial Statements';
- disclosures in respect of transactions with wholly owned subsidiaries as required by IAS 24 'Related Party Disclosures';
- disclosures in respect of capital management as required by paragraphs 134 to 136 of IAS 1 'Presentation of Financial Statements';
- the effects of new but not yet effective IFRSs as required by paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'; and
- disclosures in respect of the compensation of Key Management Personnel as required by paragraph 17 of IAS 24 'Related Party Disclosures'.

As the consolidated financial statements of InterContinental Hotels Group PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- the requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instruments: Disclosures'.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

IHG HOTELS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. ACCOUNTING POLICIES (CONTINUED)**1.3 GOING CONCERN**

The financial statements have been prepared on the going concern basis as the ultimate parent company, InterContinental Hotels Group PLC, and its subsidiaries intend to make funds available to the Company to enable it to meet its debts as they fall due.

1.4 TURNOVER

Turnover comprises revenue earned by the Company in respect of goods and services supplied, exclusive of Value Added Tax and trade discounts. Turnover is derived from the following sources: franchise and licence fees; management fees; and other turnover which is ancillary to the Company's operations. The following is a description of the main components of the turnover of the Company.

Franchise fees - received in connection with the licence of the Group's brand names, usually under long-term contracts with the hotel owner. The Company charges franchise royalty fees as a percentage of rooms revenue. Revenue is recognised when the fee is earned in accordance with the terms of the contract.

Licence fees - as the owner of the Group's brand names for the region, the Company charges licence fees as a percentage of room revenue either direct to hotels or managers. Revenue is recognised when earned and realised or realisable under the terms of the contract.

Management fees - earned from hotels managed by the Company, usually under long-term contracts with the hotel owner. Management fees include a base fee, generally a percentage of hotel revenue, which is recognised when earned in accordance with the terms of the contract and an incentive fee, generally based on the hotel's profitability or cash flows and recognised when the related performance criteria are met under the terms of the contract.

Other revenues - recognised when earned in accordance with the terms of the contract.

IHG HOTELS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. ACCOUNTING POLICIES (CONTINUED)**1.5 INTANGIBLE ASSETS****Intellectual property**

Acquired brand licences are capitalised at cost and, in the absence of any evidence to the contrary, deemed to have an indefinite life. Such assets are not amortised but are reviewed for impairment on an annual basis. Internally developed brand licences are expensed to the Income Statement as incurred. Costs incurred in the maintenance or re-branding of existing licences are expensed to the Income Statement as incurred.

Where compliance with the provisions of the UK Companies Act is inconsistent with the requirements to give a true and fair view of the state of affairs and profit or loss in accordance with UK GAAP, the directors have invoked the true and fair view. The UK Companies Act requires that intangible assets must be written off on a systematic basis over the useful economic life of the intangible asset. However, under IAS 38 'Intangible Assets', indefinite lived intangible assets are not amortised. Consequently, the Company does not amortise the indefinitely lived intangibles, but reviews them for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the requirement to amortise intangible assets. The Company is not able to determine the financial effect of the impact of non-amortization of indefinite lived intangible assets, which have a carrying amount of £275,593,000 at 31 December 2016 and £268,508,000 at 31 December 2015

Management contracts

When hotel assets are sold and a purchaser enters into a franchise or management contract with the Company, the Company capitalises as part of the gain or loss on disposal an estimate of the fair value of the contract entered into. The value of management contracts is amortised on a straight-line basis over the life of the contract including any extension periods at IHG's option up to a maximum of 50 years.

In addition, amounts paid to hotel owners to secure management contracts and franchise agreements are capitalised and amortised on a straight-line basis over their estimated useful lives, being the full contractual term, up to a maximum of 50 years.

Management contracts are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The useful economic lives of intangible assets are reviewed at the end of each reporting period and revised if necessary.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. ACCOUNTING POLICIES (CONTINUED)

1.6 NON-DERIVATIVE FINANCIAL INSTRUMENTS

Non-derivative financial instruments comprise investments in equity securities, trade and other debtors, trade and other creditors and amounts due from and amounts due to Group undertakings.

Investments in equity securities

Investments in subsidiaries are carried at cost less impairment. The carrying amount is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the Income Statement.

Trade and other debtors

Trade and other debtors are recorded at their original amount less provision for impairment. It is the Company's policy to provide for 100% of the previous month's aged receivables balances which are more than 180 days past due. Adjustments to the policy may be made due to specific or exceptional circumstances.

Trade and other creditors

Trade and other creditors are non-interest bearing and are stated at their nominal value.

Amounts due from and amounts due to Group undertakings

Amounts due from and amounts due to Group undertakings are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The carrying value is assessed at each reporting date to determine whether there is objective evidence that it is impaired. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

1.7 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are initially recognised and subsequently re-measured at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement.

1.8 FOREIGN CURRENCY

Transactions in foreign currencies are translated to the Company's functional currency at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the relevant rates of exchange ruling on the last day of the period. Foreign exchange differences arising on translation are recognised in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

IHG HOTELS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. ACCOUNTING POLICIES (CONTINUED)**1.9 OTHER INCOME AND EXPENSES**

Interest receivable and interest payable are recognised in the Income Statement as they accrue, using the effective interest rate method.

Dividend income is recognised in the Income Statement on the date the entity's right to receive payment is established.

1.10 PROVISIONS

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that a payment will be made and a reliable estimate of the amount payable can be made. If the effect of the time value of money is material, the provision is discounted.

An onerous contract provision is recognised when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. ACCOUNTING POLICIES (CONTINUED)

1.11 TAXATION

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities including interest. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted at the end of the reporting period.

The taxation liabilities of certain Group entities are reduced wholly or in part by the surrender of losses by fellow Group undertakings, with these losses normally being paid for at the effective standard UK tax rate applying for the period in question. The impacts of such surrenders are recognised in the financial statements of both the surrendering and recipient companies.

Deferred tax

Deferred tax assets and liabilities are recognised in respect of temporary differences between the tax base and carrying value of assets and liabilities.

Judgement is used when assessing the extent to which deferred tax assets, particularly in respect of tax losses, should be recognised. Deferred tax assets are therefore recognised to the extent that it is regarded as probable that there will be sufficient and suitable taxable profits (including the future release of deferred tax liabilities) against which such assets can be utilised in the future. For this purpose, forecasts of future taxable profits are considered by assessing the Group's forecast revenue and profit models, taking into account future growth predictions and operating cost assumptions. Accordingly, changes in assumptions to the Group's forecasts may have an impact on the amount of future taxable profits and therefore the period over which any deferred tax assets might be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the asset or liability will be settled, based upon rates enacted or substantively enacted at the end of the reporting period.

The Company has provided deferred tax in relation to temporary differences associated with post-acquisition undistributed earnings of subsidiaries only to the extent that it is either probable that it will reverse in the foreseeable future or where the Company cannot control the timing of the reversal.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

**2. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION
UNCERTAINTY**

In determining and applying the Company's accounting policies, management are required to make judgements, estimates and assumptions. An accounting policy is considered to be critical if its selection or application could materially affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Estimates and assumptions are evaluated by management using historical experience and other factors believed to be reasonable based on current circumstances. Actual results could differ under different policies, judgements, estimates and assumptions or due to unforeseen circumstances.

Management consider that critical estimates and assumptions are used in impairment testing, as discussed in further detail below.

Impairment testing— intellectual property is tested for impairment on an annual basis. Management contracts and other intangible assets are tested for impairment when events or circumstances indicate that their carrying value may not be recoverable.

The impairment testing of individual assets or cash-generating units requires an assessment of the recoverable amount of the asset or cash-generating unit. If the carrying value of the asset or cash-generating unit exceeds its estimated recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs of disposal and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that is based on the Company's weighted average cost of capital adjusted to reflect the risks specific to the business model and territory of the cash-generating unit or asset being tested. The outcome of such an assessment is subjective, and the result sensitive to the assumed future cash flows to be generated by the cash-generating units or assets and discount rates applied in calculating the value in use.

At 31 December 2016, the Company had intangible assets of £322,374,000 (2015: £308,022,000), none of which were subject to an impairment charge during the current or prior year.

IHG HOTELS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

3. ANALYSIS OF TURNOVER

Turnover represents the amounts earned from the provision of goods and services which fall within the Company's ordinary activities, stated net of value added tax.

The Company has two principal areas of activity, the management of hotels and the franchising of hotels, and operates within three geographical markets, United Kingdom and Ireland ("UK&I"), Rest of Europe and Africa.

An analysis of turnover by class of business is as follows:

	2016 £000	2015 £000
Franchise and license fees	88,475	81,610
Management fees	4,692	5,036
Technology fees	11,171	9,956
Other	4,938	4,822
	<u>109,276</u>	<u>101,424</u>

Analysis of turnover by country of destination:

	2016 £000	2015 £000
UK&I	46,931	46,474
Rest of Europe	58,311	51,469
Africa	4,034	3,481
	<u>109,276</u>	<u>101,424</u>

IHG HOTELS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

4. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	2016 £000	2015 £000
Amortisation of intangible assets	2,738	1,900
Exchange differences	(4,334)	(578)

The Company incurred auditor's remuneration of £11,000 (2015: £11,000) which has been borne by a fellow Group undertaking in the current and preceding year.

The Company is exempt from providing details of non-audit fees as the details are disclosed within the consolidated financial statements of the ultimate parent company.

5. STAFF COSTS

Staff costs were as follows:

	2016 £000	2015 £000
Wages and salaries	77	32
Social security costs	-	2
Other pension costs	7	-
	<u>84</u>	<u>34</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2016 No.	2015 No.
Managed hotel operations	<u>1</u>	<u>1</u>

IHG HOTELS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

6. DIRECTORS' REMUNERATION

	2016 £000	2015 £000
Directors' emoluments	2,294	2,170
Amounts receivable under long-term incentive schemes	1,540	892
Company contributions to defined contribution pension schemes	65	104
	<u>3,899</u>	<u>3,166</u>

During the year retirement benefits were accruing to 5 directors (2015: 4) in respect of defined contribution pension schemes.

No directors exercised share options during the current or prior year.

The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was 7 (2015: 6).

The highest paid director received basic salary, performance payment and benefits of £555,000 (2015: £573,000) and company contributions to defined contribution pension schemes of £16,000 (2015: £32,000). The highest paid director received shares under the Group's long-term incentive schemes and did not exercise any share options during the year.

The directors of the Company are also directors of other subsidiary undertakings within the Group. The directors received total remuneration as noted above, all of which was paid by another Group company. 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 other Group undertakings.

7. INTEREST RECEIVABLE AND OTHER INCOME

	2016 £000	2015 £000
Interest receivable from Group undertakings	1,479	823
Other interest receivable	272	196
Exchange gains on financing activities	-	23,268
	<u>1,751</u>	<u>24,287</u>

8. INTEREST PAYABLE AND SIMILAR EXPENSES

	2016 £000	2015 £000
Sundry interest payable	35	35
Interest payable to Group undertakings	-	1,512
	<u>35</u>	<u>1,547</u>

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9. TAXATION

	2016 £000	2015 £000
Corporation tax		
Current tax on profit for the year	6,758	4,189
Adjustment in respect of prior periods	(49)	(234)
Foreign tax		
Foreign tax on profit for the year	749	758
Total current tax	<u>7,458</u>	<u>4,713</u>
Deferred tax		
Origination and reversal of temporary differences	1,199	2,747
Changes in tax rates	(420)	(855)
Adjustment in respect of prior periods	234	55
Total deferred tax	<u>1,013</u>	<u>1,947</u>
Taxation	<u><u>8,471</u></u>	<u><u>6,660</u></u>

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2015: higher than) the effective standard rate of corporation tax in the UK of 20% (2015: 20.25%) for the year ended 31 December 2016. The differences are explained below:

	2016 £000	2015 £000
Profit before tax	<u>44,388</u>	<u>21,138</u>
Profit multiplied by effective standard rate of corporation tax in the UK of 20% (2015: 20.25%)	8,878	4,280
Effects of:		
Non-taxable income	128	(48,376)
Impairment and disposal of investments	-	50,943
Non-deductible loss on derivative financial instruments	-	319
Change in deferred tax recognition	(300)	528
Changes in tax rate	(420)	(855)
Adjustment in respect of prior periods	185	(179)
Total tax charge for the year	<u><u>8,471</u></u>	<u><u>6,660</u></u>

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FOR THE YEAR ENDED 31 DECEMBER 2016**

9. TAXATION (CONTINUED)**FACTORS THAT MAY AFFECT FUTURE TAX CHARGES**

Reductions to the rate of corporation tax to 19% (effective 1 April 2017) and 17% (effective 1 April 2020) have now been enacted. The impact of any resulting changes to the valuation of any deferred tax assets and liabilities is reflected within the financial statements.

As part of the 2016 budget, the Chancellor of the Exchequer proposed wide-ranging reform in regard to the use of brought forward losses and the tax deductibility of corporate interest. The proposed changes to existing legislation have not yet been enacted however it is expected that the new rules will not have a material impact on the Company.

10. INTANGIBLE ASSETS

	<i>Intellectual property £000</i>	<i>Management contracts £000</i>	<i>Other £000</i>	<i>Total £000</i>
Cost				
At 1 January 2016	268,508	2,835	44,500	315,843
Additions	7,085	-	10,233	17,318
Disposals	-	-	(358)	(358)
At 31 December 2016	275,593	2,835	54,375	332,803
Amortisation				
At 1 January 2016	-	1,631	6,190	7,821
Charge for the year	-	150	2,588	2,738
Disposals	-	-	(130)	(130)
At 31 December 2016	-	1,781	8,648	10,429
Net book value				
At 31 December 2016	275,593	1,054	45,727	322,374
At 31 December 2015	268,508	1,204	38,310	308,022

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

10. INTANGIBLE ASSETS (CONTINUED)

On 22 December 2016, the Company acquired the intellectual property rights for the Kimpton® hotels in Europe and Africa, for consideration of £7,085,000. As a result of this transaction, the Company will receive revenues from the Group's Kimpton® hotels within this region.

Intellectual property with a net book value of £275,593,000 (2015: £268,508,000) has an indefinite useful life, as having considered all relevant factors there is not considered to be a foreseeable limit to which the brand licences are expected to generate net cash inflows for the Company. On this basis the asset is not amortised and is reviewed for impairment on an annual basis.

The intellectual property net book value of £275,593,000 (2015: £268,508,000) is allocated to the 'Europe franchised and managed operations' cash-generating unit, for which the recoverable amount is determined from value in use calculations. These calculations use pre-tax cash flow forecasts derived from the most recent financial budgets and strategic plans approved by management covering a five-year period and using growth rates based on management's past experience and industry growth forecasts. Impairment was not required at either 31 December 2016 or 31 December 2015.

Other intangible assets comprise mainly amounts paid to hotel owners to secure management contracts and franchise agreements.

11. FIXED ASSET INVESTMENTS

	<i>Investments in subsidiary undertakings £000</i>
Cost	
At 1 January 2016 and 31 December 2016	312,509
Impairment	
At 1 January 2016 and 31 December 2016	251,572
Net book value	
At 31 December 2016	60,937
At 31 December 2015	60,937

A full list of related undertakings is provided in note 20.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

12. DEBTORS

	2016 £000	2015 £000
Trade debtors	25,908	26,164
Amounts owed by Group undertakings	87,242	81,516
Other debtors	8,228	6,842
Prepayments and accrued income	157	212
	<u>121,535</u>	<u>114,734</u>

13. CREDITORS: Amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	700	824
Amounts owed to Group undertakings	30,888	45,598
Corporation tax	6,758	3,815
Taxation and social security	5,403	4,460
Other creditors	1,346	904
Accruals	699	1,650
	<u>45,794</u>	<u>57,251</u>

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FOR THE YEAR ENDED 31 DECEMBER 2016**

14. PROVISIONS

	<i>Deferred tax</i>	<i>Management contract</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2016	7,310	400	7,710
Charged for the year	1,013	-	1,013
Released in year	-	(400)	(400)
At 31 December 2016	8,323	-	8,323

Management Contracts

Provision has been made for the net cash outflows expected to be incurred under agreements associated with certain management contracts. This has now been released.

Deferred Tax

The deferred tax balance is comprised as follows:

	<i>Intangible assets</i>	<i>Revenue losses</i>	<i>Other temporary differences</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2016	7,671	-	(361)	7,310
Income statement	940	(255)	328	1,013
At 31 December 2016	8,611	(255)	(33)	8,323

The Company has provided deferred tax in relation to temporary differences associated with post-acquisition undistributed earnings of subsidiaries only to the extent that it is either probable that it will reverse in the foreseeable future or where the Company cannot control the timing of the reversal. The unprovided liability that would arise on the reversal of these temporary differences is £nil.

The deferred tax liability principally relates to intangible fixed assets which are deemed to have an indefinite life for accountancy purposes. For the purposes of corporation tax the Company is entitled to tax amortisation on a proportion of these assets.

A deferred tax asset of £180,000 (2015: £208,000) relating to capital losses has not been recognised as use of the loss is uncertain or not currently anticipated. The unrecognised deferred tax asset would be recognised if the Company realised capital gains against which these capital losses could be offset.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

15. SHARE CAPITAL

	2016 £000	2015 £000
Allotted, called up and fully paid		
50,797,204 ordinary shares of £1 each	50,797	50,797

The Company no longer has an authorised share capital.

16. RESERVES**Share premium**

The balance classified as share premium represents the amount of proceeds received for shares in excess of their nominal value.

17. CAPITAL COMMITMENTS

At 31 December 2016 the Company had capital commitments as follows:

	2016 £000	2015 £000
Contracted for but not provided in these financial statements	10,700	7,200

18. OTHER FINANCIAL COMMITMENTS

Contingent liabilities of £nil (2015: £1,081,683) in respect of guarantees of the liabilities of another Group undertaking have not been provided for in these financial statements.

The Company has entered into a composite guarantee with Citibank NA to guarantee amounts due on overdrafts of other companies in the Group to the extent of any credit balance of the Company held by Citibank NA. At 31 December 2016, the maximum liability under the guarantee amounted to £ 69,123,421 (2015: £21,606,574).

In limited cases, the Company may provide performance guarantees to third-party owners to secure management contracts. The maximum unprovided exposure under such guarantees is £ 405,000 (2015: £945,000).

19. CONTROLLING PARTY

As at 31 December 2016, InterContinental Hotels Group PLC, a company incorporated and registered in England and Wales, was the ultimate parent undertaking and controlling party of the Company. The registered office of the ultimate parent undertaking is Broadwater Park, Denham, Buckinghamshire, UB9 5HR.

The largest and smallest group in which the results of the Company are consolidated is that headed by InterContinental Hotels Group PLC. Consolidated financial statements of InterContinental Hotels Group PLC are available from the following address:

Companies House, Crown Way, Cardiff, CF14 3UZ.

The immediate parent undertaking is IHG PS Nominees Limited, a company registered in England and Wales. The registered office of the immediate parent undertaking is Broadwater Park, Denham, Buckinghamshire, UB9 5HR.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

20. RELATED UNDERTAKINGS

In accordance with Section 409 of the Companies Act 2006 a full list of entities in which the Company has an interest of greater than or equal to 20%, the registered office and effective percentage of equity owned as at 31 December 2016 are disclosed below. Unless otherwise stated the share capital disclosed comprises ordinary shares which are indirectly held by IHG Hotels Limited.

Name of Entity	% ownership
"IHG Management" d.o.o. Beograd (b)	100%
BHR Holdings B.V. (a) (c)	70%
Crowne Plaza Amsterdam (Management) B.V. (d)	70%
Holiday Inn Cairns Pty. Limited (e)	100%
Holiday Inns Holdings (Australia) Pty Limited (a) (e)	100%
IC Hotelbetriebsführungs GmbH (f)	70%
IC Hotels Management (Portugal) Unipessoal, Lda (a) (g)	100%
IHC London (Holdings) (h)	70%
IHG ANA Hotels Group Japan LLC (i)	75%
IHG ANA Hotels Holdings Co., Limited (i)	66%
IHG Cyprus Limited (j)	70%
IHG Hotels Management (Australia) Pty Limited (e)	100%
IHG Hotels Nigeria Limited (a) (k)	100%
IHG Hotels South Africa (Pty) Limited (a) (l)	100%
IHG Istanbul Otel Yönetim Limited Sirketi (a) (m)	100%
IHG Japan (Management) LLC (a) (i)	100%
IHG Japan (Osaka) LLC (i)	100%
IHG Management (Netherlands) B.V. (c)	70%
IHG Szalloda Budapest Szolgaltato Kft. (a) (n)	100%
InterContinental Gestion Hotelera S.L.(o)	70%
InterContinental Hotels Group (Australia) Pty Limited (e)	100%
InterContinental Hotels Group Services Company (a) (h)	100%
InterContinental Hotels Italia, S.r.L. (a) (p)	100%
SPHC Group Pty Limited (e)	100%

(a) Directly owned by IHG Hotels Limited

Registered addresses

- (b) Beograd, Cincar, Jankova 3, Serbia
- (c) Kingsfordweg 151, 1043 GR Amsterdam, The Netherlands
- (d) Nieuwezijds Voorburgwal 5, 1012 RC, Amsterdam, The Netherlands
- (e) Level 11, 20 Bond Street, Sydney, NSW 2000, Australia
- (f) Johannesgasse 28, 1030 Wien, Am Heumarkt 4, 1030 Wien, Austria
- (g) Avenida da Republica, no 52-9, 1069-211, Lisbon, Portugal
- (h) Broadwater Park, Denham, Buckinghamshire, UB9 5HR, UK
- (i) 20th Floor, Toranomon Kotohira Tower, 2-8, Toranomon 1-chome, Minato-ku, Tokyo, Japan
- (j) 195 Arch. Markarios III Ave., Neocleous House, 3030 Limassol, Cyprus
- (k) 1, Murtala Muhammed Drive, Ikoyi, Lagos, Nigeria
- (l) Central Office Park Unit 4, 257 Jean Avenue, Centurion 0157, South Africa
- (m) Eski Büyükdere Cd. Park Plaza No:14 K:4 Maslak-Sariyer, Istanbul, Turkey
- (n) 1052 Budapest, Apáczai Csere János u. 12-14, Hungary
- (o) Paseo de la Castellana 49, 28046 Madrid, Spain
- (p) Via Settembrini 35, Milano, Italy